

# Concise Annual Report 2014



# Corporate Directory

## Directors

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	

## 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

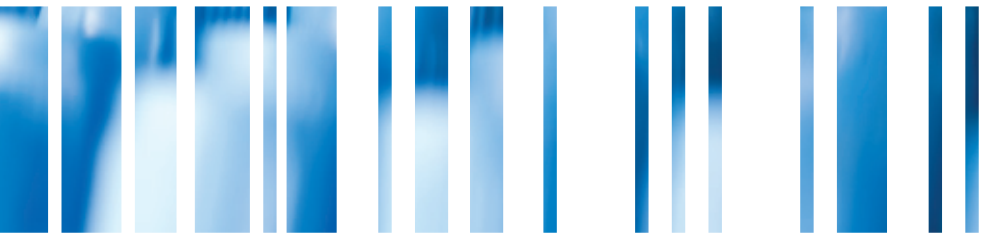
Allens

## Bankers

Australia and New Zealand Banking Group Limited  
Barclays Bank PLC  
Citibank, N.A.  
Commonwealth Bank of Australia  
JPMorgan Chase Bank, N.A.  
Lloyds TSB Bank plc  
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.AX) shares are listed on the Australian Securities Exchange.



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# Chairman's Letter

**My fellow shareholders,  
Sonic Healthcare performed strongly in the 2014 financial year, enabling us to reward shareholders with an 8% increase in dividends declared per share, to a total of 67 cents. The company is in a very sound position, with an investment grade balance sheet, a strong culture, and experienced and dedicated management teams around the globe.**

As a leading participant in the pathology markets in Australia, the USA, Germany, Belgium, Switzerland, the UK/Ireland and New Zealand, and in diagnostic imaging, medical centres and occupational health in Australia, Sonic is well placed to benefit from the expected continued growth in demand for diagnostic healthcare services. Our reputation as a quality focussed, medically led healthcare company continues to gain traction globally, creating future growth opportunities.

We have made strong progress in the last year in achieving synergies and cost reductions in our offshore businesses, especially in Germany and the USA. Our management team remains focussed on growing the returns on the investments we have made in these large, fragmented markets, whilst also continuing to consolidate them through acquisitions and organic market share gains.

Our Company Conscience report (included in this Annual Report) describes just a few of the many positive ways Sonic and its people contribute to our local communities, outside of simply providing outstanding healthcare services. I am immensely proud of the efforts of our staff and company to make life better for others, not just through our major initiative with the HEAL Africa Hospital in the Congo, but through the many individual activities, large and small, around our group.

As is the case in most service businesses, our people are our greatest asset, and we seek to provide fulfilling employment for each of our 27,000 staff, united by our strong culture and values.

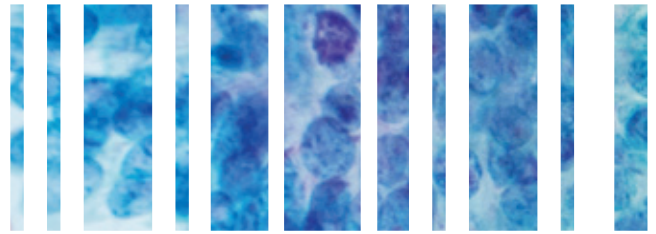
Board renewal has been a major focus for Sonic's Directors in recent months, and we are close to appointing an additional independent Director. I have also flagged my intention to retire from the Board next year, after 21 years. I hope to spend the next 12 months assisting with the recruitment of a further independent Director, assisting both new Directors to come up to speed on all things Sonic, playing a part in the selection of a replacement Chairman, and then ensuring a smooth transition to the new Chairman. Whilst renewal is important, it is also important that significant changes occur in a prudent manner, to protect all that is good within Sonic.

Sonic Healthcare is well placed to continue to deliver value to shareholders for the foreseeable future, and I wish to thank my fellow Directors and our management team and staff for their expertise and dedication. As shareholders of Sonic, I believe we have much to take pride in, and I thank you for your ongoing support for the company.

**Peter Campbell**, Chairman



# CEO Report



Sonic Healthcare has delivered another outstanding financial result in fiscal 2014, in line with the guidance we provided to the market at the start of the year. Net profit for the year was up almost 15% on the prior year, at A\$385 million, on revenue growth of 12%, to A\$3.9 billion. Sonic's EBITDA margin improved by 17 basis points over the prior year, with margin accretion in each of Pathology (excluding the impact of the acquisition of the lower margin Labco Germany business during the year), Imaging and IPN (our medical centre and occupational health businesses).

The company remains strong and stable and is very well positioned for ongoing global success in the expanding healthcare markets in which Sonic operates.

Our operations around the world are all performing strongly, particularly in light of challenging local market conditions in selected countries. Increasing volume growth in the USA is a very welcome recent trend, after a number of years of low market growth in laboratory medicine. Fee pressures in some of our markets appear to have abated, and cost initiatives and renewed growth are having positive impacts.

Sonic's Medical Leadership culture is at the heart of Sonic's ongoing strength as a company. This defining company feature, along with our deeply embedded values, our federated management structure, our leadership teams and our tremendous infrastructure in eight countries, provide significant competitive advantage as we seek to capitalise on each of the following potential sources of future growth:

## Organic growth

Organic growth includes both market growth and market share gains. The long-term market growth trend applicable to countries in which Sonic operates is approximately 5%. This market growth trend continues to be supported by the ageing of the population, the introduction of new tests, especially in the field of genetics, and the increasing focus on preventative medicine. Sonic has a proud history of organic growth in excess of market growth, with market share gains driven by the company's unique medical culture, its exceptional quality and service levels and its innovation in all areas of operation.

## Acquisitions

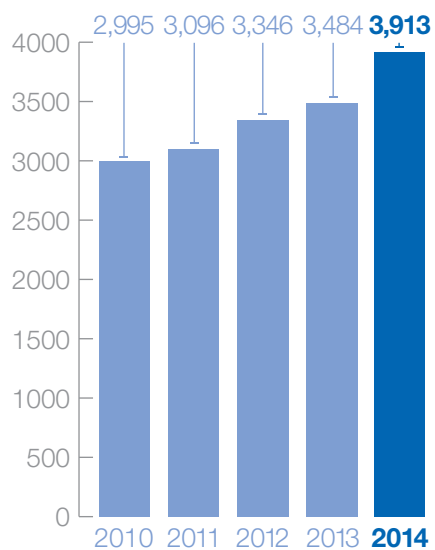
Sonic has an enviable track record of successfully executing and integrating around 100 acquisitions to date. Our medical culture has served to attract like-minded, high-quality businesses, each of which has provided incremental expertise and value to the strength and stature of the company. At any point in time, we preside over an active pipeline of synergistic opportunities for consideration and we maintain significant funding capacity to enable us to move forward rapidly with acquisitions, should they meet our criteria. However, our disciplined approach towards due diligence, compatibility and return criteria, means that we only proceed with a small percentage of the opportunities which are presented to us. It is our long held view that it is better to pass up an opportunity than to proceed with a transaction that may threaten hard-earned shareholder value. Furthermore, it is arguably true to say that Sonic's current valuation as a company is as much a result of the many acquisitions *declined* over time, as it is of the acquisitions completed to date!

## Contracts

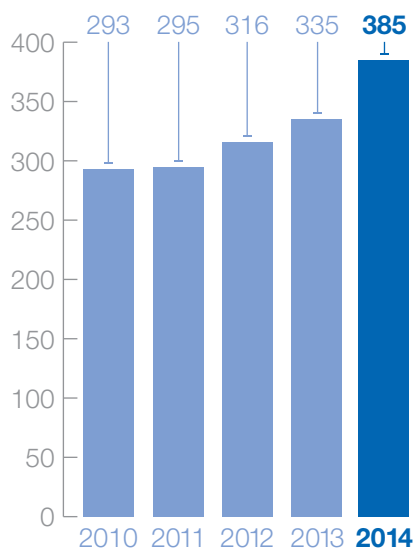
There is an increasing global trend for governments and other parties to seek outsourced healthcare services from reputable private sector providers, in order to improve services and reduce costs. Sonic is well positioned to participate in this expanding new market and our unique Medical Leadership culture makes us an attractive partner for quality organisations. There is no better example of this than our recently signed UK joint venture with the University College London Hospital NHS Foundation Trust (UCLH) and the Royal Free London NHS Foundation Trust (the Royal Free). This joint venture is a step-change for Sonic in the UK. We are very proud to partner with such globally prestigious and iconic teaching hospitals and look forward to adding value into the future.



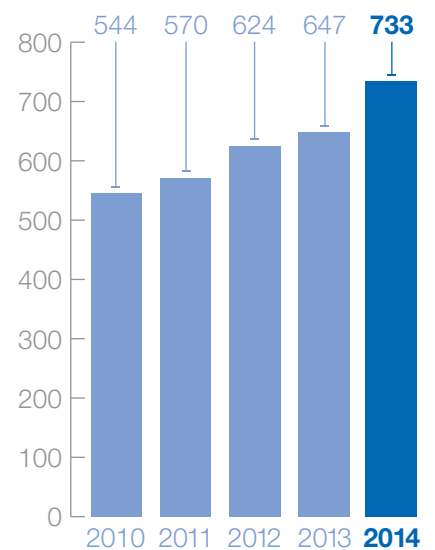
### Gross Revenue \$M



### Net Profit \$M



### EBITDA \$M





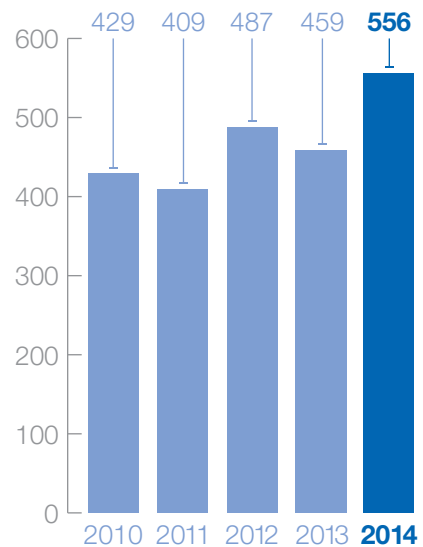
Reflecting on Sonic's 27 year history to date, it is evident to me that our Medical Leadership culture is now stronger than ever before. This invaluable, intangible Sonic attribute continues to stand out as the single most important driver of value, in the context of our major stakeholders:

- For our staff, Sonic's medical culture has provided a workplace where quality, service and professional practice are valued above all else, thus allowing individuals to achieve job satisfaction, to reach their potential and to develop loyalty, passion and pride in their company. This culture has also promoted Sonic as an employer of choice, resulting in an enviable global team of outstanding managers, pathologists, radiologists, technicians and employees at every level of our operations. The model also serves to provide differentiation and a competitive edge in the market place.
- For our customers, Sonic's medical culture has fostered exceptional specialist consultative services to practicing clinicians and serves to deliver diagnostic services at the highest levels to our patients. To put it simply, our commitment is to the practice of "good medicine" and all that it entails. This commitment sits at the very heart of our Medical Leadership philosophy.
- And for our shareholders, superior returns are set to continue, as we continue to push for new growth opportunities and further synergies, driven at all times by an ever-strengthening corporate culture known by us as Medical Leadership.

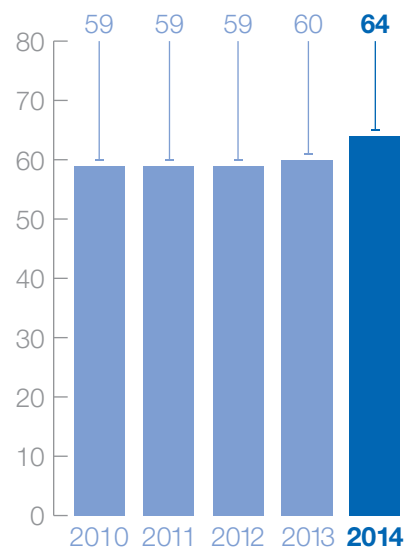
I wish to take this opportunity to thank sincerely all staff of Sonic for their ongoing dedication and passion for our company and for their individual roles towards Sonic's considerable achievements as a global healthcare team.

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

## Net Cash Flow from Operations \$M



## Dividends Paid per Ordinary Share ¢

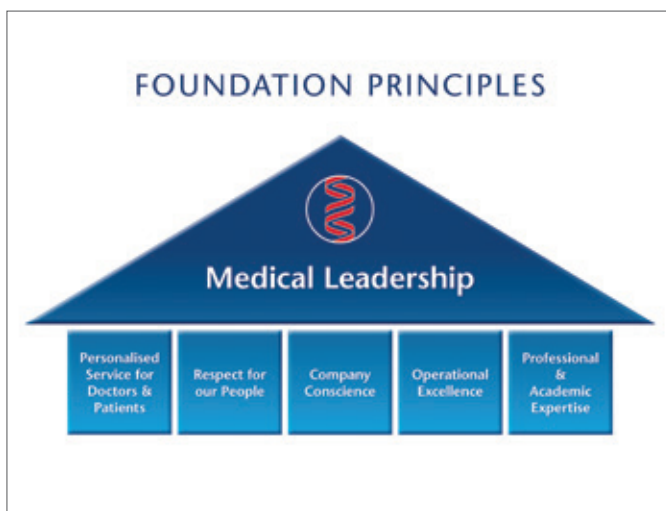






# Company Conscience

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's standing in relation to social responsibility has been externally recognised by inclusion in the FTSE4Good Index Series since March 2008. Sonic has been independently assessed according to the FTSE4Good criteria, and has satisfied globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent environmental, social and governance criteria, and are positioned to capitalise on the benefits of responsible business practice.



## FTSE4Good

Sonic Healthcare and its people demonstrate social responsibility by seeking 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.

As a leading healthcare service provider, on whom patients, medical practitioners and the community relies for accurate, timely and clinically precise information and diagnoses, Sonic Healthcare regards quality and safety as amongst our most important attributes. Sonic's corporate motto, "Quality is in our DNA", clearly reflects the importance that is placed on the maintenance of the highest levels of quality in all clinical, operational and human resources processes and systems throughout our global organisation. All of our laboratories have external quality assurance certification and are fully accredited by the relevant regulatory bodies in the relevant jurisdictions. It is the maintenance of these external quality assurance standards, along with our hard earned reputation, which provides our doctors and patients with confidence in the integrity of our testing, systems and other laboratory procedures. In Australia, all of our laboratories are accredited to meet the requirements of ISO 15189.

To maintain these external quality and accreditation standards, Sonic has developed a robust Quality Management System, which has been deployed across all of our businesses. This quality assurance and management methodology is supervised by a Quality Management Group within each business, which comprises scientific, quality and administrative personnel who work independently to ensure our laboratories and supporting operations comply with, and operate to, the standards set down by relevant regulations and reflect good management and clinical practice at all times.

Sonic also places great emphasis on supporting and providing teaching in our fields of pathology, imaging and general practice. We produce educational 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 and texts to share their unique knowledge and experiences. We provide vocational training positions for pathologists, radiologists and (through our medical centre and occupational health subsidiary, IPN) general practitioners, helping to ensure the future supply of these important medical practitioners in the community.






## 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**  
Quality is in our DNA.



Sonic has many established links with university and educational institutes including, for example, University College London, with whom we have recently partnered in some of their major Technology Strategic Board grants as their commercial partner in medical diagnostics. 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. This is the only arrangement of its type in Australia, where a private laboratory acts as the pathology faculty for a medical school (all other medical schools use public hospital laboratories). Sonic's pathologists hold professorial positions with the university, and plan and deliver the pathology curriculum, and Notre Dame students visit Sonic's Sydney laboratory for on-site training. Sonic helped establish the James Cook University School of radiography and our radiologists lecture students in both the medical and radiography program. Sonic also provides direct financial sponsorship for a number of academic institutions.

Many of our operations are registered training organisations, offering courses for technical staff and in pathology collection. Our Queensland imaging practice is an approved training site for nuclear medicine registrars and for advanced training in positron emission tomography (PET).

As part of our strong commitment to continuous professional development, Sonic has established its own Sonic Pathologist Academic Meeting and its own Sonic Imaging Conference in Australia. These regular conferences attract hundreds of Sonic registrants per meeting. They feature international and national guest speakers and are recognised as premier events of their kind in Australia. Sonic has begun to hold similar conferences for Sonic professionals overseas, with a major pathologists' academic conference now held in Germany each year. These conferences provide an excellent forum for senior staff to meet in a collegiate environment and to exchange ideas and best practices between Sonic's global operations.

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 27,000 people in an environment of professionalism, ethical behaviour, non-discrimination, and reward based on merit. Sonic subsidiaries regularly win local business awards based on workforce diversity. 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.

Sonic encourages all staff to report any incidents, misconduct, illegal acts or other behaviour or circumstances which are inconsistent with this commitment or which could adversely impact the reputation of Sonic Healthcare.

Sonic does not tolerate any misconduct or improper behaviour by staff members, nor the use of any punitive action against any staff member that reports such incidents or behaviour. The culture of non-punitive reporting is encouraged to provide a blame-free working environment.

Open communication is one of the best ways to foster a culture of no-blame and this is achieved by providing multiple avenues to report incidents, problems or issues. Consistent training for both supervisors and staff ensures that this culture is fostered throughout the organisation.

We encourage staff to report anything that may have an impact on quality and safety both for patients as well as themselves. The culture of no-blame encourages an increased level of reporting, which means that errors and problems are likely to be captured more quickly. Sonic is committed to taking all reasonable steps to protect people who report such information from any reprisals, as well as providing the opportunity for the person that is the subject of the allegation or investigation to be afforded the principles of natural justice (including receiving details of the allegation, a fair hearing, and a right to respond).





We engage in a positive manner with unions and other employee representative groups, and have not experienced significant industrial action in our 27 year history. Sonic accepts the right of freedom of association for all of its employees, including their right to join trade unions and to be represented by those unions for the purpose of collective bargaining. Sonic does not discriminate against or deny access to workers' representatives in the workplace and a significant proportion of our global workforce are currently members of unions or other employee representative groups.

Sonic has a long and successful history of growth through acquisition of other businesses. When achieving synergies from such 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.

### 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 seven years and in more recent years, the diagnostic imaging department as well. Over the past year, this support has continued and the key activities and updates include the following:

- In February 2014, a team from Douglass Hanly Moir, Melbourne Pathology and Sonic head office travelled to Goma and spent nearly three weeks training staff, installing new equipment and establishing a Histology laboratory in the hospital;
- The provision of a Vidas analyser has substantially improved the accuracy and availability of results for thyroid and hormone analysis. North Kivu province, in which the hospital is located, has a very high incidence of goitre, and thyroid investigations are very commonly requested, hence the new analyser has made a significant, positive impact;
- Dr Kasareka, the Congolese Pathologist-in-training, whose education Sonic has been sponsoring for the past four years, will be graduating at the end of the year. Consequently, we have established a Histopathology department in the hospital laboratory. Previously histology has been unavailable in Goma for the hospital's surgeons so this new capability is expected to significantly improve the quality of clinical care at the hospital;
- Further training was carried out in Microbiology and Biochemistry and we are in the process of supplying a new semi-automated Mindray Biochemistry analyser which will substantially improve the speed of analysis and the accuracy and consistency of reporting;

- We have arranged for two large shipping containers to be delivered to Goma from Sydney containing medical supplies and equipment. One of the key items sent earlier this year was a CT scanner, donated by Queensland X-Ray. The scanner will be the only operating CT unit in the entire region. The container leaving Sydney in late October 2014 will include a 240KVA generator to replace the ageing generator currently in use at the hospital.

Sonic staff continue to travel to Goma at regular intervals to assist the hospital in providing services in one of the world's most disadvantaged areas. Sonic and its staff can well be proud of the support that we have provided to this worthwhile cause which has helped to establish this hospital as one of the most well regarded within the Democratic Republic of the Congo. 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).

There are a range of other initiatives and projects in which Sonic has been involved throughout the year or which we intend to support in the near future, including the following:

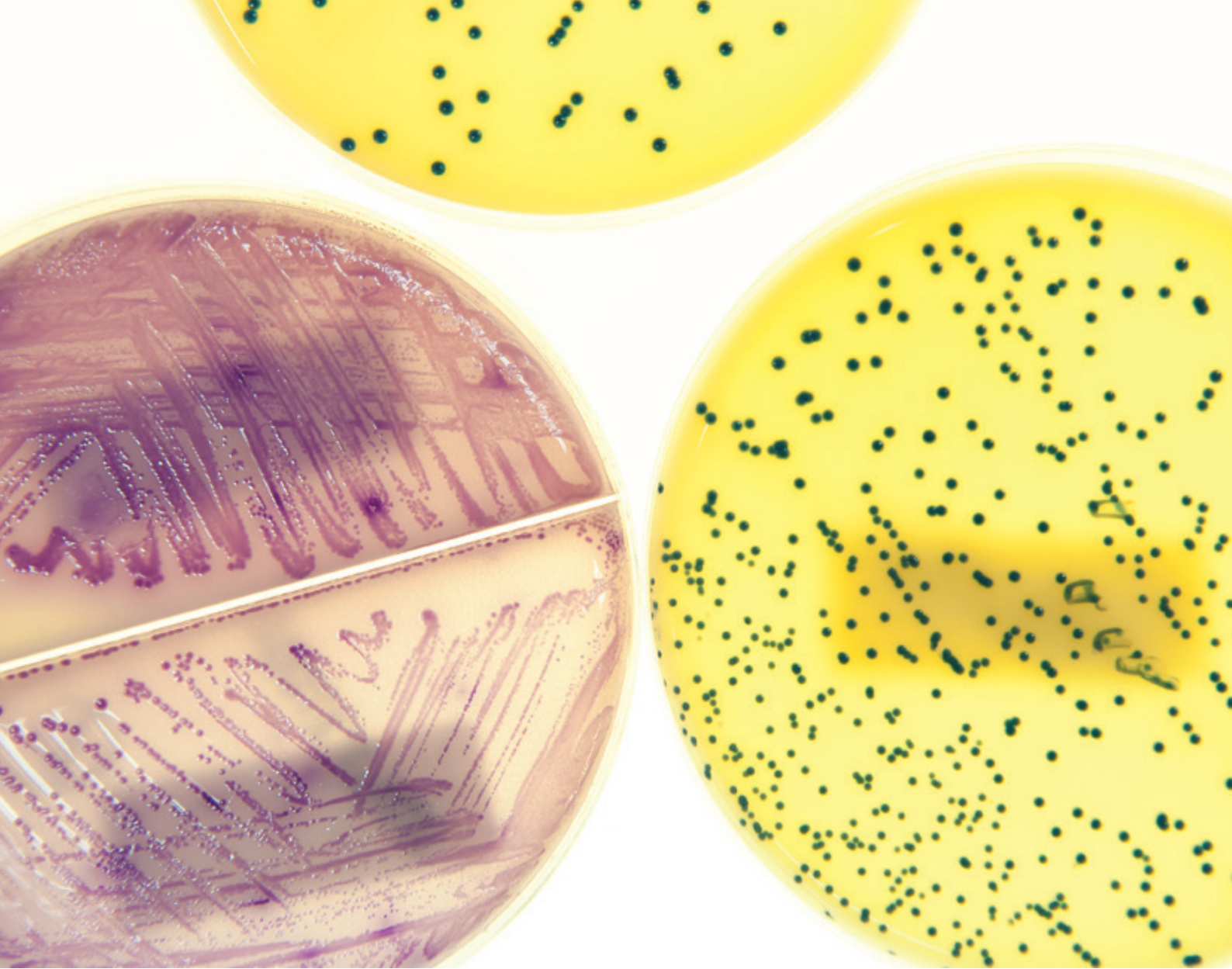
- We have continued to support the Fistula program, the two schools operated by HEAL and a variety of other outreach programs. The 'Red Ball', organised by IPN in July 2014, raised over \$40,000 for these projects. Subsequently IPN was selected as a National Finalist by the Australian Marketing Institute for an award for excellence in the category of Corporate Social Responsibility;
- In late October 2014, Sonic staff will be travelling to Mile, Ethiopia to assist with the establishment of a small pathology laboratory in a Women and Children's hospital. This area, known as the Afar region, is extremely poorly serviced in terms of medical facilities and this new laboratory will significantly enhance the medical care available to the nomadic people who live in this remote and inhospitable desert area;
- We have been approached to assist in Bahadar, Ethiopia, where a small, regional Obstetrics and Gynaecology hospital is under construction;
- Earlier this year, we made a donation of Point Of Care analysers to the Arusha Province medical centre in Tanzania, as well as to another small regional health centre located in North Western Kenya;
- A request has been received from Sydney University to assist in the establishment of a small microbiology laboratory in Dili, East Timor. Currently there are no laboratory facilities in Timor and all pathology must be flown to Darwin for processing.

Because of the number and variety of projects with which we have been asked to assist, we have decided to bring all current and future projects under the banner of 'The Sonic Healthcare Catalyst Program'. Under this banner we can provide information to staff and other interested parties on all of the projects and, importantly, highlight the diversity of the program, which is far broader than just the major hospital project in the Congo.



(Section 20A of the Health Care Act 1977)  
I assign my right to benefits to the practitioner who will render the services described above. I declare that none of the services described above is the result of an accident, injury or illness which would entitle me to the payment of compensation or damages under any law.

URINE	PCR
12 HR	



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

- American Esoteric Laboratories' (Sonic's Tennessee based subsidiary) staff participated in fund raising activities to support the American Cancer Society's "Making Strides Against Breast Cancer" campaign. Staff organised a variety of activities including raffles, silent auctions and participation in a 5km walk, which together raised approximately US\$6,000;
- Clinical Laboratories of Hawaii (Sonic's Hawaiian pathology business), together with its founders, donated a combined US\$500,000 to the Campaign for Hawaii's Children to rebuild and expand Kapiolani Medical Centre for Women and Children;
- Sunrise Medical Laboratories (Sonic's subsidiary in New York) supported the Northern Virginia based charity, Helping Children Worldwide, in relation to their visit to Sierra Leone, Africa to provide essential women's healthcare to this impoverished region. Sunrise staff assisted with the logistics and support required to provide pap smears and other related testing to approximately 500 women during the visit. Sunrise's Atlas web-based orders and results system enabled electronic results to be shared with doctors in Africa for necessary follow-up care as required. In addition to the testing support, Sonic Healthcare USA provided a scholarship for laboratory technician training for one individual to help them start the process of professionalising and advancing the basic laboratory testing facilities available at the small hospital in the city of Bo, which is Sierra Leone's second largest city;
- The Doctor's Laboratory (Sonic's UK subsidiary) was the principal sponsor for a University College of London Hospital charity event seeking to raise over £100,000 for the Greater Ormond Street Hospital, a world renowned paediatric hospital;
- Sonic's Bioscientia laboratory in Ingleheim, Germany donated €3,000 to the Barenherz Foundation, which provides facilities for the families of children with terminal illnesses. Staff also raised €1,300 through a Christmas market, which was matched by Bioscientia's management, to provide a €2,600 donation to a charity which aims to improve healthcare for underprivileged and homeless people in the Mainz area;
- Sonic's Melbourne Pathology business holds a staff charity ball every year to support causes nominated by the staff. This year the staff selected the Spinal Muscular Atrophy Association of Australia and raised over \$17,000 through ticket sales, silent auction items and a raffle;
- SKG Radiology (Sonic's Perth-based diagnostic imaging subsidiary) partnered with Cosmos Healthcare to pack and send a shipping container filled with much-needed donated medical supplies and imaging equipment to Bulawayo, Zimbabwe. The X-ray and ultrasound equipment provided by SKG has now been installed at Mater Dei Hospital in Bulawayo;
- Sonic Healthcare Germany sponsors an award provided by the Germany Society for Clinical Chemistry and Laboratory Medicine to recognise young academics for exceptional achievements in scientific research;



- Pathology Laboratories staff (from Sonic's Toledo, Ohio business) participated in the American Cancer Society Relay for Life event, winning the Rookie Team of the Year award for being the newest team that took part in the most activities, including selling items to fundraise, attending organisational meetings and having someone on the track at all times during the event. The team made "Hope" bracelets during their lunch hours and after-hours and sold them to contribute to the total amount raised by the event of over US\$80,000.

## 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 is required to report the following data under the Australian National Greenhouse and Energy Reporting Act 2007:

### Greenhouse gas emissions (tonnes CO<sub>2</sub>-e)

	2014	2013
Scope 1 (mainly relating to fuel and natural gas)	<b>8,158</b>	8,285
Scope 2 (mainly electricity usage)	<b>58,023</b>	58,483
Energy Consumed (GJ)	<b>370,179</b>	366,853

Whilst energy consumed has increased by 0.9%, this is well below the growth in patient volumes of Sonic's Australian businesses.

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 4% of Sonic's shareholders still request a hard copy Annual Report, and over 26% 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,

- including the recently completed laboratory in Perth and the state-of-the-art laboratory facility planned to be built in Brisbane for Sullivan Nicolaides Pathology;
- Use of commercial-scale solar power systems at 14 Giffnock Avenue and Epping Road, Macquarie Park. The combined power capacity is 196kW. The systems generate in excess of 250,000kWh annually of clean energy, reducing greenhouse gas emissions by an average 175,000 tonnes equivalent of CO<sub>2</sub> annually. Over the 25 year operational life this amounts to 4,400,000 tonnes of CO<sub>2</sub> equivalent abatement;
- 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;
- Sonic's subsidiary in the UK, The Doctor's Laboratory, is a founding member of the Fitzrovia Partnership, which is a business and community led initiative bringing together local businesses, community groups, third sector organisations and residents, to add value and make a tangible difference to the area of Fitzrovia in London. This initiative will incorporate a wide range of activities to enhance the well-being of all those that visit, work, live and do business in the area, including keeping the streets clean and tidy, joint procurement, a waste management scheme and air quality and public realm improvements;
- In Germany, Sonic has installed an environmentally-friendly double floor in the clinical chemistry department of the new laboratory building at Labor 28 in Berlin. This innovative design was incorporated to deal with the intense heat generated by certain equipment installed in the laboratory. Previously, this heat was ameliorated by the use of air conditioning, which was a technically complex and cost intensive approach. The double floor design allows for aspiration of the heated air directly at the site of the equipment, providing a more stable and easily regulated room temperature. In addition, the heated air is recycled within the building's heating system, producing significant energy cost savings, which are expected to repay the installation cost of the floor within five years. This design also allows IT cabling, power cables, water and sewage pipes to be installed in close proximity to the equipment, providing further cost and space savings as well as the ability to implement modifications and expansion in the future.

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 27 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	2014 \$'000	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000
Revenue	<b>3,913,475</b>	3,484,073	3,345,616	3,096,379	2,994,633
Earnings before interest, tax, depreciation and amortisation (EBITDA)	<b>733,020</b>	646,819	624,129	570,095	543,857
Net profit after tax	<b>384,984</b>	334,998	315,996	294,535	293,225
Net cash flow from operations	<b>556,358</b>	459,459	486,758	409,019	429,497
Total assets	<b>5,797,606</b>	5,518,226	4,928,805	4,712,897	4,863,725
Total liabilities	<b>2,688,612</b>	2,600,125	2,318,606	2,196,462	2,304,984
Net assets	<b>3,108,994</b>	2,918,101	2,610,199	2,516,435	2,558,741
Net interest bearing debt	<b>1,738,790</b>	1,738,848	1,571,081	1,535,626	1,501,091
<b>Statistics</b>					
Diluted earnings per share (cents)	<b>95.5</b>	84.3	80.7	75.5	75.0
Dividends paid per ordinary share (cents)	<b>64.0</b>	60.0	59.0	59.0	59.0
Dividend payout ratio	<b>66.6%</b>	70.6%	72.8%	77.8%	78.2%
Gearing ratio <sup>1</sup>	<b>35.9%</b>	37.3%	37.6%	37.9%	37.0%
Interest cover (times) <sup>1</sup>	<b>10.7</b>	8.6	7.0	7.4	9.4
Debt cover (times) <sup>1</sup>	<b>2.4</b>	2.4	2.5	2.8	2.6
Net tangible asset backing per share (\$)	<b>(2.43)</b>	(2.51)	(2.40)	(2.30)	(2.34)
Return on invested capital	<b>9.2%</b>	8.9%	9.8%	8.9%	9.4%
Return on equity	<b>12.8%</b>	12.1%	12.3%	11.6%	11.5%

<sup>1</sup> Calculated using bank debt facility covenant definitions



# Concise Annual Report 30 June 2014

| 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 2014.

## 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:

	2014 \$'000	2013 \$'000
Interim dividend paid on 25 March 2014 (2013: 21 March 2013)	108,213	99,039
Final dividend payable on 23 September 2014 (2013: 24 September 2013)	160,449	148,056
<b>Total dividend for the year</b>	<b>268,662</b>	247,095

On 18 August 2014, the Board declared a final dividend in respect of the year ended 30 June 2014 of 40 cents per ordinary share, 55% franked (at 30%), payable on 23 September 2014 with a record date of 9 September 2014. An interim dividend of 27 cents per ordinary share, 45% franked (at 30%), was paid on 25 March 2014. These dividends included no conduit foreign income.

A final dividend of 37 cents per ordinary share was paid on 24 September 2013 in respect of the year ended 30 June 2013, 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 2013 was 25 cents per ordinary share, paid on 21 March 2013. These dividends included no conduit foreign income.

## Dividend Reinvestment Plan ("DRP")

The Company's DRP last operated for the 2012 final dividend. The DRP is currently suspended.

# Directors' Report

## Operating and financial review Operations

Sonic Healthcare is one of the world's leading global providers of medical diagnostic services. The Group provides highly specialised pathology laboratory and diagnostic imaging services to physicians, hospitals, community health services, and their patients. Sonic is the world's third largest provider of pathology (referred to in some markets as "laboratory medicine") services and was the first company to do so globally. Employing over 27,000 people, Sonic enjoys leading positions in the pathology markets of eight countries, being the largest private operator in Australia, Germany, and the UK/Ireland, the second largest in Belgium and New Zealand, the third largest in the USA and within the top 5 in Switzerland. In addition Sonic is the largest operator of medical centres and the largest occupational health provider in Australia, and the second largest participant in the Australian diagnostic imaging market. These strong market positions allow us to leverage existing infrastructure to realise synergies and to grow earnings.

Pathology is the study and diagnosis of disease through examination of organs, tissues, cells and bodily fluids. It is a broadly defined and complex scientific field which seeks to understand the mechanisms of disease and abnormality of cells and tissues, as well as the body's means of responding to and repairing abnormalities. Pathology tests are an essential component in the delivery of modern healthcare services and are estimated to influence approximately 70% of healthcare decisions and 100% of cancer diagnoses. Pathology is a unique medical specialty, in that pathologists and laboratory technicians typically do not see patients directly, but rather serve as consultants to other physicians.

The clinical laboratory process is depicted below:



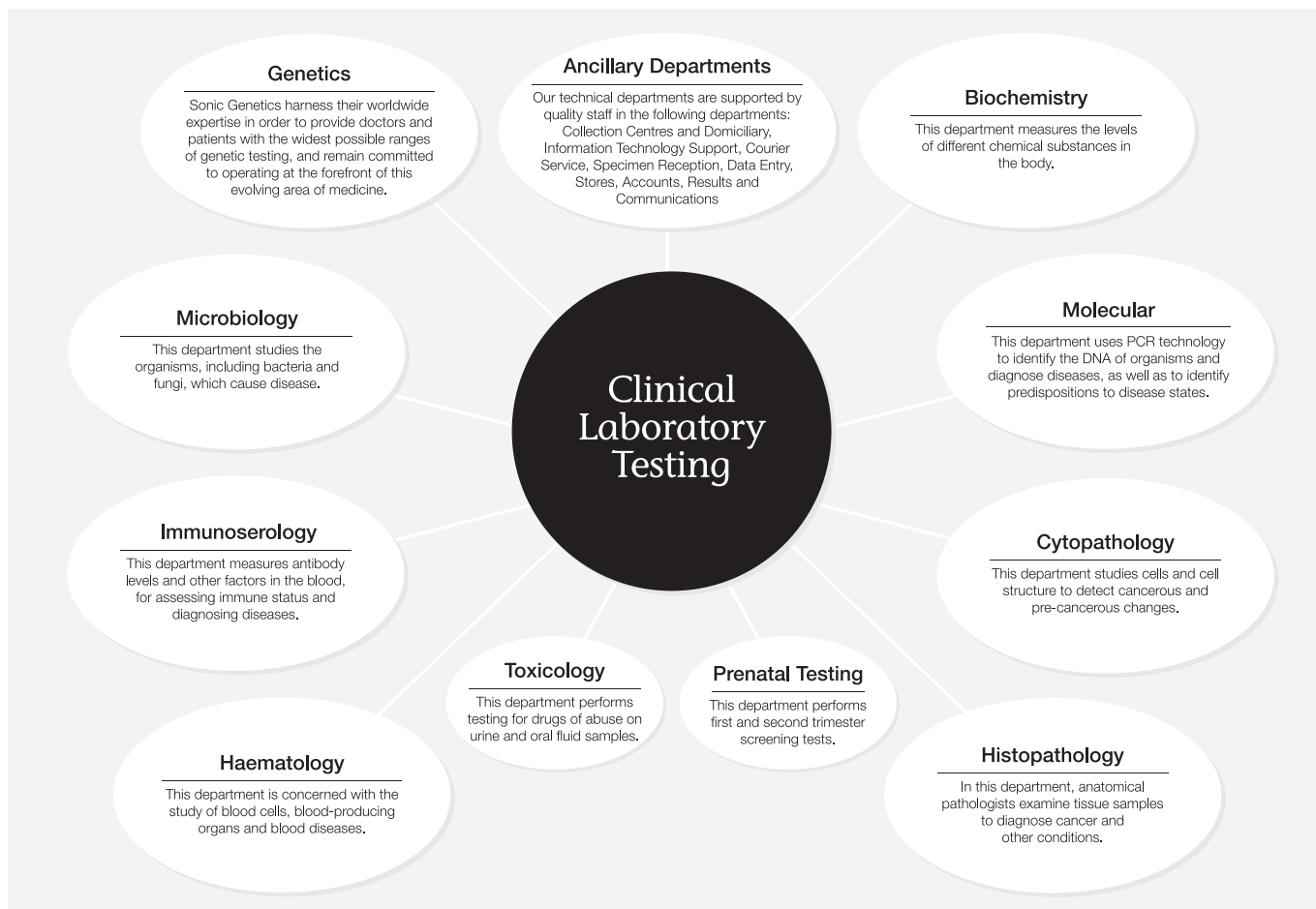
In most countries in which Sonic operates, laboratories offer specimen collection services, although referring physicians still do some collections themselves. In Australia, approximately 24% of specimens are collected by the referring physician. In Germany, Belgium and Switzerland laboratories generally do not offer specimen collection services.

# Directors' Report

## Operating and financial review (continued)

### Operations (continued)

Clinical laboratory tests generally fall into one of ten categories, or departments within a laboratory, as shown below:



Histopathology and cytopathology, which mainly involve the diagnosis of cancers, are often referred to as “anatomical pathology”, whereas the other testing areas are usually referred to as clinical laboratory testing. In some international markets such as Australia and New Zealand, it is usual for laboratories to conduct both anatomical pathology and clinical laboratory testing as part of the one service. In other markets, anatomical pathology can be seen as a separate service. Sonic therefore does not offer comprehensive anatomical pathology services in all markets, e.g. Germany, the UK and some regions within the USA.

Sonic’s laboratories are today highly sophisticated, providing broad menus of complex tests, in addition to state-of-the-art automation for accurate and rapid turnaround of routine tests. Sonic offers a range of more than 3,000 different tests. Many of Sonic’s large laboratories reach or exceed tertiary hospital laboratory standards and are recognised for their esoteric testing expertise, for example, in genetic and molecular testing.

Diagnostic imaging (including radiology) is the medical specialty of using medical imaging technologies to diagnose and treat diseases. The array of imaging technologies include general x-ray, bone densitometry, mammography, ultrasound, computed tomography (CT), nuclear medicine studies and magnetic resonance imaging (MRI). Diagnostic imaging also includes interventional radiology, the performance of medical procedures under the guidance of imaging technologies.

In addition to pathology and diagnostic imaging, Sonic conducts a number of smaller complementary businesses (disclosed in the Other category in the Segment information note, along with corporate office costs). The most significant of these are the medical centre and occupational health businesses of Sonic’s subsidiary Independent Practitioner Network (“IPN”), which involve more than two hundred primary care clinics across Australia providing facilities and administrative services to over eighteen hundred General Practitioners. 70% of all Australians live within 10 kilometres of an IPN clinic.

# Directors' Report

## Operating and financial review (continued)

### Financial results

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

\$'000	2014 Constant Currency*	2014 Statutory	2013 Statutory	% Change 2014 Constant Currency v 2013 Statutory	% Change 2014 Statutory v 2013 Statutory
Revenue	3,652,157	3,913,475	3,484,073	4.8%	12.3%
Earnings before interest, tax, depreciation and intangibles amortisation (EBITDA)	681,464	733,020	646,819	5.4%	13.3%
Depreciation and lease amortisation	(117,110)	(124,150)	(114,616)	2.2%	8.3%
Earnings before interest, tax and intangibles amortisation (EBITA)	564,354	608,870	532,203	6.0%	14.4%
Amortisation of intangibles	(34,625)	(36,439)	(26,399)	31.2%	38.0%
Net interest expense	(50,499)	(57,465)	(62,564)	(19.3)%	(8.2)%
Income tax attributable to operating profit	(118,929)	(126,106)	(103,572)	14.8%	21.8%
Net (profit) attributable to minority interests	(3,530)	(3,876)	(4,670)	(24.4)%	(17.0)%
<b>Net profit attributable to shareholders of Sonic Healthcare Limited</b>	<b>356,771</b>	<b>384,984</b>	334,998	<b>6.5%</b>	<b>14.9%</b>
<b>Cash generated from operations</b> (Refer Note 2(h))		<b>556,358</b>	459,459		21.1%

### Earnings per share

Cents per share	2014 Constant Currency*	2014 Statutory	2013 Statutory	% Change 2014 Constant Currency v 2013 Statutory	% Change 2014 Statutory v 2013 Statutory
Basic earnings per share	89.2¢	96.2¢	84.8¢	5.2%	13.4%
Diluted earnings per share	88.5¢	95.5¢	84.3¢	5.0%	13.3%

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

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

# Directors' Report

## Operating and financial review (continued)

### Financial results (continued)

#### 1. Headlines

- Record revenue and earnings results, reflecting double digit growth.
- EBITDA margin up 17 basis points ("bps"), reflecting revenue growth and cost initiatives.
- Earnings guidance achieved.
- Total dividend payout up 8.1% to 67 cents per share.
- FY2015 guidance: approximately 5% EBITDA growth (Constant Currency), interest expense to decrease approximately 10% (Constant Currency).
- Stable and expanding business.
- Strong positions in growing markets.

#### 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 2014 for the Australian dollar ("A\$", "AUD" or "\$") versus the currencies of Sonic's offshore earnings varied from those in the comparative period, impacting Sonic's AUD reported earnings ("Statutory" earnings). The underlying earnings in foreign currency are not affected.

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

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

The average exchange rates used were as follows:

	2014 Statutory	2013 and Constant Currency
AUD/USD	0.9185	1.0270
AUD/EUR	0.6770	0.7945
AUD/GBP	0.5651	0.6550
AUD/CHF	0.8305	0.9670
AUD/NZD	1.1061	1.2493

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

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

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



# Directors' Report

## Operating and financial review (continued)

### Financial results (continued)

#### 2. Explanation of results (continued)

##### (b) Revenue

Total revenue growth for the year was 4.8% at Constant Currency exchange rates (i.e. applying the average rates for the 2013 year to the current year results) and 12.3% including exchange rate impacts.

Revenue breakdown AUD M	2014 Statutory Revenue	% of 2014 Statutory Revenue	2014 Constant Currency Revenue	2013 Statutory Revenue	Growth 2014 Constant Currency v 2013
Pathology – Australia	1,131	29%	1,131	1,067	6.0%
Pathology – USA	830	21%	743	749	(0.8)%
Pathology – Europe	1,144	29%	977	888	10.0%
Pathology – NZ	41	1%	36	41	(12.2)%
Imaging – Australia and NZ	415	11%	413	404	2.2%
Medical centres and occupational health (IPN) – Australia	349	9%	349	332	5.1%
Revenue excluding interest income	3,910	100%	3,649	3,481	4.8%
Interest income	3		3	3	
Total revenue	3,913		3,652	3,484	4.8%

Sonic's Australian Pathology revenue growth of 6% was strong given the approximate 1.1% Medicare fee cut from 1 January 2013, driven by Sonic's strong brands and market positioning.

Revenue growth in the USA was depressed due to Medicare fee cuts in January 2013, April 2013 and January 2014, and was consistent with the organic growth rate of Sonic's major competitors in the USA market. Volume growth was 2.2% for the year, impacted in December, January and February by extreme weather. Volume growth has been improving in recent months through marketing initiatives and the impact of the Affordable Care Act.

Sonic's European operations experienced strong revenue growth in the UK (12%) and Switzerland (11%), with German growth (12%) augmented by acquisitions. Sonic's Belgian operations were impacted by a one-off statutory fee cut (equating to approximately 7% of total Belgian revenues) from 1 November 2013. A subsequent annual indexation fee increase of approximately 1% took effect from 1 January 2014.

Imaging revenue growth was impacted by the sales of Sonic's Palmerston North X-ray (November 2012) and Mercy Radiology (March 2014) practices. In each case the acquirer was Sonic's minority partner in the practice. Sonic has now exited imaging in New Zealand. Sonic's Australian Imaging business grew revenue by 5%.

Currency exchange rate movements increased reported (Statutory) revenue by A\$261M compared to the prior year.

##### (c) EBITDA

EBITDA grew 13.3% (5.4% at Constant Currency exchange rates) versus the prior year. The equivalent margin expanded by 17 bps over the comparative period.

Margins in the Pathology division were impacted by fee changes in the current and prior year, escalating collection centre costs in Australia and the severe winter in the USA. Dilution also occurred due to the acquisition of lower margin (than Sonic's average) businesses in Germany (pre achievement of full synergies).

Sonic's Imaging division and IPN both showed margin expansion as a result of revenue growth, cost control and efficiency programs.

# Directors' Report

## Operating and financial review (continued)

### Financial results (continued)

#### 2. Explanation of results (continued)

##### (c) EBITDA (continued)

Growth in reported expense lines in the Income Statement is distorted by currency exchange rate fluctuations. More meaningful analysis of expenses can be undertaken by relating expenses to revenue. Labour is the major cost of Sonic's businesses, equating to 46% of revenue, down 50 basis points ("bps") on the prior year due to changes in the mix of Sonic's revenues and efficiency gains. The cost of medical consumables, Sonic's second largest cost category, remains at 15% of revenue as changes in the mix of business has offset savings from Sonic's ongoing initiatives to leverage the Group's global purchasing power. The third largest expense, operating lease rents, comprises mainly premises rentals, and has increased 30 bps to 6% of revenue mainly due to increasing rents and numbers of collection centres in Australia.

##### (d) Depreciation and lease amortisation

Depreciation and leased asset amortisation has increased 2.2% on the comparative period (at Constant Currency rates) as a result of the growth of the business.

##### (e) Intangibles amortisation

Intangibles amortisation mainly relates to internally developed software.

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

Net interest expense has decreased 19.3% (A\$12M) on the prior year (at Constant Currency rates) due to lower margins on refinanced debt, lower base interest rates and the expiry of interest rate hedges at higher historical rates. Sonic's debt is drawn in foreign currencies as "natural" balance sheet hedging of Sonic's offshore operations (see (a) *Constant currency* above). Interest rate risk management arrangements are in place in accordance with Sonic's Treasury Policy.

##### (g) Tax expense

The effective tax rate of 24.5% is in line with previous guidance (~25%) and higher than in the comparative period (23.4%), partly due to underprovisions 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.

##### (h) Cashflow from operations

Cash generated from operations grew 21.1% over the comparative period and equated to 101% of cash profit (net profit plus depreciation, intangibles amortisation, equity instrument expense and outside equity interests).

## Financial position

Net assets at 30 June 2014 of A\$3,109M increased by A\$191M, or 6.5%, on the prior year. 13% (A\$24M) of this increase related to movements in currency exchange rates, with both assets (including intangibles) and liabilities of Sonic's European and New Zealand businesses being inflated by a weakened Australian dollar.

The remaining increase in net assets was due to retained earnings increasing A\$126M from operating profit, less dividends paid. The Company also received net cash of A\$37M on exercise of options during the year.

As previously advised, certain regional funding bodies ("KVs") in Germany short paid quarterly billing in periods up to 30 September 2012, after which the statutory insurance payment system moved to a national funding structure. As at 30 June 2014 Sonic is carrying €15M in debtors in relation to these short payments. Sonic is pursuing recovery of these debtors and legal advice supports full recoverability as the short payments are considered illegal, and this view is supported by a number of the other regional KVs.

Net (of cash) interest bearing debt remained at the prior year level of A\$1,739M. Net currency exchange rate impacts were negligible. Sonic has disclosed A\$449M of debt drawn under bank debt facilities which expire in April 2015 as a current liability as at 30 June 2014. As a result the Balance Sheet shows a deficiency of working capital of A\$108M. Sonic intends to refinance or extend most or all of this debt, and foresees no difficulties in doing so given the strong relationships Sonic has with its existing syndicate of banks, its investment grade metrics and its strong and reliable operating cash flows. In addition, Sonic currently has headroom in cash and undrawn facilities sufficient to cover the majority of the maturing facilities.

# Directors' Report

## Operating and financial review (continued)

### Financial position (continued)

Sonic's net interest bearing debt at 30 June 2014 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\$435	US\$365	75
– Euro limits	€696	€668	41
– GBP limits	£40	£40	-
– AUD (Multicurrency) limits	A\$179	A\$9 <sup>+</sup>	170
Minor debt/leasing facilities	n/a	A\$3	-
Cash	n/a	A\$(232) <sup>*</sup>	232
Available funds at 30 June 2014			518

<sup>\*</sup> Drawn in GBP

<sup>\*</sup> Various currencies

Sonic's credit metrics were as follows:

	30.6.14	31.12.13	30.6.13
Gearing ratio	35.9%	38.5%	37.3%
Interest cover (times)	10.7	9.4	8.6
Debt cover (times)	2.4	2.4	2.4

Definitions:

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

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

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

Calculations as per Sonic's senior bank debt facility definitions

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

	AUD M	USD M	Euro M	GBP M
2015 (April)	179	-	186	-
2016	-	-	190	40
2017	-	95	195	-
2018	-	305	-	-
2019	-	130	125	-
2020	-	155	-	-
2021	-	250	-	-
	179	935	696	40

Sonic's excellent relationships with its banks, its investment grade credit metrics, and its strong and reliable cash flows significantly reduce refinancing risk. Sonic has recently priced €110M of notes in the United States private placement market. Closing of the transaction is expected in November 2014. Proceeds of the notes offer will be used to repay existing bank debt and provide funding for future growth. The notes, with a 10 year tenor, will significantly lengthen Sonic's debt maturity profile and provide further diversification of funding sources. The notes will have a fixed annual coupon of 2.82%.

There were no significant changes in the state of affairs of the Group during the course of the financial year other than those noted in the financial result and financial position sections above.

# Directors' Report

## Operating and financial review (continued)

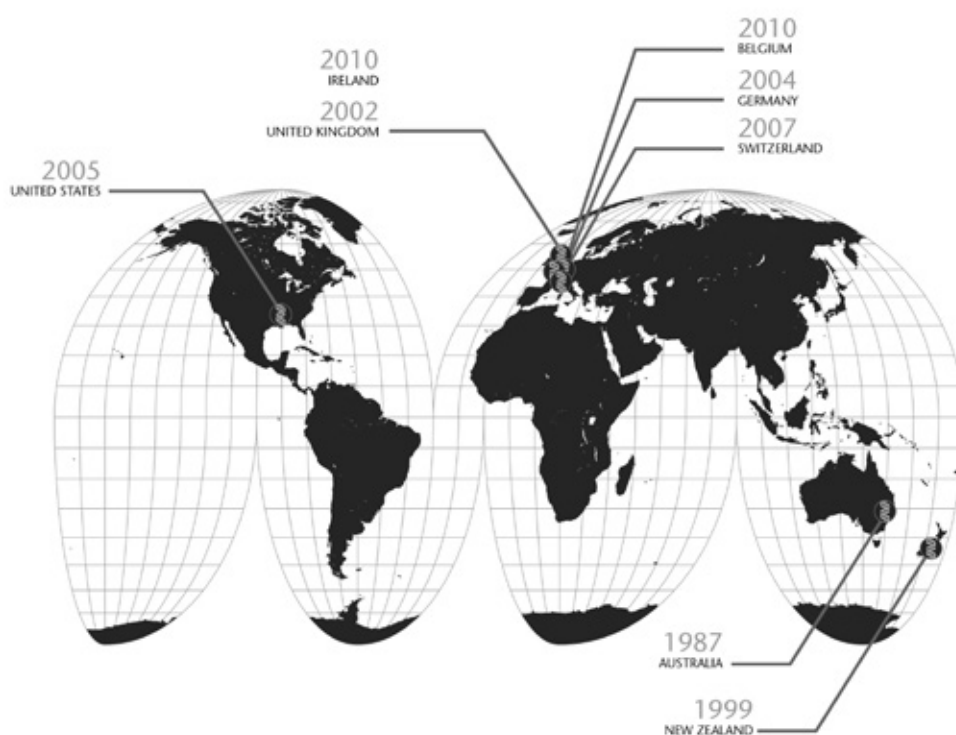
### Business model and strategies

For over 20 years, Sonic Healthcare has pursued and promoted a management and operational philosophy of Medical Leadership. The impact of this approach has been to develop a company whose services are optimally aligned with the needs of physicians and their patients. Medical Leadership encompasses a management commitment to the maintenance of professionalism and “good medicine” at all times. It fosters an understanding of the doctor-patient relationship and it puts quality first.

Sonic's operations are structured as a “federation”, implying that individual subsidiaries or geographical divisions work in a synergistic network to achieve best practice outcomes in terms of service and business excellence. The structure reinforces the identity and management autonomy of each local operation. Each operation has its own CEO or President and management team. When Sonic acquires businesses, these most often maintain their management autonomy, brand, and consequently their local “flavour”. This is the structure which is most resonant with local medical communities and which best preserves acquired goodwill. However, Sonic's operations work in a collaborative way within the structure, via central executives and widespread inter-company communication, to achieve synergies. Detailed benchmarking leading to best practice, group purchasing, IT, E-health, quality system sharing and centralisation of testing are all examples of continuous synergy activity within the Group.

Sonic's Medical Leadership philosophy and federation structure have resulted in significant “brand” differentiation in the market place. The Company's operations are viewed as specialist medical practices, rather than as “businesses”. This market differentiation has not only fostered strong organic revenue growth (including hospital pathology outsourcing contracts) over the years but has often made Sonic the preferred acquirer when laboratory or imaging practice founders and owners wish to realise the value of their practices without seeing their focus on the medical nature of the business lost to a more “corporatised” acquirer. Sonic's culture and structure have also served to attract and retain top pathologists, radiologists, scientific staff and managers, with staff turnover at this important senior level consistently at very low levels.

Sonic's strategy is to utilise its unique culture, values and structure to achieve a leading position in targeted geographic pathology markets, providing sufficient size and infrastructure to facilitate synergies and economies of scale to drive margin improvements, earnings growth and increasing returns on capital invested. Sonic has a successful track record of consolidating fragmented markets in Australia, using its market differentiation to drive both organic revenue growth and to attract like-minded laboratories for acquisition. Having undertaken a strategic international pathology expansion program, Sonic is now successfully implementing the same strategies in its offshore pathology markets. Sonic is also well placed to benefit from the increasing trend for governments and others to outsource their diagnostic testing to the private sector in order to address growing healthcare costs.



# Directors' Report

## Operating and financial review (continued)

### Prospects for future years

Sonic operates in attractive and growing global healthcare markets, carefully chosen based on a range of factors including political, legal and financial stability, reliable and stable healthcare funding systems, fragmentation of the market, and cultural understanding. Within these markets there is increasing demand for diagnostic services arising from growing and ageing populations, new tests and preventative medicine. Against this favourable backdrop Sonic expects to continue for the foreseeable future to grow revenue, earnings and returns on investment organically, including through outsourcing contracts, and further enhanced by synergistic business acquisitions. Pathology is a business which offers many levers which can be adjusted to optimise individual processes and Sonic's managers are constantly seeking efficiency gains within their businesses, aided by the early adoption of new technologies and the sharing of experiences with colleagues from around the globe.

Whilst the present focus for acquisitions is on Sonic's existing markets, further prudent and strategic international expansion in pathology is likely in the medium to long term. Sonic has no current intention to expand its diagnostic imaging or other businesses outside Australia.

Sonic intends to maintain a solid investment grade profile with conservative leverage, to preserve Sonic's culture and Core Values, and to ensure the attraction and retention of the best people to drive the business forward, including retaining key staff from acquisitions.

With regard to more short term prospects, on 19 August 2014 Sonic provided guidance in relation to forecast results for the 2015 financial year as follows:

- Sonic expects to grow EBITDA by approximately 5% over the 2014 level of A\$733M, on a Constant Currency basis (applying 2014 average currency exchange rates to 2015 foreign currency earnings).
- Net interest expense is expected to decrease by approximately 10% from the 2014 level of A\$57M on a Constant Currency basis. Underlying floating interest rates are assumed to remain constant at August 2014 levels.
- The effective tax rate is expected to be approximately 25%.
- This guidance excludes the impact of any future business acquisitions.

Given Sonic's size and global market presence, opportunities present themselves from time to time that are not necessarily in accordance with Sonic's core strategies. These opportunities are assessed by management and the Board to determine whether their pursuit is in the best interests of shareholders. Further information on likely strategic developments has not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the interests of the Group.

### Risks

The major risks to consider in assessing Sonic's future prospects are:

- Sonic's reported revenue and earnings will fluctuate with changes in the currency exchange rates between the Australian dollar (our reporting currency) and the currencies of our offshore operations. As previously noted, Sonic uses foreign currency borrowings as a partial (natural) hedge.
- In most of Sonic's markets the majority of revenue is priced based on fee schedules set by government or quasi government bodies and, especially in the USA, insurance companies. As a result of the strong underlying volume growth drivers, healthcare funders will sometimes use fee cuts or other adjustments to curb growth in their outlays. Sonic mitigates this risk through its geographic and line of business diversification, by seeking diversified sources of revenue for its services within markets, and by being one of the largest, more efficient operators and therefore less impacted by adverse market changes than smaller, less efficient players. In general, fee pressures drive further market consolidation, feeding into Sonic's core strategy of growth both organically and by acquisition, with attendant synergy capture and economies of scale.
- Healthcare businesses are subject to significant levels of regulation. Changes in regulation can have the impact of increasing costs or reducing revenue (through volume reductions). Sonic attempts to mitigate this risk by using its market leadership positions to help shape the healthcare systems in which it operates. Sonic takes active roles in industry associations, and encourages its people to take leadership positions in colleges and other professional and craft organisations. In addition, Sonic's size and efficiency allows it to benefit from market consolidation caused by the impacts of regulatory changes on smaller players.

# Directors' Report

## Operating and financial review (continued)

### Risks (continued)

- Loss of a licence or accreditation required to operate one or more of Sonic's businesses could impact revenue both directly and through damage to Sonic's reputation. The likelihood of this risk having a material impact is considered low given the focus on quality within Sonic.
- Sonic's strategies include the acquisition of businesses and entering into long term contracts to provide diagnostic testing. There is a risk that an acquisition or contract may not achieve its expected financial performance, or give rise to an unexpected liability. Sonic seeks to mitigate these risks through thorough due diligence, and through warranties and indemnities in acquisition and contract documentation. Sonic's track record to date in this area has been very positive.
- There is always the risk of heightened competition in Sonic's markets, whether from more aggressive behaviour of an existing competitor, or from a new competitor. This could include a competitor introducing a new development in testing or introducing new tests that result in less demand for Sonic's services. A change in competition could impact revenue and/or costs. Sonic's leadership is alert to potential changes in the market place and reacts swiftly when threats are perceived.
- Relationships with referring practitioners (including general practitioners, surgeons and other specialists), hospital groups and other parties with whom Sonic contracts to provide services are important to Sonic's businesses. If, for any reason, Sonic failed to maintain strong relationships with these parties, there would be a risk that it could lose business to competitors.
- Sonic's businesses rely on information technology systems. A disruption to a core IT platform could have significant operational impacts. Sonic has implemented strategies which management believes significantly reduce this risk.
- Sonic uses prudent levels of debt to reduce its cost of capital and to increase earnings per share. It is therefore subject to the risk of rising interest rates (either on floating rate debt or when existing facilities expire), the future availability of funding, and potential breach of a term or condition of its debt facilities. Sonic has a sophisticated Treasury Policy in place to manage these risks, developed and overseen by Sonic's Treasury Management Committee, which includes a renowned expert external consultant.
- With operations in eight jurisdictions, Sonic is potentially exposed to changes in taxation legislation or interpretation which could increase its effective tax rate.

Sonic's geographic, business line and branding diversification, plus our federation structure, broad menu of tests offered and low customer concentrations mean that few, if any, of the usual operating risks faced by a healthcare business would have a material impact on Sonic as a whole.

### 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.

# Directors' Report

## Information on Directors

### (a) Directors' profiles



#### **Peter Campbell** Chairman

F.C.A., C.T.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 was a non-executive director of Silex Systems Limited (from 1996 until September 2013, including Chairman from October 2010 until February 2012) and he was also a non-executive director of QRxPharma Limited (from April 2007 until July 2014).



#### **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 was a non-executive director of Silex Systems Limited (from 1992 until May 2014), a listed company spun out of Sonic in 1996.



#### **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).

# 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 (acquired by Sonic in 2001). 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. 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 Pathology Australia, represents Sonic at a national industry level. Mr Jackson was the Chief Executive Officer of Diagnostic Services Pty Limited (Sonic's Tasmanian practice, acquired in 1999) 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 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. Mr Panaccio is currently on the boards of ASX listed companies Genera Biosystems Limited (Executive Chairman from July 2011, director from November 2010) and Avita Medical Limited (Chairman from July 2014). He is also Executive Chairman of Health Networks Australia, non-executive Chairman of the Inner East Community Health Service in Victoria and a non-executive director of Yarra Community Housing Limited. Mr Panaccio was the Chief Executive Officer and an executive director of Melbourne Pathology (acquired by Sonic in 1999) for ten years to 2001. Mr Panaccio is Chair of the Audit Committee, a member of the Remuneration and Nomination Committee, and a member of the Risk Management 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 sixteen 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, ColInvest Limited and Suncorp Portfolio Services Limited. She is 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 an independent non-executive director with a background in finance, banking and medicine (as a qualified General Practitioner) and has extensive experience in corporate finance, commercialisation of technologies and governance. Dr Wilson 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 Finance Director of The Winston Churchill Memorial Trust, Deputy Chancellor of the University of Queensland, a member of the University of Queensland Faculty of Health Sciences Board and a director of the General Sir John Monash Foundation. Dr Wilson was appointed to the Prime Minister's Business Advisory Council (12 Member council) in December 2013, and is a member of the Institute for Molecular Bioscience Advisory Board and the Qld Arts Investment Advisory Board. Dr Wilson's previous directorships include inaugural Chairman of Horticulture Australia, Chairman of IMBcom Ltd, ASX listed Universal Biosensors Ltd (from December 2006 until August 2013), Energex Ltd., Sun Retail Ltd. and WorkCover Qld. She served on the Premier's Smart State Council in Queensland and was a member of the Biotechnology Task Force. She was named in the inaugural 2012 AFR/Westpac Top 100 Women Awards in the Board/Management category. Dr Wilson is Chair 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 Deputy Chief Financial Officer 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 UK headquartered multinational company for two years.

# Directors' Report

## Information on Directors (continued)

(c) Directors' interests in shares, options and performance rights as at 22 September 2014

Director's name	Class of shares	Number of shares	Interest	Number of options	Number of performance rights
R.P. Campbell	Ordinary	10,271	Beneficially	-	-
Dr C.S. Goldschmidt	Ordinary	700,000	Personally	2,394,614*	260,157*
	Ordinary	30,243	Beneficially	-	-
C.D. Wilks	Ordinary	906,125	Personally	1,197,305*	130,078*
	Ordinary	88,122	Beneficially	-	-
Dr P.J. Dubois	Ordinary	8,000	Beneficially	-	-
C.J. Jackson	Ordinary	461,371	Personally	-	-
L.J. Panaccio	Ordinary	-	-	-	-
K.D. Spargo	Ordinary	3,000	Personally	-	-
	Ordinary	5,000	Beneficially	-	-
Dr E.J. Wilson	Ordinary	2,000	Beneficially	-	-

\* The options and performance rights are subject to challenging performance conditions designed to align the interests of the executives with those of shareholders. None of the options or performance rights have vested to date.

## 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 2014, 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	12	4	4	4	4	-	-
Dr C.S. Goldschmidt	12	12	-	-	-	-	2	2
C.D. Wilks	12	12	-	-	-	-	2	2
Dr P.J. Dubois	11	12	-	-	-	-	2	2
C.J. Jackson	11	12	-	-	-	-	-	-
L.J. Panaccio	11	12	4	4	4	4	-	-
K.D. Spargo	12	12	4	4	4	4	-	-
Dr E.J. Wilson	12	12	-	-	4	4	2	2

# Directors' Report

## Insurance of officers

The Company has 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. The Directors believe that the Group has complied with all relevant environmental regulations and there have been no investigations or claims during the financial year.

## 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 48.

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

	2014 \$	2013 \$
<b>Related practices of PricewaterhouseCoopers – Australian firm (including overseas PricewaterhouseCoopers firms)</b>		
Taxation and accounting services	98,965	-

## 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.

# Directors' Report

## Remuneration Report

The Directors of Sonic Healthcare Limited present the Remuneration Report for the year ended 30 June 2014 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, of which \$768,000 was paid in 2014. Since 1 July 2013 the Chairman's annual remuneration is \$290,000 inclusive of all Board Committee work and the base Non-executive Director fee is \$140,000. Board Committee fees are as follows:

Fees per annum	Chair	Members
Audit	\$18,000	\$10,000
Risk Management	\$10,000	\$5,000
Remuneration and Nomination	\$10,000	\$5,000

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 may 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	<i>Managing Director</i>
C.D. Wilks	<i>Finance Director</i>
Dr P.J. Dubois	
C.J. Jackson	

All of the above persons were also key management personnel during the year ended 30 June 2013.

#### (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 imaging 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, represents Sonic in industry matters and undertakes various projects and initiatives.

The Board therefore considers that the Executive Directors and 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):

	2010	2011	2012	2013	2014	Compound Average Annual Growth Rate <sup>1</sup>
Growth in EBITDA (on a constant currency basis)	2.1%	11.3%	12.1%	4.5%	5.4%	7.1%
Net profit attributable to members (\$'000)	293,225	294,535	315,996	334,998	384,984	4.1%
Ordinary earnings per share (cps)	75.0	75.5	80.7	84.3	95.5	2.3%
Dividends paid per share (cps)	59	59	59	60	64	
Enterprise value <sup>2</sup> (\$'000)	5,552,415	6,534,718	6,536,398	7,620,761	8,684,854	
Total shareholder return <sup>3</sup>	(22.0)%	1.5%	19.2%	64.6%	54.1%	
Change in total cash remuneration of executives <sup>4</sup>	6.0%	0.6%	4.7%	(20.0)%	24.2%	2.1%
Change in total remuneration of executives <sup>5</sup>	(23.3)%	(18.9)%	(3.0)%	(11.3)%	(2.5)%	(12.2)%

<sup>1</sup> The compound average annual growth rate is calculated over the five year period shown with 2009 as the base year.

<sup>2</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>3</sup> Total shareholder return is calculated over a rolling 3 year performance period and assumes dividend reinvestment.

<sup>4</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>5</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 increased marginally and equity-based remuneration reduced during the three years to 2012 when Sonic Healthcare's reported performance was significantly impacted by foreign currency headwind, with the strengthening AUD reducing the translated earnings of the Group's offshore operations. In 2013 remuneration fell substantially as the performance hurdle related to EBITDA growth which applied to 70% of the maximum short term incentives (STI) for the Managing Director and Finance Director was not met. In 2014 cash remuneration increased predominantly due to the minimum STI performance hurdle related to EBITDA growth being met. Total remuneration reduced in 2014 due to elements of equity based remuneration not meeting non-market based performance conditions.

### (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 2014

Name	Short-term employee benefits			Post-employment benefits	Total cash remuneration <sup>2</sup>
	Salary & fees	Other benefits <sup>1</sup>	Short term incentives (STI)	Superannuation	
	\$	\$	\$	\$	\$
Dr C.S. Goldschmidt <i>Managing Director</i>	2,104,475	-	900,848	17,775	3,023,098
C.D. Wilks <i>Finance Director</i>	952,225	-	439,410	17,775	1,409,410
Dr P.J. Dubois <i>Director</i>	551,984	8,059	150,000	37,123	747,166
C.J. Jackson <i>Director</i>	267,225	-	-	17,775	285,000
R.P. Campbell <i>Chairman and Non-executive Director</i>	272,225	-	-	17,775	290,000
L.J. Panaccio <i>Non-executive Director</i>	149,199	-	-	13,801	163,000
K.D. Spargo <i>Non-executive Director</i>	146,453	-	-	13,547	160,000
Dr E.J. Wilson <i>Non-executive Director</i>	141,876	-	-	13,124	155,000

<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 2013

Name	Short-term employee benefits			Post-employment benefits	Total cash remuneration <sup>2</sup>
	Salary & fees	Other benefits <sup>1</sup>	Short term incentives (STI)	Superannuation	
	\$	\$	\$	\$	\$
Dr C.S. Goldschmidt <i>Managing Director</i>	1,873,530	-	398,475	16,470	2,288,475
C.D. Wilks <i>Finance Director</i>	823,530	-	189,000	16,470	1,029,000
Dr P.J. Dubois <i>Director</i>	523,477	7,999	158,600	21,154	711,230
C.J. Jackson <i>Director</i>	346,512	-	-	23,488	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
K.D. Spargo <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

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

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

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 2014 was: Dr C.S. Goldschmidt \$199,975 (2013: \$69,017), C.D. Wilks \$56,108 (2013: \$20,059), and C.J. Jackson \$3,961 (2013: \$4,314).

#### (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 2014 was \$604,120 (2013: \$1,540,819), and for C.D. Wilks it was \$302,059 (2013: \$770,409). No options or performance rights were issued in 2014. The options and performance rights are subject to challenging vesting conditions and only 42% of the options and performance rights with a performance measurement period for 3 years to 30 June 2014 satisfied the vesting conditions.

The equity-based remuneration amounts disclosed for 2014 relate to options and performance rights issued under the Sonic Healthcare Limited Employee Option 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 relating to remuneration arrangements for periods to 30 June 2014.

# Directors' Report

## Remuneration Report (continued)

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

#### (i) Equity-based remuneration (continued)

During the financial year Dr C.S. Goldschmidt exercised 1,000,000 (2013: 1,000,000) Executive Incentive Plan options over ordinary shares in the Company issued as remuneration for periods to 30 June 2008 (having vested after satisfying challenging performance conditions) with an exercise price of \$7.50. In addition 712,250 Employee Option Plan options over ordinary shares in the Company issued in November 2008 as remuneration for periods to 30 June 2011 (having vested after satisfying challenging performance conditions which caused 59.3% of the total options issued to be forfeited) were exercised with an exercise price of \$12.98. The total intrinsic value of the options at the date of exercise was \$10,103,730 (2013: \$5,500,000). C.D. Wilks exercised 540,000 (2013: 540,000) Executive Incentive Plan options over ordinary shares in the Company issued as remuneration for periods to 30 June 2008 (having vested after satisfying challenging performance conditions) with an exercise price of \$7.50. In addition 356,125 Employee Option Plan options over ordinary shares in the Company issued as remuneration for periods to 30 June 2011 (having vested after satisfying challenging performance conditions which caused 59.3% of the total options issued to be forfeited) were exercised with an exercise price of \$12.98. The total intrinsic value of the options at the date of exercise was \$5,368,265 (2013: \$2,970,000). There are no more options or performance rights on issue related to remuneration for periods prior to 1 July 2011.

#### (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 39% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2014 (2013: 50%), and 42% of C.D. Wilks' remuneration for the 12 months to 30 June 2014 (2013: 53%). Within these components, the calculated value of options and performance rights over unissued ordinary shares in Sonic Healthcare Limited accounted for 16% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2014 (2013: 40%) and 17% of C.D. Wilks' remuneration for the 12 months to 30 June 2014 (2013: 42%). Dr P.J. Dubois' remuneration includes cash bonuses as performance related components. These components made up 20% of Dr P.J. Dubois' remuneration for the 12 months to 30 June 2014 (2013: 22%).

#### (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 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 having 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. Remuneration levels and the split between components for the executives were revised to reflect the Aon Hewitt advice and, at the time, 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 was appropriate for C.D. Wilks as the role he performs within Sonic is broader than the usual Chief Financial Officer role.



# Directors' Report

## Remuneration Report (continued)

### (d) Service agreements (continued)

The existing long term incentive (LTI) arrangements provide performance incentives for the executives to 2016. The Remuneration and Nomination Committee considered it timely to conduct a comprehensive review of the remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks such that arrangements for periods beyond 2016 could be considered. As part of this review the Committee directly engaged Ernst & Young as independent remuneration consultants to provide market benchmarking analysis and information on possible remuneration arrangements. Ernst & Young considered the level of total and individual components of remuneration and made detailed comparisons by percentile band against two ASX listed comparator groups, being:

- Market Capitalisation comparator group: includes companies with market capitalisation of 50% to 200% of Sonic's 12-month average market capitalisation, excluding Financials and Metals and Mining companies. This resulted in a group of 34 companies.
- Geographic comparator group: includes companies included in the Market Capitalisation comparator group, but excluding companies where less than a quarter of annual revenue can be attributed to overseas operations. This resulted in a group of 16 companies.

As a further reference point, data for other companies within the Health Care sector of the ASX was specifically considered.

The Remuneration and Nomination Committee concluded from the benchmarking analysis that the existing levels of remuneration (particularly the Fixed and STI components) required adjustment given Sonic's market capitalisation, the complexity of its operations (including that approximately 50% of revenue is sourced offshore, from seven other countries) and, in particular, the value to the Company of the two executives. Dr C.S. Goldschmidt and C.D. Wilks have been in their current roles since 1993. Their knowledge, experience, and the reputation they have in the market are considered extremely valuable to the Company. Under their leadership Sonic Healthcare has been the third best performing stock on the ASX for the period from January 1993 to date, with a return of over 16,000%. The Committee has therefore determined that total target remuneration for Dr C.S. Goldschmidt should be positioned at the 75th percentile of the Market Capitalisation comparator group (between the median and the 75th percentile of the Geographic comparator group) and total target remuneration for C.D. Wilks should be positioned at the 80th percentile of both comparator groups reflecting the broad role he has as Finance Director. Remuneration from 1 July 2014 is to comprise the following components (mix in line with market norms):

Summary of remuneration for Dr C.S. Goldschmidt and C.D. Wilks from 1 July 2014

\$'000	Fixed Remuneration (FR)	Target STI	Fixed remuneration + target STI	LTI	Total Target Remuneration (TTR)
Dr C.S. Goldschmidt	2,260	2,260	4,520	2,479	6,999
C.D. Wilks	1,058	1,058	2,116	988	3,104

Components by percentage:

	FR % of TTR	STI % of TTR	LTI % of TTR
Dr C.S. Goldschmidt	32%	32%	36%
C.D. Wilks	34%	34%	32%

### (i) Fixed remuneration

The fixed remuneration component 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. The Board approved a 5% increase in fixed remuneration with effect from 1 July 2013 for Dr C.S. Goldschmidt and C.D. Wilks. A further increase, to the level specified in the table above, took effect from 1 January 2014, as a result of the recent review of remuneration.

# Directors' Report

## Remuneration Report (continued)

### (d) Service agreements (continued)

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

The executives are eligible for an annual cash bonus based on achievement of pre-determined goals. The target level of STI is a set proportion of, and therefore varies with, the executives' fixed remuneration.

Up to 70% of the target 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"). EBITDA growth hurdles are set at the beginning of each year.

For the 2014 financial year the hurdles were as follows:

Annual EBITDA Growth	% of 70% of STI payable
Less than 5.0%	0%
5.0%	40%
Greater than 5.0% and less than 12.0%	pro rata
12.0% or greater	100%

EBITDA growth (using Constant Currency exchange rates) was chosen as a performance criteria as it is consistent with the way Sonic gives earnings guidance to the market, 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% of the target 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 determined to make an award under the STI for the 2014 financial year of \$900,848 (out of a target STI of \$1,491,470) for Dr C.S. Goldschmidt and \$439,410 (out of a target STI of \$727,500) for C.D. Wilks. The amounts have been calculated on Constant Currency EBITDA growth of 5.4% in 2014, and the maximum payable under the qualitative factors, as the Board is satisfied that the executives have excelled in the areas of assessment during 2014, and no issues have arisen during the year that would suggest anything to the contrary. The 2014 STI awarded represent 60.4% of the target STI with 39.6% forfeited.

For the 2015 financial year, the target level of STI will equate to 100% of fixed remuneration and the 70%/30% split of the performance assessment remains. For 2015, the target EBITDA growth is 5%, in line with Sonic's guidance to the market given on 19 August 2014. The level of STI payable will be determined by the percentage of target growth achieved as follows:

% of Target Growth Achieved	% of 70% of Target STI payable
Less than 60%	0%
60%	40%
Between 60% and 100%	Pro rata between 40% and 80%
100%	80%
Between 100% and 200%	Pro rata between 80% and 150%
200% or greater	150%

The potential contribution to EBITDA growth of acquisitions is capped at a maximum of 2% for the purpose of the performance assessment.

# 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:

	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 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 using the 5 day VWAP for Sonic shares preceding the date of grant.

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.

For the performance period from 1 July 2011 to 30 June 2014 the minimum hurdle for PC1 was not met therefore all 652,286 options and 70,866 performance rights have lapsed. The actual CAGR of ROIC over the performance period was 1.11%.

# Directors' Report

## 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.

For the performance period from 1 July 2011 to 30 June 2014 Sonic achieved a TSR percentile rank of 67%, and therefore 84% of the relevant options (547,920) and performance rights (59,527) will be eligible for vesting on 18 November 2014. The remaining 104,366 options and 11,339 performance rights for this performance period have lapsed.

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 2014.

Following the recent remuneration review, it is proposed (conditional on approval by shareholders) that in future Dr C.S. Goldschmidt and C.D. Wilks receive annual grants of equity-based remuneration, subject to performance conditions with measurement periods of three years. Annual grants have a number of benefits versus the less frequent, larger grants used in the past, including allowing the Company to determine the appropriate performance hurdles each year for the grant being made, adjust the mix between type of instruments for changes in circumstances (e.g. tax law), and / or select different measures to take into account changes in the Company's strategy or context. It also provides the opportunity for shareholders to vote on the proposed grants each year, taking into account recent Company performance.

Conditional on approval by shareholders at the 2014 Annual General Meeting ("AGM"), the executives will be issued the following LTI:

	Dr C.S. Goldschmidt	C.D. Wilks
Maximum value of LTI	\$2,479,000	\$988,000
Consisting of:		
Options over shares in Sonic Healthcare Limited	50%	50%
Performance rights over shares in Sonic Healthcare Limited	50%	50%

The LTI options and performance rights will vest three years from grant date, if performance conditions are met for the period of three years to 30 June 2017. They will expire 5 years from grant date. Options can only vest when the market price of Sonic shares is higher than the exercise price.

# Directors' Report

## Remuneration Report (continued)

### (d) Service agreements (continued)

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

The number of options issued will be determined based on a Black Scholes methodology valuation at the time of grant (proposed to be the date of the 2014 AGM), and the exercise price of the options will be determined using the Volume Weighted five day Average market Price ("5 day VWAP") for Sonic shares preceding the date of grant. The valuation will not allow for any discount relating to performance conditions.

The number of performance rights to be issued will be determined by dividing 50% of the maximum value of LTI by the 5 day VWAP for Sonic shares preceding the date of grant.

The proposed options and performance rights will be subject to challenging performance conditions designed to align the interests of the executives with those of shareholders. There are three separate performance conditions to be applied as follows:

**Performance Condition 1 ("PC1") – 50% weighting** (that is, 50% of the options and 50% of the performance rights are subject to this performance condition) – **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 51st percentile	Nil options and rights to which PC1 applies
51st percentile	50% of options and rights to which PC1 applies
Greater than 51st and less than 75th percentile	Pro rata between 50% and 100% of options and rights to which PC1 applies
75th percentile and above	100% of options and rights to which PC1 applies

Under PC1, 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 performance period. The rationale for use of relative TSR as a performance hurdle is explained above.

**Performance Condition 2 ("PC2") – 25% weighting – Compound Average Growth Rate ("CAGR") in Return on Invested Capital ("ROIC")**

ROIC for 2017	Percentage of Options and Rights that vest
Less than 9.5%	Nil options and rights to which PC2 applies
9.5%	50% of options and rights to which PC2 applies
Greater than 9.5% and less than 10.05%	Pro rata between 50% and 100% of options and rights to which PC2 applies
10.05% or greater	100% of options and rights to which PC2 applies

ROIC is calculated as Earnings before Interest and Tax ("EBIT") less related tax and minority interests divided by capital employed (see below for detailed calculation). It is expressed as a percentage. ROIC for 2014 was 9.2%, and the executives are being incentivised to grow this to 10.05% by 2017. Growth in ROIC has been chosen as a performance hurdle as the Board believes that a primary focus in coming years should be improvement in the return from the substantial investments the Company has made in its offshore markets.

ROIC = (EBIT<sup>1</sup> less minority interests<sup>2</sup> less cash taxes paid in year<sup>3</sup>) / Average<sup>4</sup> invested capital<sup>5</sup>

<sup>1</sup> EBIT is statutory EBIT per the Annual Report.

<sup>2</sup> Minority interests are as disclosed in the Income Statement of the Annual Report.

<sup>3</sup> Cash taxes paid are as per the Cash Flow Statement disclosure in the Annual Report adjusted for the tax impact of interest (using the Australian Corporate Tax Rate, currently 30% i.e. 30% of Net Interest Expense).

<sup>4</sup> The average is taken from the opening and closing invested capital position for each financial year.

<sup>5</sup> Invested capital is measured as shareholders' equity plus net interest bearing debt less deferred taxes.

# Directors' Report

## Remuneration Report (continued)

### (d) Service agreements (continued)

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

#### Performance Condition 3 ("PC3") – 25% weighting – Compound Average Growth Rate ("CAGR") in Earnings Per Share ("EPS")

CAGR EPS	Percentage of Options and Rights that vest
Less than 4% p.a.	Nil options and rights to which PC3 applies
4% p.a.	40% of options and rights to which PC3 applies
Greater than 4% and less than 10% p.a.	Pro rata between 40% and 100% of options and rights to which PC3 applies
10% p.a. or greater	100% of options and rights to which PC3 applies

EPS is calculated as Net Profit after Tax divided by the fully diluted weighted average number of ordinary shares on issue during a year. Growth in EPS has been chosen as a hurdle as it is a direct measure of Company performance and maintains a strong correlation with long term shareholder return.

Whilst the general intention is to use statutory reported numbers for transparency in measuring performance under PC2 and PC3, given the three year period into the future involved, should the statutory numbers cause an anomalous result, adjustments to the statutory numbers may be made by the Board to ensure the intent of the incentive plan is maintained.

Options and performance rights for which the performance conditions are not satisfied are forfeited immediately after the performance measurement is finalised. There is 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:

For options and rights issued in November 2011:

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

For the options and rights proposed to be issued in November 2014:

- Unvested options and rights may vest at the Board's discretion, having regard to pro rata performance and the circumstances leading to the potential change of control.

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.

# Directors' Report

## Remuneration Report (continued)

### (e) Equity disclosures relating to key management personnel

#### (i) Option holdings

The number of options over ordinary shares held beneficially or personally during the current financial year by the key management personnel of the Group in relation to remuneration arrangements are set out below.

2014 Name	Balance at 1 July 2013	Issued during the 2014 year as remuneration	Exercised during the 2014 year	Balance at 30 June 2014	Lapsed since year end	Balance at 22 September 2014	Vested and exercisable at 30 June 2014
Dr C.S. Goldschmidt	4,611,298	-	(1,712,250)	2,899,048	(504,434)	2,394,614	-
C.D. Wilks	2,345,648	-	(896,125)	1,449,523	(252,218)	1,197,305	-

#### (ii) Performance rights

The number of performance rights held personally or beneficially during the current financial year by the key management personnel of the Group in relation to remuneration arrangements are set out below.

2014 Name	Balance at 1 July 2013	Issued during the 2014 year as remuneration	Exercised during the 2014 year	Balance at 30 June 2014	Lapsed since year end	Balance at 22 September 2014	Vested and exercisable at 30 June 2014
Dr C.S. Goldschmidt	314,960	-	-	314,960	(54,803)	260,157	-
C.D. Wilks	157,480	-	-	157,480	(27,402)	130,078	-

#### (iii) Share holdings

The number of shares held personally or beneficially during the current financial year by the key management personnel of the Group are set out below.

2014 Name	Balance at 1 July 2013	Issued during the 2014 year on the exercise of options	Shares provided as remuneration during the 2014 year	Other changes during the 2014 year	Balance at 30 June 2014
Dr C.S. Goldschmidt	730,243	1,712,250	-	(1,712,250)	730,243
C.D. Wilks	898,122	896,125	-	(800,000)	994,247
R.P. Campbell	10,271	-	-	-	10,271
Dr P.J. Dubois	-	-	-	8,000	8,000
C.J. Jackson	491,371	-	-	(30,000)	461,371
K.D. Spargo	8,000	-	-	-	8,000
Dr E.J. Wilson	2,000	-	-	-	2,000

# Directors' Report

## Remuneration Report (continued)

### (f) Transactions with key management personnel

During the financial year rental expense payments totalling \$567,927 (2013: \$554,720) have been made by the Group to Director related entities, including unit trusts, private companies and spouses. The rental transactions were based on normal terms and conditions and at market rates. No balance was outstanding at the end of the current or preceding year. The Director who had an interest in the rental transactions in the current and preceding financial year was C.J. Jackson.

### (g) Amounts receivable from/payable to other key management personnel

There were no amounts receivable from/payable to other key management personnel at 30 June 2014 (2013: \$nil).

### (h) Doubtful debts

No provision for doubtful debts has been raised in relation to any receivable or loan balance with key management personnel, nor has any expense been recognised.

### (i) 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 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.

### (j) Use of remuneration consultant

In 2014, Sonic Healthcare Limited's Remuneration and Nomination Committee employed the services of Ernst & Young to provide information in respect of comparator groups for benchmarking remuneration and on long term incentive plans. Under the terms of the engagement, Ernst & Young did not provide remuneration recommendations as defined in section 9B of the *Corporations Act 2001*.

### (k) Voting at the Company's 2013 Annual General Meeting

Over 96% of votes cast on poll on Sonic Healthcare Limited's Remuneration Report for the 2013 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  
22 September 2014

# Auditor's Independence Declaration



As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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 'Mark Dow', written over a light grey rectangular background.

Mark Dow  
Partner  
PricewaterhouseCoopers

Sydney  
22 September 2014

# 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.

The principal features of Sonic's corporate governance framework are set out in this statement, which is current as at 22 September 2014 and has been approved by the Board.

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. Sonic supports the ASX Corporate Governance Council Corporate Governance Principles and Recommendations in advancing good corporate governance, and has applied the second edition during the 2014 financial year and the third edition from 1 July 2014. 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 in this report.

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**  
To keep all information pertaining to patients, as well as professional and commercial issues, in strict confidence.

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 2014 financial year. Any issues of non-compliance with the Recommendations are specifically noted and explained.

# Corporate Governance Statement

## 1. Board of Directors

Profiles of the Directors and Company Secretary are included in the Directors' Report.

### (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.

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,
- appointing the Chair and Managing Director, and assessing the performance of the Managing Director and Finance Director,
- 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, and is responsible for providing accurate and relevant information to enable the Board to perform its responsibilities. Senior executives reporting to the Managing Director have their roles and responsibilities defined in specific position descriptions. 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 available at <http://www.sonichealthcare.com/about-us/corporate-governance/board-of-directors-.aspx>.

The Company Secretary is appointed by the Board and is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board. Each Director is able to communicate directly with the Company Secretary.

# Corporate Governance Statement

## 1. Board of Directors (continued)

### (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	69	21	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	60	21	Managing Director, Chief Executive Officer	Healthcare industry and company management. Qualified Pathologist	Member of Risk Management Committee
Mr Chris Wilks	56	24	Finance Director, Chief Financial Officer	Finance, accounting, banking, secretarial and company management	Resigned from Risk Management Committee on 29 July 2014
Dr Philip Dubois	68	13	Executive Director	Diagnostic imaging industry and company management. Qualified Radiologist	Resigned from Risk Management Committee on 29 July 2014
Mr Colin Jackson	66	14	Executive Director	Finance, healthcare industry and company management	
Mr Lou Panaccio	57	9	Non-executive, independent Director	Finance, healthcare industry and company management	Chair of Audit Committee, and member of Remuneration and Nomination Committee. Appointed to Risk Management Committee from 29 July 2014
Ms Kate Spargo	62	4	Non-executive, independent Director	Law, governance and company oversight	Chair of Remuneration and Nomination Committee and member of Audit Committee
Dr Jane Wilson	56	4	Non-executive, independent Director	Medicine, finance, governance and company oversight. Qualified General Practitioner	Chair of Risk Management Committee and member of Remuneration and Nomination Committee

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 1993. 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. The Board considers that it has an appropriate mix of skills, expertise, tenure and diversity.

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

# Corporate Governance Statement

## **1. Board of Directors (continued)**

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

For the reasons described above Sonic currently does not comply with ASX Corporate Governance Council Recommendation 2.4 (previously 2.1): "A majority of the board should be independent directors". The Board currently comprises four independent and four Executive Directors. The Board is addressing this issue (see Board Renewal below).

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 independence of each of the Non-Executive Directors is assessed annually, and it is the view of the Board that each should continue to be regarded as independent. The tenure of Mr Campbell was specifically addressed in his assessment and the Board was satisfied that he has not become too close to management such that his capacity to bring independent judgement to bear or to act in the best interests of all security holders is compromised.

### **(c) Board renewal**

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. From July 2014, the Board Charter requires that Non-executive Directors who have already served for four three year terms must then offer themselves for re-election at each AGM.

The Board (with input from the Remuneration and Nomination Committee) regularly reviews its succession planning. A skills matrix is used to guide the assessment of the current Directors, and to identify desirable characteristics for future appointments. The matrix reflects the Board's objective to have an appropriate mix of medical leadership, industry experience, listed entity experience, management skills, financial expertise, legal expertise, governance expertise, strategic focus, and tenure and gender diversity.

Given the tenure of the existing independent Directors, the Board has determined that it is appropriate to recruit an additional independent Director, and is currently well progressed with a formal selection process. It is intended that the new Director be appointed to the Audit Committee, at which time Mr Campbell will retire from that Committee.

Mr Campbell is due to retire at the 2014 AGM (under the three year requirement noted above), and has advised that he will offer himself for re-election for one year only, during which time he will assist with the recruitment of a further independent Director, selection of a replacement Chair, and with a smooth transition to the new Chair. Once these tasks are successfully completed, he will retire from the Board.

Before appointing a Director, Sonic undertakes comprehensive reference checks including education, employment, character reference, criminal record, and bankruptcy checks. Potential existing or foreseeable future conflicts of interest are also considered.

New directors receive a letter of appointment and a deed of access and indemnity. The letter of appointment outlines Sonic's expectations of directors with respect to their participation, time commitment and compliance with Sonic policies. An induction process for incoming directors is coordinated by the Company Secretary. To assist Directors to understand relevant developments, the Board receives regular updates at Board meetings, workshops, and site visits, along with timely relevant reading materials.

### **(d) Board meetings**

The Board meets formally at least 6 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.

# Corporate Governance Statement

## 1. Board of Directors (continued)

### (e) 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.

### (f) 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, 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.

### (g) Securities trading

Under Sonic's Securities Trading Policy (available at <http://www.sonichealthcare.com/about-us/corporate-governance/securities-trading-.aspx>), 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 Chair (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 unvested rights, options 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).

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

The current maximum total remuneration that may be paid to all Non-executive Directors is \$1,000,000 per annum, as approved by shareholders in November 2010. The total amount paid to Non-executive Directors in the 2014 financial year was \$768,000. Equity-based remuneration is 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.

# Corporate Governance Statement

## 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 Committee operates under a formal Charter (available at <http://www.sonichealthcare.com/about-us/corporate-governance/board-committees-.aspx>). 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.

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  
Mr L.J. Panaccio (from 29 July 2014)  
Mr C.D. Wilks (until 29 July 2014)  
Dr P.J. Dubois (until 29 July 2014)

The Committee operates under a formal Charter (available at <http://www.sonichealthcare.com/about-us/corporate-governance/board-committees-.aspx>). The Charter requires that the Committee comprises at least three members, the majority of which must be independent Directors (from 29 July 2014), and that the Chair of the Committee must be an independent Director.



# Corporate Governance Statement

## 2. Board Committees (continued)

### (b) Risk Management Committee (continued)

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)  
Mr R.P. Campbell  
Mr L.J. Panaccio  
Dr E.J. Wilson

The Remuneration and Nomination Committee operates under a formal Charter (available at <http://www.sonichealthcare.com/about-us/corporate-governance/board-committees-.aspx>). The Charter requires that the Remuneration and Nomination Committee comprises at least three members, all of whom are to be independent Directors.

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.

The Committee meets on an as required basis.

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

# Corporate Governance Statement

## 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 Directors, 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 at all levels of the Company 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 (available at <http://www.sonichealthcare.com/about-us/diversity-policy.aspx>).

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.

The proportion of female employees to total employees within the Group at 30 June 2014 was:

	2014	2013
Non-executive Directors of Sonic Healthcare Limited	50%	50%
Directors of Sonic Healthcare Limited	25%	25%
Executive staff of the Group*	33%	34%
Other senior leadership positions	54%	53%
Total senior leadership positions*	50%	50%
All employees	77%	77%

\* Includes Executives to the "CEO-2" level, plus, if not already included, direct reports to the heads of each of Sonic's operating subsidiaries.

\* Includes Directors, executive staff and other senior leadership positions.

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 greater than 40%. This objective was achieved in 2014.

## 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.

Sonic's material business risks are described in the operating and financial review section of the Directors' Report. Information on Sonic's impact on society and the environment can be found in the Company Conscience report.

# Corporate Governance Statement

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

### (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, compliance, environmental and social sustainability 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. The Risk Management Committee reviewed the Company's risk management framework and reported on that review 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,
- 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,
- 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.

Control systems and policy compliance are reviewed by Sonic's Business Assurance Program, an internal audit function. The Head of Business Assurance reports to the Audit Committee, and to the Company Secretary for administrative purposes. The Business Assurance Program liaises with, but is independent of, the external auditor, and has full access to the Audit Committee and Risk Management Committee, Sonic management and staff, and records. The Audit Committee determines the scope for the Business Assurance Program each year and monitors management's response to recommended system enhancements.

# Corporate Governance Statement

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

### (c) Regulatory compliance

Sonic's pathology, imaging 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 imaging 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 2014 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 relevant 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.

# Corporate Governance Statement

## 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 (available at <http://www.sonichealthcare.com/about-us/corporate-governance/continuous-disclosure-.aspx>). 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.

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.

The Company's investor relations program facilitates effective two-way communication with investors and analysts. All investor relations discussions are conducted or monitored by the Managing Director, Finance Director or Company Secretary and are limited to discussion of non-price sensitive information and material previously announced on the ASX platform.

## 7. The role of shareholders

The Board aims to provide access and communicate openly with shareholders and to ensure that shareholders are informed of all major developments affecting the Group's state of affairs. Information is communicated to shareholders as follows:

- via the Company's website (available at <http://www.sonichealthcare.com>), which includes electronic and other contact details for Key Contacts and a general contact email address;
- 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. AGMs are held at readily accessible locations and advance notice is provided on the Investor Calendar page of the Company's website. Ample opportunity is provided for shareholders to question the Board and the external auditor at the AGM. 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.

# Corporate Governance Statement

## 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.

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.

Reviews of the performance of the Board, its Committees, and individual Directors were conducted during the year.

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

The performances of the Managing Director and Finance Director are formally reviewed by the Board annually, including during the 2014 year. 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,
- 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 (including during the 2014 year) 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 2014

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

The Concise Financial Report is an extract from the full Financial Report for the year ended 30 June 2014. 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 2014

	Notes	2014 \$'000	2013 \$'000
<b>Total revenue</b>	3	<b>3,913,475</b>	3,484,073
Labour and related costs		<b>(1,787,547)</b>	(1,608,127)
Consumables used		<b>(596,973)</b>	(525,231)
Operating lease rental expense		<b>(225,052)</b>	(191,225)
Depreciation and amortisation of physical assets		<b>(124,150)</b>	(114,616)
Transportation		<b>(106,266)</b>	(93,023)
Utilities		<b>(90,272)</b>	(85,999)
Repairs and maintenance		<b>(88,353)</b>	(78,665)
Borrowing costs expense		<b>(60,710)</b>	(65,147)
Amortisation of intangibles		<b>(36,439)</b>	(26,399)
Other expenses from ordinary activities		<b>(282,747)</b>	(252,401)
<b>Profit from ordinary activities before income tax expense</b>		<b>514,966</b>	443,240
Income tax expense		<b>(126,106)</b>	(103,572)
<b>Profit from ordinary activities after income tax expense</b>		<b>388,860</b>	339,668
Net (profit) attributable to minority interests		<b>(3,876)</b>	(4,670)
<b>Profit attributable to members of Sonic Healthcare Limited</b>		<b>384,984</b>	334,998
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	6	96.2	84.8
Diluted earnings per share	6	95.5	84.3

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 2014

	2014 \$'000	2013 \$'000
<b>Profit from ordinary activities after income tax expense</b>	<b>388,860</b>	339,668
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	<b>24,088</b>	133,745
Cash flow hedges	<b>1,550</b>	3,304
<i>Items that will not be reclassified to profit or loss</i>		
Actuarial (losses) on retirement benefit obligations	<b>(2,561)</b>	(73)
<b>Other comprehensive income for the period, net of tax</b>	<b>23,077</b>	136,976
<b>Total comprehensive income for the period</b>	<b>411,937</b>	476,644
Total comprehensive income attributable to:		
– Members of Sonic Healthcare Limited	<b>407,538</b>	468,718
– Minority interests	<b>4,399</b>	7,926
	<b>411,937</b>	476,644

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

# Consolidated Balance Sheet

As at 30 June 2014

	2014 \$'000	2013 \$'000
<b>Current assets</b>		
Cash and cash equivalents	232,137	219,729
Receivables	575,999	536,446
Inventories	65,153	61,595
Other	39,730	34,695
Total current assets	913,019	852,465
<b>Non-current assets</b>		
Receivables	12,235	2,982
Other financial assets	67,865	64,357
Property, plant and equipment	691,877	658,727
Intangible assets	4,084,964	3,913,374
Deferred tax assets	27,622	26,303
Other	24	18
Total non-current assets	4,884,587	4,665,761
<b>Total assets</b>	<b>5,797,606</b>	<b>5,518,226</b>
<b>Current liabilities</b>		
Payables	350,071	306,741
Interest bearing liabilities	450,388	521,225
Current tax liabilities	44,093	44,943
Provisions	158,053	146,563
Other financial liabilities	235	2,665
Other	18,354	2,502
Total current liabilities	1,021,194	1,024,639
<b>Non-current liabilities</b>		
Interest bearing liabilities	1,520,539	1,437,352
Deferred tax liabilities	89,991	74,145
Provisions	47,582	41,875
Other	9,306	22,114
Total non-current liabilities	1,667,418	1,575,486
<b>Total liabilities</b>	<b>2,688,612</b>	<b>2,600,125</b>
<b>Net assets</b>	<b>3,108,994</b>	<b>2,918,101</b>
<b>Equity</b>		
Parent Company interest		
Contributed equity	2,538,517	2,468,102
Reserves	(119,941)	(111,131)
Retained earnings	664,067	537,913
Total Parent Company interest	3,082,643	2,894,884
Minority interests	26,351	23,217
<b>Total equity</b>	<b>3,108,994</b>	<b>2,918,101</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 2014

	Share capital \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Minority interests \$'000	Total \$'000
<b>Balance at 1 July 2012</b>	2,379,525	(229,478)	439,454	2,589,501	20,698	2,610,199
Profit for period	-	-	334,998	334,998	4,670	339,668
Other comprehensive income for the period	-	133,793	(73)	133,720	3,256	136,976
Total comprehensive income for the period	-	133,793	334,925	468,718	7,926	476,644
<b>Transactions with owners in their capacity as owners:</b>						
Dividends paid	-	-	(236,466)	(236,466)	-	(236,466)
Shares issued	80,715	(10,964)	-	69,751	-	69,751
Transaction costs on shares issued net of tax	(72)	-	-	(72)	-	(72)
Transfers to share capital	7,934	(7,934)	-	-	-	-
Share based payments	-	3,452	-	3,452	-	3,452
Dividends paid to minority interests	-	-	-	-	(5,407)	(5,407)
<b>Balance at 30 June 2013</b>	2,468,102	(111,131)	537,913	2,894,884	23,217	2,918,101
<b>Balance at 1 July 2013</b>	2,468,102	(111,131)	537,913	2,894,884	23,217	<b>2,918,101</b>
Profit for period	-	-	384,984	384,984	3,876	<b>388,860</b>
Other comprehensive income for the period	-	25,115	(2,561)	22,554	523	<b>23,077</b>
Total comprehensive income for the period	-	25,115	382,423	407,538	4,399	<b>411,937</b>
<b>Transactions with owners in their capacity as owners:</b>						
Dividends paid	-	-	(256,269)	(256,269)	-	<b>(256,269)</b>
Shares issued	55,255	(18,360)	-	36,895	-	<b>36,895</b>
Transfers to share capital	15,160	(15,160)	-	-	-	-
Share based payments	-	2,559	-	2,559	-	<b>2,559</b>
Minority interests on acquisition of subsidiary	-	(2,904)	-	(2,904)	2,953	<b>49</b>
Acquisition/disposal of minority interests	-	(60)	-	(60)	(540)	<b>(600)</b>
Dividends paid to minority interests	-	-	-	-	(3,678)	<b>(3,678)</b>
<b>Balance at 30 June 2014</b>	<b>2,538,517</b>	<b>(119,941)</b>	<b>664,067</b>	<b>3,082,643</b>	<b>26,351</b>	<b>3,108,994</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 2014

	2014 \$'000	2013 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	3,941,176	3,454,247
Payments to suppliers and employees (inclusive of goods and services tax)	(3,222,663)	(2,851,195)
	718,513	603,052
Interest received	3,245	2,583
Borrowing costs	(57,403)	(59,596)
Income taxes paid	(107,997)	(86,580)
<b>Net cash inflow from operating activities</b>	<b>556,358</b>	<b>459,459</b>
<b>Cash flows from investing activities</b>		
Payment for purchase of controlled entities, net of cash acquired	(134,349)	(53,600)
Payments for property, plant and equipment	(154,452)	(172,654)
Proceeds from sale of non-current assets	24,721	27,033
Payments for investments	(4,398)	(4,679)
Payments for intangibles	(67,593)	(57,314)
Repayment of loans by other entities	6,433	4,188
Loans to other entities	(9,732)	(1,558)
<b>Net cash (outflow) from investing activities</b>	<b>(339,370)</b>	<b>(258,584)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issues of shares and other equity securities (net of transaction costs and related taxes)	36,895	32,868
Proceeds from borrowings	797,530	658,297
Repayment of borrowings	(784,720)	(661,568)
Dividends paid to Company's shareholders	(256,269)	(199,583)
Dividends paid to minority interests in subsidiaries	(3,716)	(5,165)
<b>Net cash (outflow) from financing activities</b>	<b>(210,280)</b>	<b>(175,151)</b>
<b>Net increase in cash and cash equivalents</b>	<b>6,708</b>	<b>25,724</b>
Cash and cash equivalents at the beginning of the financial year	219,729	168,594
Effects of exchange rate changes on cash and cash equivalents	5,700	25,411
<b>Cash and cash equivalents at the end of the financial year</b>	<b>232,137</b>	<b>219,729</b>

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



# Notes to the Consolidated Concise Financial Statements 30 June 2014

Sonic Healthcare Limited  
ABN 24 004 196 909

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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 2014.

# Notes to the Consolidated Concise Financial Statements

## Note 1 Basis of preparation

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 2014. The accounting policies adopted have been consistently applied to all years presented, except as stated below.

### (a) Presentation currency

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

### (b) Changes in accounting policies

#### (i) Consolidated Financial Statements

AASB 10 *Consolidated Financial Statements* was issued in August 2011 and replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and in Interpretation 112 *Consolidation – Special Purpose Entities*. The Group has reviewed its investments in other entities to assess whether the conclusion to consolidate is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

#### (ii) Employee benefits

The adoption of the revised AASB 119 *Employee Benefits* resulted in a change to the accounting policy which did not significantly impact items recognised in the financial statements. The amount of net defined benefit expense that is recognised in profit or loss under the revised standard is higher than the amount that would have been recognised under the old rules, with an equal and opposite change to the amount that is recognised as remeasurement in other comprehensive income. This is the result of the replacement of the expected return on plan assets and separate interest expense with a net interest amount. The net impact on total comprehensive income is nil and there is also no adjustment to the amounts recognised in the Balance Sheet from this change.

## 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) Imaging

Diagnostic imaging services provided in Australia and New Zealand (operations in New Zealand ceased 31 March 2014).

#### (iii) Other

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

# Notes to the Consolidated Concise Financial Statements

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

2014	Pathology \$'000	Imaging \$'000	Other \$'000	Eliminations \$'000	Total \$'000
<b>Revenue (Constant Currency)</b>					
External sales	2,886,167	413,341	349,404	-	3,648,912
Inter-segment sales	494	244	8,710	(9,448)	-
<b>Total segment revenue (Constant Currency)</b>	2,886,661	413,585	358,114	(9,448)	3,648,912
Currency exchange rate movements	259,740	1,578	-	-	261,318
<b>Total segment revenue (Statutory)</b>	3,146,401	415,163	358,114	(9,448)	3,910,230
Interest income					3,245
<b>Total revenue</b>					<b>3,913,475</b>
<b>Result</b>					
<b>Segment result (Constant Currency)</b>	487,918	56,013	20,423	-	564,354
Currency exchange rate movements	44,148	368	-	-	44,516
<b>Segment result (Statutory)</b>	532,066	56,381	20,423	-	608,870
Amortisation of intangibles					(36,439)
Unallocated net interest expense					(57,465)
<b>Profit before tax</b>					<b>514,966</b>
Income tax expense					(126,106)
<b>Profit after income tax expense</b>					<b>388,860</b>
<b>Depreciation</b>	77,536	29,941	16,673	-	<b>124,150</b>
<b>Other non-cash expenses</b>	12,536	1,314	3,979	-	<b>17,829</b>

# Notes to the Consolidated Concise Financial Statements

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

2013	Pathology \$'000	Imaging \$'000	Other \$'000	Eliminations \$'000	Total \$'000
<b>Revenue</b>					
External sales	2,744,981	403,559	332,950	-	3,481,490
Inter-segment sales	504	227	7,848	(8,579)	-
<b>Total segment revenue</b>	2,745,485	403,786	340,798	(8,579)	3,481,490
Interest income					2,583
<b>Total revenue</b>					3,484,073
<b>Result</b>					
<b>Segment result</b>	466,606	53,356	12,241	-	532,203
Amortisation of intangibles					(26,399)
Unallocated net interest expense					(62,564)
<b>Profit before tax</b>					443,240
Income tax expense					(103,572)
<b>Profit after income tax expense</b>					339,668
<b>Depreciation</b>	68,598	30,418	15,600	-	114,616
<b>Other non-cash expenses</b>	17,815	1,011	5,091	-	23,917

## Geographical information

	Revenues from sales to external customers <sup>*</sup>		Non-current assets <sup>**</sup>	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Australia	<b>1,872,009</b>	1,780,219	<b>1,870,541</b>	1,820,984
United States of America	<b>830,385</b>	748,758	<b>1,279,654</b>	1,303,587
Germany	<b>744,402</b>	565,238	<b>927,446</b>	762,970
Other	<b>463,434</b>	387,275	<b>779,324</b>	751,917
Total	<b>3,910,230</b>	3,481,490	<b>4,856,965</b>	4,639,458

\* 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.



# Notes to the Consolidated Concise Financial Statements

## Note 3 Revenue

	2014 \$'000	2013 \$'000
<b>Services revenue</b>		
Medical services revenue	3,854,989	3,425,112
<b>Other revenue</b>		
Government grants	31,948	29,507
Interest received or due and receivable	3,245	2,583
Rental income	13,245	12,809
Other revenue	10,048	14,062
	58,486	58,961
Revenue from operations	3,913,475	3,484,073

## Note 4 Dividends

	2014 \$'000	2013 \$'000
<b>Total dividends paid on ordinary shares during the year</b>		
Final dividend for the year ended 30 June 2013 of 37 cents (2012: 35 cents) per share paid on 24 September 2013 (2012: 9 October 2012), franked to 45% (2012: 45%)	148,056	137,427
Interim dividend for the year ended 30 June 2014 of 27 cents (2013: 25 cents) per share paid on 25 March 2014 (2013: 21 March 2013), franked to 45% (2013: 45%)	108,213	99,039
	256,269	236,466
<b>Dividends not recognised at year end</b>		
In addition to the above dividends, since year end the Directors declared a final dividend of 40 cents (2013: 37 cents) per ordinary share, franked to 55% (2013: 45%) based on tax paid at 30%. The aggregate amount of the final dividend payable on 23 September 2014 out of retained earnings at the end of the year, but not recognised as a liability is:	160,449	148,056
<b>Franked dividends</b>		
The 2014 final dividend declared after the year end was 55% franked out of existing franking credits and out of franking credits arising from the payment of income tax in the year ending 30 June 2015.		
Franking credits available at the year end for subsequent financial years based on a tax rate of 30%	35,455	27,498

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 Company's DRP last operated for the 2012 final dividend. The DRP is currently suspended.

# Notes to the Consolidated Concise Financial Statements

## Note 5 Business combinations

### Acquisition of subsidiaries/business assets

Acquisitions of subsidiaries/business assets in the period included:

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

The contribution these acquisitions made to the Group's profit during the period was immaterial individually and in total. It is impracticable to 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 acquisitions were merged 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 combinations, the values of the identifiable assets and liabilities, and the goodwill arising on acquisition are detailed below:

	Total \$'000
Consideration – cash paid	134,437
Less: Cash of entities acquired	(6,577)
	127,860
Deferred consideration	1,775
Total consideration	129,635
Fair value of identifiable net assets of subsidiaries/businesses acquired:	
Debtors & other receivables	17,436
Prepayments	1,447
Inventory	2,021
Deferred tax assets	1,100
Property, plant & equipment	8,216
Identifiable intangibles	292
Trade payables	(5,181)
Sundry creditors and accruals	(10,328)
Current tax liabilities	(1,535)
Provisions	(2,290)
	11,178
Minority interests	3,032
Goodwill	121,489

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. None of the purchased goodwill recognised is expected to be deductible for income tax purposes.

# Notes to the Consolidated Concise Financial Statements

## Note 5 Business combinations (continued)

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

The Group elected to recognise the minority interests at fair value. 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 for the remaining shares exercisable after January 2017. The consideration payable will be based on a multiple of EBIT at the date of exercise.

Acquisition related costs of \$2,133,000 are included in other expenses in the Income Statement. The fair value of acquired debtors and other receivables is \$17,436,000. The gross contractual amount due is \$18,156,000 of which \$720,000 is expected to be uncollectable.

There were no subsequent changes to the accounting for the business combinations in the 2013 financial year from those included in the 2013 financial statements.

## Note 6 Earnings per share

	2014 Cents	2013 Cents
Basic earnings per share	96.2	84.8
Diluted earnings per share	95.5	84.3

	2014 Shares	2013 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	400,128,497	394,918,728
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	403,180,026	397,601,897

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, lapsed and issued in the period between the reporting date and the date of this report are detailed in Note 7.

	2014 \$'000	2013 \$'000
<b>Reconciliations of earnings used in calculating earnings per share</b>		
Net profit	388,860	339,668
Net (profit) attributable to minority interests	(3,876)	(4,670)
Earnings used in calculating basic and diluted earnings per share	384,984	334,998

# Notes to the Consolidated Concise Financial Statements

## Note 7 Share options

### (a) Shares under options

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	Exercise price of option*	Number of options at date of report
10/06/10	10/04/15	\$10.57	297,500
03/03/11	03/01/16	\$11.13	277,500
18/11/11	18/11/16	\$11.43	584,406
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	300,000
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	125,000
18/10/13	18/10/18	\$15.43	400,000
13/12/13	13/12/18	\$15.21	600,000
Total			7,091,919

\*The issue price of shares held under option is either the exercise price of the option or the market price of Sonic shares at the date of exercise.

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

# Notes to the Consolidated Concise Financial Statements

## Note 7 Share options (continued)

### (a) Shares under options (continued)

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

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, 2 July 2012, 18 October 2013 and 13 December 2013 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. Options granted on 18 October 2013 which satisfy the vesting conditions will be exercisable from 18 October 2016 until expiry on 18 October 2018. For the options granted on 13 December 2013 up to 600,000 options are exercisable from 13 December 2016 until expiry on 13 December 2018.

The performance options granted on 18 November 2011 relate to the Long Term Incentive component for Dr C.S. Goldschmidt and C.D. Wilks. The vesting conditions attached to the performance rights are detailed in the Remuneration Report.

#### (ii) 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 for Dr C.S. Goldschmidt and C.D. Wilks. 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	59,527
18/11/11	18/11/17	Nil	141,732
18/11/11	18/11/18	Nil	188,976
Total			390,235

# Notes to the Consolidated Concise Financial Statements

## Note 7 Share options (continued)

### (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 2,113,375 ordinary shares of Sonic were issued during the year ended 30 June 2014 under the Sonic Healthcare Limited Employee Option Plan. 347,500 options have been exercised since that date, but prior to the date of this report, resulting in the issue of 347,500 ordinary shares. The amounts paid on issue of those shares were:

Number of Options	Issue Price (per share)
10,000	\$14.47
87,500	\$15.67
1,079,375	\$16.06
52,000	\$15.70
93,500	\$15.94
18,500	\$15.72
44,000	\$16.19
12,500	\$16.03
28,000	\$15.93
52,500	\$15.66
100,000	\$15.60
20,000	\$15.90
13,000	\$16.61
40,000	\$17.13
25,000	\$11.13
37,500	\$10.57
400,000	\$11.10
300,000	\$17.55
10,000	\$17.74
37,500	\$11.13
2,460,875	

#### (ii) Executive Incentive Plan options

A total of 1,540,000 ordinary shares were issued during the year ended 30 June 2014 on the exercise of Executive Incentive Plan options. The amounts paid on issue of those shares were \$15.41 per share.

#### (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.

# Directors' Declaration

The Directors declare that in their opinion, the Concise Financial Report of the Group for the year ended 30 June 2014 as set out on pages 61 to 76 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 2014. 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  
22 September 2014

# 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 2014, the consolidated Income Statement and consolidated Statement of Comprehensive Income, consolidated Statement of Changes in Equity and consolidated Cash Flow Statement for the year then ended and related notes, derived from the audited Financial Report of the Company for the year ended 30 June 2014 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 2014. We expressed an unmodified audit opinion on that Financial Report in our report dated 22 September 2014. 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.

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



## 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 2014 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 2014.

We have audited the Remuneration Report included in pages 34 to 46 of the Directors' Report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

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

PricewaterhouseCoopers

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

Mark Dow  
Partner

Sydney  
22 September 2014

# Shareholders' Information

## 1. Information relating to shareholders

### (a) Distribution schedule as at 16 September 2014

	No. of holders ordinary shares
1 – 1,000	27,244
1,001 – 5,000	20,940
5,001 – 10,000	1,766
10,001 – 100,000	806
100,001 and over	105
	50,861
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	72.19%
Number of holders holding less than a marketable parcel	569

### (b) Substantial shareholders as at 16 September 2014

The Company has received substantial shareholding notices to 16 September 2014 in respect of the following holdings:

	No. of securities	Percentage held
The Capital Group Companies, Inc.	35,239,936	8.78%
The members of the Veritas Group	32,185,970	8.02%

# Shareholders' Information

## 1. Information relating to shareholders (continued)

### (c) Names of the twenty largest registered holders of equity securities as at 16 September 2014

	No. of securities	Percentage held
HSBC Custody Nominees (Australia) Limited	100,047,633	24.94%
J P Morgan Nominees Australia Limited	92,497,917	23.06%
National Nominees Limited	29,708,891	7.41%
Citicorp Nominees Pty Limited	16,908,592	4.21%
Jardvan Pty Ltd	15,958,704	3.99%
BNP Paribas Noms Pty Ltd <DRP>	7,979,639	1.99%
AMP Life Limited	4,019,434	1.00%
Polly Pty Ltd <A/C Patterson Family>	3,816,646	0.95%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	3,034,452	0.76%
Argo Investments Limited	2,724,483	0.68%
Goodoil Investments Pty Ltd <Timothy Roberts Invest A/C>	1,973,717	0.49%
Questor Financial Services Limited <TPS RF A/C>	1,568,074	0.39%
Quintal Pty Ltd <Harken Family A/C>	1,521,138	0.38%
Australian Foundation Investment Company Limited	1,475,000	0.37%
RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	1,474,208	0.37%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	1,216,218	0.30%
ECapital Nominees Pty Limited <Settlement A/C>	1,016,773	0.25%
Navigator Australia Ltd <MLC Investment Sett A/C>	900,092	0.22%
HSBC Custody Nominees (Australia) Limited <NT-Comnwith Super Corp A/C>	872,445	0.22%
Dr Anthony John Clarke	850,000	0.21%
	<b>289,564,056</b>	<b>72.19%</b>

## 2. Unquoted equity securities as at 16 September 2014

	No. on issue	No. of holders
Options over unissued ordinary shares	7,091,919	51
Performance rights	390,235	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 4% of Sonic's shareholders still request a hard copy Annual Report, and over 26% 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 20 November 2014.

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