



Concise  
Annual  
Report  
2017



# Corporate Directory

## DIRECTORS

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

## COMPANY SECRETARY

Mr P.J. Alexander

## PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

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New South Wales, 2113, Australia  
P 61 2 9855 5444  
F 61 2 9878 5066  
W [www.sonichealthcare.com](http://www.sonichealthcare.com)

## SHARE REGISTRY

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Level 5, 115 Grenfell Street, Adelaide,  
South Australia, 5000, Australia.  
P 1300 556 161 (Within Australia)  
P 61 3 9415 4000 (Outside Australia)  
F 1300 534 987 (Within Australia)  
F 61 3 9473 2408 (Outside Australia)  
W [www.computershare.com](http://www.computershare.com)  
E [www.investorcentre.com/contact](http://www.investorcentre.com/contact)

## AUDITOR

PricewaterhouseCoopers

## SOLICITORS

Allens

## BANKERS

Australia and New Zealand Banking Group  
BNP Paribas  
Citibank  
Commerzbank  
Commonwealth Bank of Australia  
Crédit Industriel et Commercial  
DNB Asia  
HSBC  
JPMorgan Chase Bank  
Mizuho Corporate Bank  
National Australia Bank  
The Bank of Tokyo-Mitsubishi UFJ  
Westpac Banking Corporation

## STOCK EXCHANGE LISTINGS

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



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## Corporate Responsibility Report 2017

Please refer to the Sonic Healthcare website at:  
[www.sonichealthcare.com/media/3376/soniccorresponsibility\\_2017.pdf](http://www.sonichealthcare.com/media/3376/soniccorresponsibility_2017.pdf)



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Sonic reported a net profit for the 2017 financial year of A\$428 million, on revenues of A\$5,122 million.

# Chairman's Letter

Dear Fellow Shareholders,

On behalf of the Board of Sonic Healthcare, I am delighted to present to you the company's 2017 Annual Report.

This year, Sonic celebrates its 30th year as an Australian Securities Exchange (ASX) listed company. Over that time, Sonic became an ASX Top 50 company, and has been one of the best performing stocks on the ASX, with a total shareholder return of over 15,000%. Sonic acquired its first laboratory practice in 1987, Sydney-based Douglass Hanly Moir Pathology (then known as Douglass Laboratories). It would have been hard to imagine in 1987 that in 2017 Sonic would provide medical services to over 108 million patients, and would be a critical part of the healthcare infrastructure of eight countries. However, the company's unwavering commitment to provide exceptional patient care and outstanding service to doctors would have been evident even at that early time.

Sonic reported a net profit for the 2017 financial year of A\$428 million, on revenues of A\$5,122 million. Strong underlying organic revenue growth and margin improvements in the Laboratory and Imaging divisions were further enhanced by synergistic business acquisitions and the formation of joint ventures during the year, which will be further accretive in 2018 and beyond.

Despite some currency translation headwinds impacting statutory profit in 2017, the Board determined to reward shareholders with a 4.1% increase in total dividends per share for the year, continuing our progressive dividend policy.

Sonic's 30-year anniversary brings to mind one of the many positive features of our company, being its ability to retain and develop dedicated and highly experienced senior staff, fostered by the binding effect of our unique corporate culture of Medical Leadership. This is perhaps best demonstrated by the many pathologists, radiologists, managers and scientific staff around the group who have sold their practices to Sonic in the past, but who have been enthusiastic to continue to work within Sonic, in some cases for more than two decades afterwards. Sonic's strong, positive and highly professional culture, centred on Medical Leadership, has continued to motivate them and made them very much part of the global Sonic family.

I would like to recommend that all shareholders take time to read Sonic's 2017 Corporate Responsibility Report, which you can find on our website. The environmental, social and governance activities described in the report are key elements of Sonic, and I believe that Sonic shareholders can be very proud of their company and its efforts in these areas. The report highlights our contributions to education, the steps we take to minimise our environmental impact, and our support for local communities. It also describes our support for communities in developing countries through our Catalyst Program, which involves using our medical expertise and resources to directly address the dire medical needs in some of the most disadvantaged regions in the world. Sonic's standing as a socially responsible company continues to be evidenced by our ongoing inclusion (since March 2008) in the FTSE4Good Index Series. To be included in the Series, Sonic has been independently assessed to have met stringent environmental, social and governance criteria.

Looking towards 2018 and beyond, Sonic expects ongoing strong organic revenue and earnings growth, bolstered by further acquisitions, joint ventures and contract opportunities. We have the talent, market positions, reputation and financial strength to capitalise on growth opportunities as they arise, whilst always looking to enhance our existing businesses, all focused on generating returns to shareholders through excellent service to our doctors, other clients and those for whom they care.

I wish to thank our talented management teams and all of Sonic's 33,000-plus hardworking fantastic staff for making the company what it is today, and I also thank you, our shareholders, for continuing to support us on the incredible journey that is Sonic Healthcare.



**Professor Mark Compton AM**  
Chairman

# CEO Report

Sonic's results for the 2017 financial year demonstrated again the stability and strength of the company, its culture, and its people.

Underlying revenue, EBITDA and net profit growth for 2017 were 5.8%, 5.3% and 4.4% respectively. Operating cash flow grew 4.0%, with 103% conversion of EBITDA to gross (pre-interest and pre-tax) operating cash flow. 2017 statutory results were impacted by foreign currency headwinds of ~4%. Comparisons of the statutory results to the prior year were also impacted by non-recurring items, the most significant of which was a gain of A\$34.8 million (pre- and post-tax) on the sale and leaseback of properties in 2016.

Perhaps the most pleasing aspects of the results were the improvement in margins in both our Laboratory and Imaging divisions and, in particular, the return to earnings growth and margin enhancement in our Australian laboratory business, which had been impacted by abnormal cost growth due to industry issues for several years. Our strategies to manage these costs are now in full effect and we are confident of ongoing earnings growth.

On an underlying constant currency basis, the Laboratory division revenue grew 6% (~4% organic growth) and EBITDA rose 8% with 25 basis points of margin accretion. Imaging division revenue grew 5% (~4% organic), with EBITDA climbing 7% with 30 basis points of margin accretion.

Our German and Swiss laboratory businesses once again performed exceptionally, with strong organic revenue growth and focused cost control. The acquisitions we completed in the year, including Staber in Germany and West Pacific Medical in the USA, have performed to expectation and integration projects are well advanced. Since year end we have also welcomed Medical Laboratory Bremen into the Sonic family, and our pipeline of further acquisition prospects remains robust.

Sonic's strategy to partner with hospital networks in the USA to provide laboratory services is proving highly successful, with our joint ventures with Western Connecticut Health Network and Baptist Memorial Health

Care underway since April and running smoothly, and with the recent signing of agreements with the New York University hospital system (NYU Langone Health) as partner to offer enhanced outreach laboratory services for NYU's more than 2,000 affiliated physicians and healthcare providers. We also have a strong pipeline of additional opportunities in prospect, as Sonic's reputation as a medically led, high-quality, flexible partner spreads through the hospital systems in the USA.

Sonic's reputation has been further enhanced by our recent selection as the pathology partner for the Australian Government's National Bowel Cancer Screening Program. This appointment reflects our commitment to quality pathology and our deep experience in cancer prevention, testing and diagnosis. We look forward to partnering with the Australian Government in helping to deliver and enhance this important community health program.

Sonic Healthcare is in a prime position to continue our strategy of leading the consolidation of fragmented international laboratory markets and capitalising on attractive healthcare dynamics, underpinned by our:

- Medical Leadership culture, which unifies the company, augments our services and provides competitive advantage;
- Strong market positions, including market leadership in four major Western countries; and
- Stable, experienced and passionate global management teams.

I express my sincere thanks to Sonic's entire global team of over 33,000 people, for their support of Sonic's culture and goals, and their expertise and passion to offer the best possible healthcare services to our patients and medical colleagues.



**Dr Colin Goldschmidt**  
CEO and Managing Director



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Sonic's results for the 2017 financial year demonstrated again the stability and strength of the company, its culture, and its people.



# Financial History

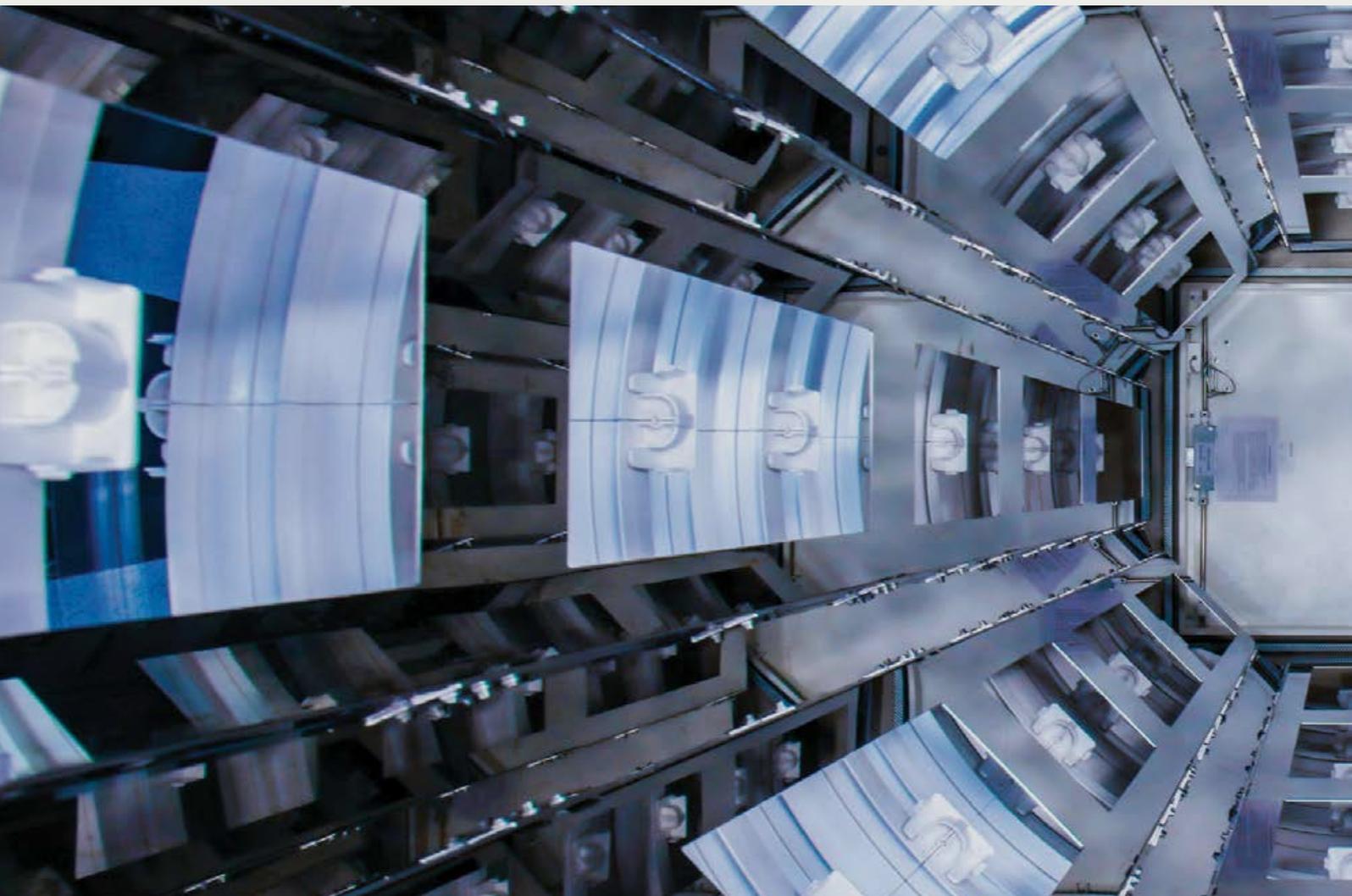
As at 30 June	2017	2016	2015	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue <sup>1</sup>	5,122,143	5,052,486	4,200,525	3,913,475	3,484,073
Earnings before interest, tax, depreciation and amortisation (EBITDA) <sup>1</sup>	868,559	880,404	694,649	733,020	646,819
Net profit after tax <sup>1</sup>	427,773	451,374	347,698	384,984	334,998
Net cash flow from operations	736,365	707,708	512,084	556,358	459,459
Total assets	7,878,165	7,370,619	6,348,705	5,797,606	5,518,226
Total liabilities	3,952,035	3,637,910	3,022,707	2,688,612	2,600,125
Net assets	3,926,130	3,732,709	3,325,998	3,108,994	2,918,101
Net interest bearing debt	2,435,405	2,284,247	1,975,989	1,738,790	1,738,848

## Statistics

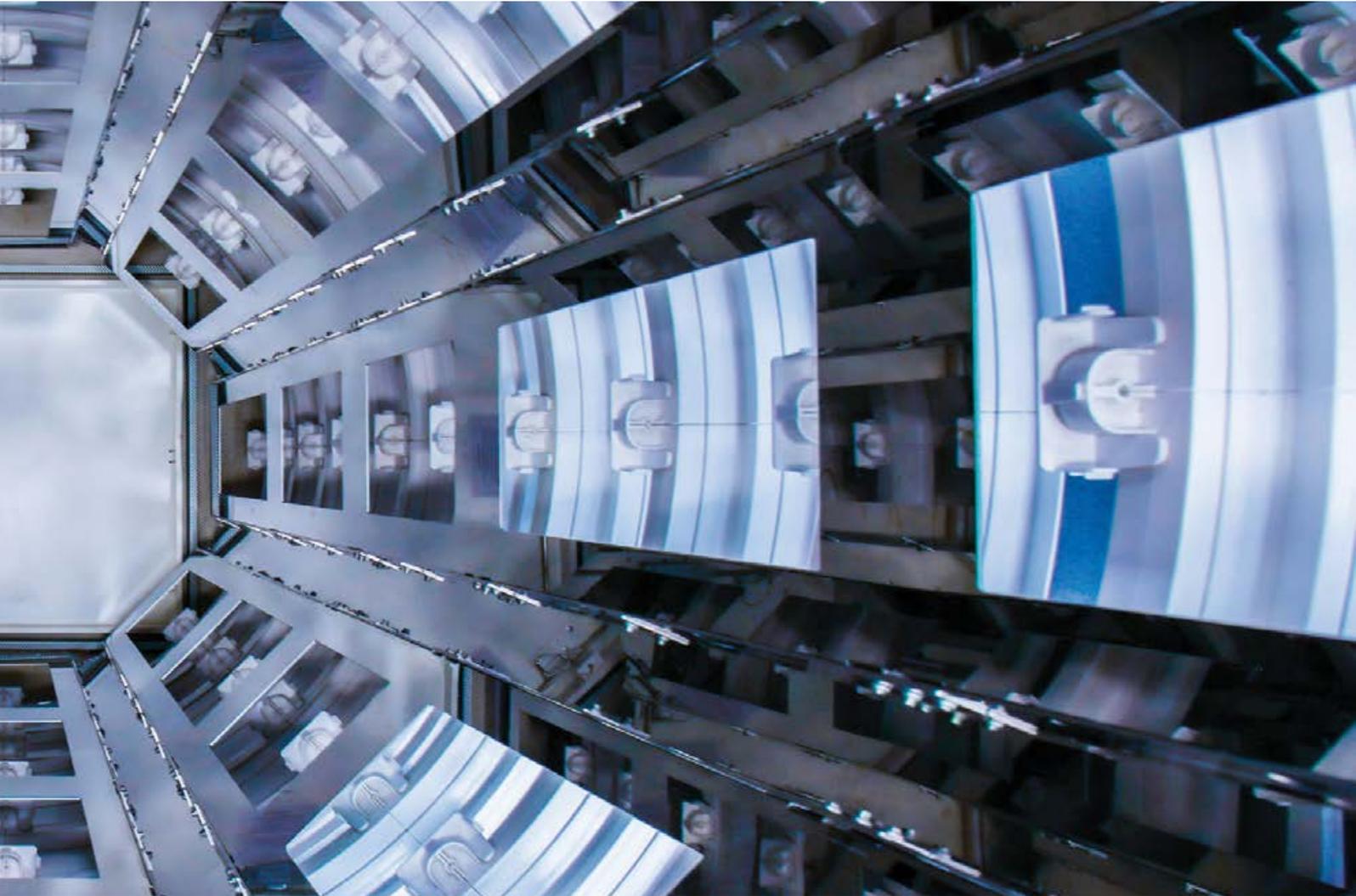
Diluted earnings per share (cents) <sup>1</sup>	102.1	109.3	86.0	95.5	84.3
Dividends paid per ordinary share (cents)	75.0	71.0	69.0	64.0	60.0
Dividend payout ratio	73.0%	64.0%	79.7%	66.6%	70.6%
Gearing ratio	38.3%	38.0%	37.3%	35.9%	37.3%
Interest cover (times) <sup>2</sup>	10.8	11.5	10.8	10.7	8.6
Debt cover (times) <sup>2</sup>	2.7	2.6	2.7	2.4	2.4
Net tangible asset backing per share (\$)	(3.47)	(3.44)	(2.74)	(2.43)	(2.51)
Return (after tax) on invested capital <sup>1</sup>	8.1%	9.1%	7.2%	9.2%	8.9%
Return (after tax) on equity <sup>1</sup>	11.2%	12.8%	10.8%	12.8%	12.1%

<sup>1</sup> 2016 included a non-recurring pre- and post-tax gain of \$34,766,000 on the sale and leaseback of properties

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



# Concise Annual Report



Inside view of the GLP systems automation at The Doctors Laboratory, London, UK

# 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 2017.

## 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:

Prof. M.R. Compton | *Chairman*  
Dr C.S. Goldschmidt | *Managing Director*  
Mr C.D. Wilks | *Finance Director*  
Dr P.J. Dubois  
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:

	2017	2016
	\$'000	\$'000
Interim dividend paid on 11 April 2017 (2016: 6 April 2016)	129,385	124,008
Final dividend payable on 11 October 2017 (2016: 27 September 2016)	193,176	182,963
<b>Total dividend for the year</b>	<b>322,561</b>	<b>306,971</b>

On 15 August 2017, the Board declared a final dividend in respect of the year ended 30 June 2017, of 46 cents per ordinary share, 20% franked (at 30%), payable on 11 October 2017, with a record date of 11 September 2017. An interim dividend of 31 cents per ordinary share, 20% franked (at 30%), was paid on 11 April 2017. These dividends included no conduit foreign income.

A final dividend of 44 cents per ordinary share was paid on 27 September 2016, in respect of the year ended 30 June 2016, out of profits of that year. The interim dividend in respect of the year ended 30 June 2016, was 30 cents per ordinary share, paid on 6 April 2016. These dividends included no conduit foreign income.

## DIVIDEND REINVESTMENT PLAN ('DRP')

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

## OPERATING AND FINANCIAL REVIEW

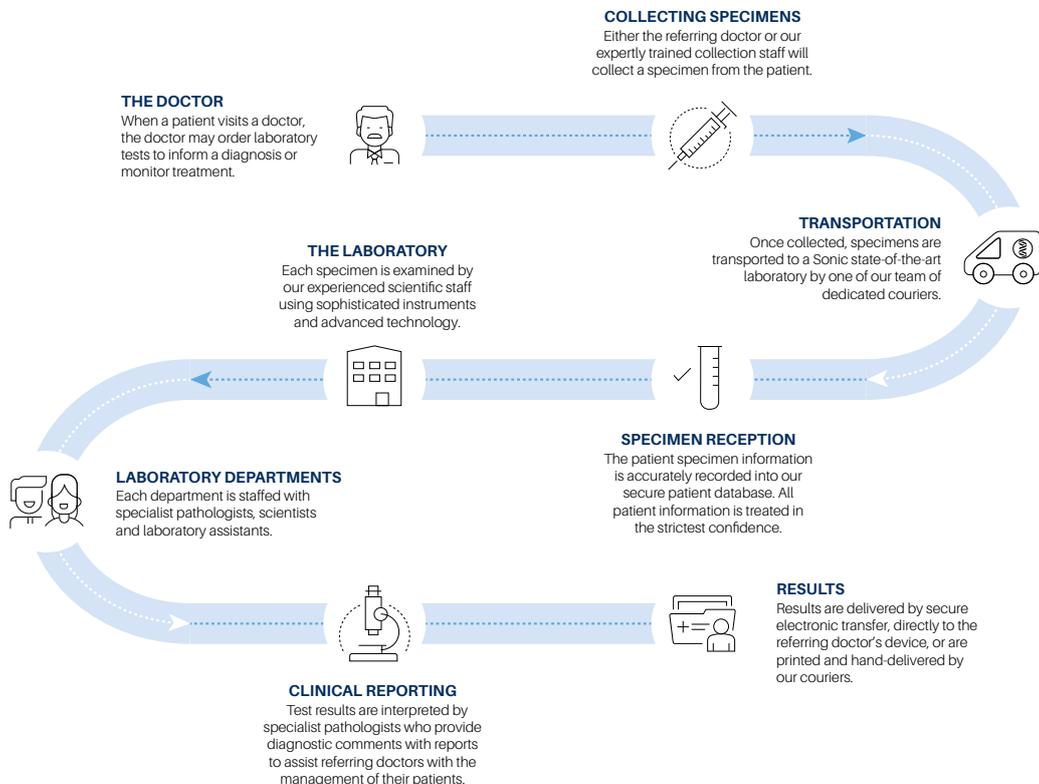
### Operations

Sonic Healthcare is one of the world's leading providers of medical diagnostic services. The Group provides highly specialised pathology/clinical laboratory and diagnostic imaging services to clinicians (GPs and specialists), hospitals, community health services, and their patients. Sonic is the world's third largest provider of pathology/clinical laboratory services (referred to in some markets as 'laboratory medicine') and was the first company to do so on a global basis. Employing approximately 33,000 people, Sonic enjoys strong positions in the laboratory markets of eight countries, being the largest private operator in Australia, Germany, Switzerland and the UK, the second largest in Belgium and New Zealand and within the top 5 in the USA. 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 Sonic 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 and laboratory 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. Laboratory medicine 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:

### The Clinical Laboratory Process



In some countries in which Sonic operates, laboratories offer specimen collection services, although referring doctors still do some collections themselves. In Australia, approximately 25% of specimens are collected by the referring doctor. In Germany, Belgium and Switzerland, laboratories generally do not offer specimen collection services.

# Directors' Report

## OPERATING AND FINANCIAL REVIEW

### Operations (continued)

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



Histopathology and cytopathology ('anatomical pathology') mainly involve the diagnosis of cancers by the examination of tissue and cells. The testing of other body specimens (blood, urine, sputum, etc.) is usually referred to as clinical laboratory testing. In some international markets, such as Australia and New Zealand, it is usual for laboratories to provide 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 teaching hospital laboratory standards and are recognised for their esoteric testing expertise, for example, in anatomical pathology, genetic and molecular testing.

## OPERATING AND FINANCIAL REVIEW

### Operations (continued)

Diagnostic imaging (including radiology) is the medical specialty of using medical imaging technologies to diagnose and treat diseases. The array of imaging technologies includes 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 clinical laboratories 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 Independent Practitioner Network ('IPN') medical centre business and the Sonic HealthPlus occupational health business, which together involve 236 primary care clinics across Australia, providing facilities and administrative services to more than 2,200 General Practitioners. 70% of all Australians live within 10 kilometres of an IPN/Sonic HealthPlus clinic.

### Financial results

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

	2017 Constant Currency <sup>1</sup>	2017 Statutory	2016 Statutory	2017 Constant Currency <sup>1</sup> v 2016 Statutory	2017 Statutory v 2016 Statutory
	\$'000	\$'000	\$'000	% Change	% Change
<b>Revenue</b>	<b>5,307,562</b>	<b>5,122,143</b>	5,052,486		1.4%
Less: Non-recurring gain on property sales	-	-	(34,766)		
<b>Underlying Revenue<sup>2</sup></b>	<b>5,307,562</b>	<b>5,122,143</b>	5,017,720	5.8%	2.1%
<b>Underlying EBITDA<sup>2</sup></b>	<b>922,829</b>	<b>888,722</b>	876,298	5.3%	1.4%
Non-recurring gain on property sales	-	-	34,766		
Non-recurring expense items	(20,708)	(20,163)	(30,660)		
<b>EBITDA<sup>3</sup></b>	<b>902,121</b>	<b>868,559</b>	880,404		
Depreciation and lease amortisation	(178,041)	(172,447)	(165,224)	7.8%	
<b>EBITA</b>	<b>724,080</b>	<b>696,112</b>	715,180	3.4%	
Amortisation of intangibles	(56,400)	(55,126)	(54,528)	8.0%	
Net interest expense	(68,066)	(65,243)	(63,007)	5.0%	
Income tax expense	(138,190)	(133,323)	(131,644)		
Net (profit) attributable to minority interests	(16,448)	(14,647)	(14,627)		
<b>Net profit attributable to Sonic shareholders</b>	<b>444,976</b>	<b>427,773</b>	451,374	(1.4)%	(5.2)%
Add: Non-recurring items after tax (net)	14,497	14,130	(11,163)		
<b>Underlying Net Profit<sup>2</sup></b>	<b>459,473</b>	<b>441,903</b>	440,211	4.4%	0.4%
<b>Cash generated from operations</b> (Refer Note (h))		<b>736,365</b>	707,708		4.0%
<b>Earnings per share</b>					
Basic earnings per share (cents per share)		<b>102.7¢</b>	110.0¢		
Diluted earnings per share (cents per share)	<b>106.2¢</b>	<b>102.1¢</b>	109.3¢	(2.8)%	(6.6)%
Underlying earnings per share (cents per share) <sup>2</sup>	<b>109.7¢</b>		106.6¢	2.9%	

<sup>1</sup> For an explanation of 'Constant Currency' refer to (a) on the following page.

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

<sup>3</sup> EBITDA = Earnings before interest, tax, depreciation and intangibles amortisation.

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

# Directors' Report

## OPERATING AND FINANCIAL REVIEW

### Financial results (continued)

#### Explanation of results

##### a) Constant currency

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

The average currency exchange rates for the year to 30 June 2017 for the Australian dollar ('A\$', 'AUD' or '\$') versus the currencies of Sonic's offshore earnings varied from those in the comparative period, impacting Sonic's AUD reported earnings ('Statutory' earnings). The underlying earnings in foreign currency are not affected.

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

In preparing the Constant Currency reporting, the foreign currency elements of each line item in the Income Statement (including net interest expense and tax expense) are restated using the relevant 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:

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

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

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

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

## OPERATING AND FINANCIAL REVIEW

### Financial results (continued)

#### Explanation of results (continued)

##### b) Revenue

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

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

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

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

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

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

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

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

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

# ■ Directors' Report

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## OPERATING AND FINANCIAL REVIEW

### Financial results (continued)

#### Explanation of results (continued)

##### c) *EBITDA*

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

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

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

##### d) *Depreciation and lease amortisation*

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

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

##### e) *Intangibles amortisation*

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

##### f) *Interest expense*

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

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

The majority of Sonic's debt is drawn in foreign currencies as 'natural' balance sheet hedging of Sonic's offshore operations (see (a) *Constant currency above*).

Interest rate risk management arrangements are in place in accordance with Sonic's Treasury Policy.



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## OPERATING AND FINANCIAL REVIEW

### Financial results (continued)

#### Explanation of results (continued)

##### g) *Tax expense*

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

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

##### h) *Cashflow from operations*

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

# Directors' Report

## OPERATING AND FINANCIAL REVIEW

### Financial position

Net assets at 30 June 2017 of A\$3,926M increased by A\$193M, or 5.2%, on the prior year. The main components of this increase were:

- A\$80M from the issue of ordinary Sonic shares under the Company's dividend reinvestment plan and exercise of employee options and rights.
- A\$125M due to retained earnings (operating profit less dividends paid).

Net (of cash) interest bearing debt increased A\$151M (6.6%) from the prior year level to A\$2,435M. This increase comprised A\$268M relating to payments for business acquisitions, offset by A\$43M of currency exchange rate impacts and by cash generated during the year.

Business acquisitions completed in the year (none of which were material to Sonic) included:

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

84% of the total consideration for these businesses was attributable to Goodwill.

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

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

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

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

\* Various currencies

Sonic's credit metrics were as follows:

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

Definitions:

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

## OPERATING AND FINANCIAL REVIEW

### Financial position (continued)

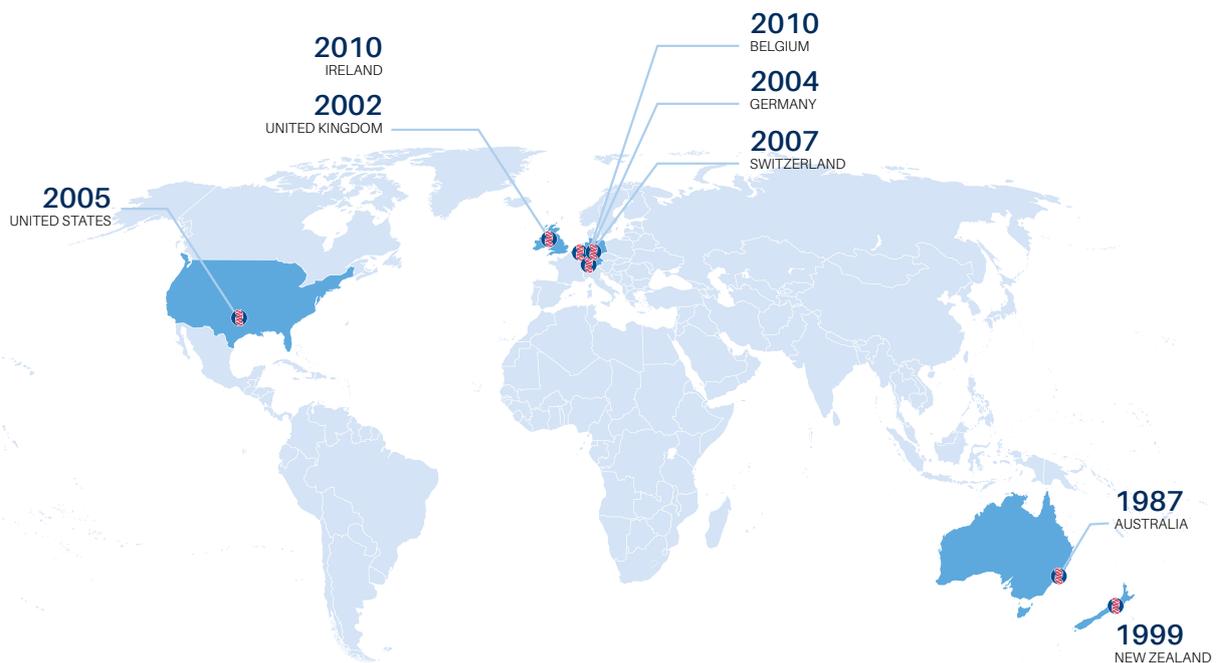
As at 30 June 2017, Sonic's senior debt facility limits were due to expire as follows (note that the figures shown are the facility limits, not drawn debt):

Calendar Year	AUD M	USD M	Euro M	CHF M
2017 (26 October)	200	-	130	-
2018	50	65	230	-
2019	-	230	145	-
2020	-	285	125	-
2021	-	250	-	200
2022	-	-	-	125
2024	-	-	110	-
2026	-	-	245	-
	<b>250</b>	<b>830</b>	<b>985</b>	<b>325</b>

Sonic's excellent relationships with its banks, its investment-grade credit metrics, and its strong and reliable cash flows significantly reduce refinancing risk. Sonic intends to refinance the AUD and Euro facilities which expire in October 2017 and foresees no difficulty in doing so, based on discussions with existing lenders and approaches from potential new lenders.

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.

### Countries of operation (years shown are the years Sonic entered each market)



# ■ Directors' Report

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## OPERATING AND FINANCIAL REVIEW

### Business model and strategies

For over two decades, 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', with individual subsidiaries or geographical divisions working 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, they generally 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 grow revenue organically and to make value enhancing acquisitions, so as to achieve and build upon leading positions in targeted geographic laboratory markets. These positions provide 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, Europe and the USA, using its market differentiation to drive both organic revenue growth and to attract like-minded laboratories for acquisition. 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.

## OPERATING AND FINANCIAL REVIEW

### 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. Laboratory operations offer 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, a 'watching brief' is maintained to identify opportunities that arise for further prudent and strategic international laboratory expansion. 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 16 August 2017 Sonic provided guidance in relation to forecast results for the 2018 financial year as follows:

- Sonic expects EBITDA growth of 6–8% for 2018 on a Constant Currency basis (applying 2017 average currency exchange rates to 2018) over the 2017 underlying EBITDA of A\$889M, excluding any future business acquisitions or regulatory changes.
- Net interest expense is expected to increase by 10–15% from the 2017 level of A\$65M on a Constant Currency basis (excluding future business acquisitions), as a result of acquisitions completed in January 2017 and July 2017, recent increases in USD base rates, and likely higher margins (due to market movements) on debt facilities to be refinanced in October 2017 and April 2018. Underlying floating interest rates are assumed to remain at current levels.
- The effective tax rate is expected to be approximately 25%.

Given Sonic's size and global market presence, opportunities present themselves from time to time that are not necessarily part of 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.

# Directors' Report

## OPERATING AND FINANCIAL REVIEW

### 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 (Sonic's reporting currency) and the currencies of Sonic's 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 allow it to benefit from market consolidation driven by the impacts of regulatory changes on smaller players.
- 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.
- 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 marketplace and reacts swiftly when threats are perceived. Technological changes in diagnostic testing tend to happen more slowly than in industries such as consumer goods, as for a testing technology to reach the point of widespread use, it must first be proven to be 'good medicine', including obtaining regulatory approvals and through peer review, and secondly, healthcare funders must be willing to pay for it (for example, by inclusion on government or quasi-government fee schedules). These inherent delays allow competitors and other market participants to revise their own strategies to address the competitive threat.
- Relationships with referring physicians (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, including as a result of a cyber security breach, could have significant operational, financial and/or reputational impacts, particularly if confidential patient data were to be obtained by unauthorised persons. Sonic has implemented strategies which management believes significantly reduce this risk.



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## OPERATING AND FINANCIAL REVIEW

### Risks (continued)

- 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 Board does not believe the Company has any material exposure to environmental or social sustainability risks. The above list should not be taken to be a comprehensive list of risks associated with Sonic. In particular, it excludes risks relating to the general economic environment and other generic risk areas that affect most companies.

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



#### **Professor Mark Compton AM**

##### **Chairman**

BSc, MBA, FAICD, FCHSM, FAIM

*Non-executive, independent Director, appointed October 2014 (Chairman from 19 November 2015)*

Prof. Compton has extensive senior executive experience in healthcare services. He is currently Adjunct Professor in Management (Healthcare Leadership) at Macquarie University (Macquarie Graduate School of Management), non-executive Director of Macquarie University Hospital and Macquarie University Clinical Associates Ltd, Chairman and Chancellor of St John Ambulance Australia (having served as a volunteer for over 40 years) and a non-executive Director of St Luke's Care. His previous experience includes Chief Executive Officer of St Luke's Care, Immune Systems Therapeutics Limited, the Royal Flying Doctor Service of Australia and Chief Executive Officer and Managing Director of the formerly ASX-listed companies, SciGen Limited and Alpha Healthcare Limited. He has also held a number of non-executive director roles, including for formerly ASX-listed Independent Practitioner Network Limited (2004 to 2008), and as Chairman of the Woolcock Institute of Medical Research. In recognition of his work in the healthcare sector and his service to the community, he was awarded the Centenary Medal of the Commonwealth of Australia, appointed a Knight in the Order of St John in 2004 and Bailiff Grand Cross in 2017, and was appointed as a Member of the Order of Australia (AM) in January 2010. He is a member of the Audit Committee and the Remuneration and Nomination Committee.



#### **Dr Colin Goldschmidt**

##### **CEO and Managing Director**

MBBCh, FRCPA, FAICD

*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 qualification as a specialist pathologist in 1986. Dr Goldschmidt became CEO of Sonic in 1993 and has led Sonic's global expansion by committing the Company to a model of Medical Leadership, which incorporates unique operational and cultural attributes. He is a member of Sonic's Risk Management Committee and holds memberships with numerous industry, medical and laboratory associations.

# Directors' Report

## INFORMATION ON DIRECTORS

### a) Directors' profiles (continued)



#### **Christopher Wilks**

Finance Director

B Comm (Univ Melb), FAICD

*Executive Director, appointed December 1989*

Mr Wilks became Finance Director and Chief Financial Officer of Sonic Healthcare in 1993. He has a background in chartered accounting and investment banking and was previously a partner in a private investment bank. Mr Wilks has held directorships in a number of public companies and is currently a non-executive Director of Silex Systems Limited (since 1988), a listed company divested by Sonic in 1996.



#### **Dr Philip Dubois**

MB, BS, FRCR, FRANZCR, FAICD

*Executive Director, appointed July 2001*

Dr Dubois is CEO of Sonic's Imaging Division and Chairman of the Sonic Imaging Executive Committee. 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).

## INFORMATION ON DIRECTORS

### a) Directors' profiles (continued)



#### **Lou Panaccio**

BEC, CA, MAICD

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

Mr Panaccio is a Chartered Accountant, with extensive executive management experience in business and healthcare services. Mr Panaccio is currently on the boards of ASX-listed companies Genera Biosystems Limited (non-executive Chairman from July 2011, non-executive Director from November 2010) and Avita Medical Limited (non-executive Chairman from July 2014). He is also non-executive Director of Unison Housing Limited and Rhythm Biosciences Limited. Mr Panaccio was executive Chairman of Health Networks Australia and was the Chief Executive Officer and 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.



#### **Kate Spargo**

LLB (Hons), BA, FAICD

*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 twenty years and her current directorships include the ASX-listed companies Fletcher Building Limited (non-executive Director from March 2012), Adairs Limited (non-executive Director from May 2015), Sigma Healthcare Limited (non-executive Director from December 2015) and Xenith IP Group Limited (non-executive Director from April 2017). She is also a non-executive Director of CoInvest Limited and Geelong Football Club Limited. Ms Spargo was a non-executive Director of UGL Limited from October 2010 (non-executive Chairman from October 2014) until January 2017. Ms Spargo is Chair of the Remuneration and Nomination Committee and is a member of the Audit Committee.

# Directors' Report

## INFORMATION ON DIRECTORS

### a) Directors' profiles (continued)



#### **Dr Jane Wilson**

MB, BS, MBA, FAICD

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

Dr Wilson is an independent, non-executive Director with a background in finance, banking and medicine. She is a registered General Medical Practitioner and a Fellow of the Australian Institute of Company Directors (FAICD) with over 20 years of experience as a director of public companies, government-owned corporations and not-for-profit organisations.

Dr Wilson is currently a Guardian of the Future Fund, non-executive Director of ASX-listed Transurban (since January 2017), a non-executive Director of Opal Aged Care and a non-executive Director of the General Sir John Monash Foundation. She was previously Deputy Chancellor of the University of Queensland, inaugural Chairman of Horticulture Australia, Chairman of IMBcom Ltd, a non-executive Director of Universal Biosensors Ltd, Energex Ltd, WorkCover Qld, and other smaller biotechnology companies. She has served on the Prime Minister's Business Advisory Council, the Premier's Smart State Council and Biotechnology Task Force in Queensland. Dr Wilson has also served on the boards of a number of cultural and charitable institutions. She was named in the inaugural 2012 AFR/Westpac Top 100 Women Awards in the Board/Management category and was awarded the 2016 Australian Institute of Company Directors Queensland Gold Medal for contribution to business and the wider community. She has a Masters degree in Business Administration from the Harvard Business School and a medical degree from the University of Queensland. Dr Wilson is Chairman of the Risk Management Committee and is a member of the Remuneration and Nomination Committee.

### b) Company secretary



#### **Paul Alexander**

BEC, CA, 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

### c) Directors' interests in shares, options and performance rights as at 18 September 2017

Director's name	Class of shares	Number of shares	Interest	Number of options	Number of performance rights
Dr C.S. Goldschmidt	Ordinary	1,134,955	Personally	1,589,763*	151,940*
C.D. Wilks	Ordinary	788,479	Personally	695,205*	63,336*
	Ordinary	88,122	Beneficially	-	-
Prof. M.R. Compton	Ordinary	444	Personally	-	-
	Ordinary	3,782	Beneficially	-	-
Dr P.J. Dubois	Ordinary	8,000	Beneficially	-	-
L.J. Panaccio	Ordinary	5,073	Beneficially	-	-
K.D. Spargo	Ordinary	3,000	Personally	-	-
	Ordinary	10,000	Beneficially	-	-
Dr E.J. Wilson	Ordinary	3,000	Beneficially	-	-

\* Vesting of the options and performance rights is subject to challenging performance conditions designed to align the interests of the executives with those of shareholders. None of the performance rights have vested to date. 397,894 of Dr C.S. Goldschmidt's and 198,947 of C.D. Wilks' options 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 2017, and the numbers of meetings attended by each Director were:

Director's name	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
Dr C.S. Goldschmidt	7	7	-	-	-	-	2	2
C.D. Wilks	7	7	-	-	-	-	-	-
Prof. M.R. Compton	7	7	4	4	3	3	-	-
Dr P.J. Dubois	7	7	-	-	-	-	-	-
L.J. Panaccio	7	7	4	4	3	3	2	2
K.D. Spargo	7	7	4	4	3	3	-	-
Dr E.J. Wilson	7	7	-	-	3	3	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 undermines 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 47.

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

	2017	2016
	\$	\$
<b>PricewaterhouseCoopers - Australian firm and related practices (including overseas PricewaterhouseCoopers firms)</b>		
Taxation and accounting services	279,480	139,669

## 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 the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## REMUNERATION REPORT

The Directors of Sonic Healthcare Limited present the Remuneration Report for the year ended 30 June 2017, 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 19 November 2015, shareholders approved a maximum amount of \$1,500,000 for remuneration of Non-executive Directors, of which \$955,000 was paid in 2017. In 2017 (and 2016), the Chairman's annual remuneration was \$380,000, inclusive of all Board Committee work, and the base Non-executive Director fee was \$150,000. Board Committee fees were as follows:

Fees per annum	Chair	Members
Audit	\$30,000	\$15,000
Risk Management	\$25,000	\$10,000
Remuneration and Nomination	\$25,000	\$10,000

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, Finance Director and Non-executive Directors 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, and relevant comparative information. 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.

# ■ Directors' Report

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## REMUNERATION REPORT

### a) Key management personnel

#### i) Directors

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

##### Non-executive Directors

Prof. M.R. Compton | *Chairman*

L.J. Panaccio

K.D. Spargo

Dr E.J. Wilson

##### Executive Directors

Dr C.S. Goldschmidt | *Managing Director*

C.D. Wilks | *Finance Director*

Dr P.J. Dubois

All of the above persons were also key management personnel through the year ended 30 June 2016.

#### 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. The Group's Australian laboratory 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 a member of both PSEC and ISEC, Dr P.J. Dubois is Chairman of ISEC and CEO of the Imaging division, and C.D. Wilks is a member of both PSEC and ISEC. A German Sonic Executive Committee ('GSEC') coordinates 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 also oversee Sonic's businesses in the USA, the UK, Ireland, Switzerland, Belgium and New Zealand, and the medical centre and occupational health businesses in Australia.

The Board therefore considers that the Executive Directors and the Non-executive Directors are the Group's 'key management personnel'.

## REMUNERATION REPORT

### 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 equity-based remuneration):

	2013	2014	2015	2016	2017	Compound Average Annual Growth Rate <sup>1</sup>
<b>Growth in Underlying EBITDA (excluding non-recurring items and on a constant currency basis)</b>	4.8%	5.4%	(1.9)%	13.8%	5.3%	<b>5.0%</b>
<b>Growth in EBITDA (on a constant currency basis)</b>	4.5%	5.4%	(6.2)%	20.5%	2.5%	<b>4.7%</b>
<b>Net profit attributable to members (\$'000)</b>	334,998	384,984	347,698	451,374	427,773	<b>6.2%</b>
<b>Ordinary earnings per share (cps)</b>	84.3	95.5	86.0	109.3	102.1	<b>4.8%</b>
<b>Dividends paid per share (cps)</b>	60	64	69	71	75	
<b>Enterprise value<sup>2</sup> (\$'000)</b>	7,620,761	8,684,854	10,566,549	11,229,432	12,588,332	
<b>Total shareholder return<sup>3</sup></b>	64.6%	54.1%	90.0%	63.0%	56.1%	
<b>Change in total cash remuneration of executives<sup>4</sup></b>	(21.4)%	28.6%	(1.2)%	44.3%	10.6%	<b>9.8%</b>
<b>Change in total remuneration of executives<sup>5</sup></b>	(11.8)%	(1.4)%	(9.8)%	34.4%	21.2%	<b>5.0%</b>

<sup>1</sup> The compound average annual growth rate is calculated over the five-year period shown with 2012 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 three-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).

The table above demonstrates the relationship between the performance of the Group and the remuneration of its key management personnel. Cash remuneration has fluctuated from year to year, largely dependent on the extent to which the annual performance hurdle related to EBITDA growth which applies to 70% of the target short-term incentives (STI) for the Managing Director and Finance Director was met. Over the five-year period, total remuneration has increased broadly in line with the Company's earnings growth, and has rewarded the key management personnel for their part in delivering strong Total Shareholder Returns.

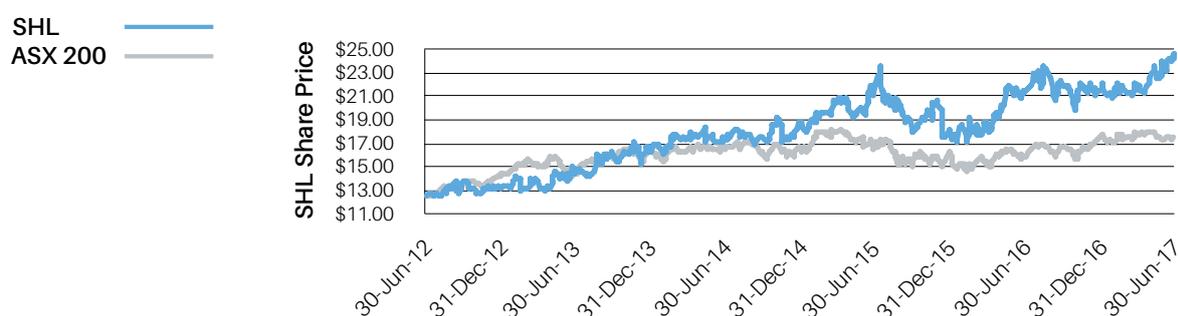
# Directors' Report

## REMUNERATION REPORT

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

The chart below shows the Company's share price (SHL) performance over the five years to 30 June 2017, versus the relative performance of the ASX 200.

**Sonic Healthcare (SHL) Share Price vs ASX 200**



### 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 2017	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	
Director's name	\$	\$	\$	\$	\$
<b>Dr C.S. Goldschmidt</b> <i>Managing Director</i>	2,378,018	-	2,694,620	19,616	5,092,254
<b>C.D. Wilks</b> <i>Finance Director</i>	1,070,124	-	1,172,027	19,616	2,261,767
<b>Dr P.J. Dubois</b> <i>Director</i>	773,761	8,049	-	35,036	816,846
<b>Prof. M.R. Compton</b> <i>Chairman and Non-executive Director</i>	360,384	-	-	19,616	380,000
<b>L.J. Panaccio</b> <i>Non-executive Director</i>	182,648	-	-	17,352	200,000
<b>K.D. Spargo</b> <i>Non-executive Director</i>	173,516	-	-	16,484	190,000
<b>Dr E.J. Wilson</b> <i>Non-executive Director</i>	168,950	-	-	16,050	185,000

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

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

## REMUNERATION REPORT

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

12 months to 30 June 2016	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	
Director's name	\$	\$	\$	\$	\$
<b>Dr C.S. Goldschmidt</b> <i>Managing Director</i>	2,308,492	-	2,094,463	19,308	4,422,263
<b>C.D. Wilks</b> <i>Finance Director</i>	1,070,432	-	980,505	19,308	2,070,245
<b>Dr P.J. Dubois</b> <i>Director</i>	747,142	6,925	-	141,218	895,285
<b>C.J. Jackson<sup>3</sup></b> <i>Director</i>	107,298	-	-	7,797	115,095
<b>R.P. Campbell<sup>3</sup></b> <i>Non-executive Director</i>	140,269	-	-	9,654	149,923
<b>Prof. M.R. Compton</b> <i>Chairman and Non-executive Director</i>	279,022	-	-	17,735	296,757
<b>L.J. Panaccio</b> <i>Non-executive Director</i>	182,647	-	-	17,353	200,000
<b>K.D. Spargo</b> <i>Non-executive Director</i>	173,516	-	-	16,484	190,000
<b>Dr E.J. Wilson</b> <i>Non-executive Director</i>	168,950	-	-	16,050	185,000

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

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

<sup>3</sup> Remuneration up to retirement date of 19 November 2015

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 2017 was: Dr C.S. Goldschmidt \$73,607 (2016: \$70,240), C.D. Wilks \$(2,849) (2016: \$24,396), and in the prior year, C.J. Jackson \$1,658.

#### 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 2017 was \$748,960 (2016: \$192,760), and for C.D. Wilks was \$325,379 (2016: \$11,173). The options and performance rights are subject to challenging vesting conditions and only 35% (2016: 35%) of the options and performance rights with a performance measurement period for 3 years to 30 June 2017 (2016: 5 years to 30 June 2016) satisfied the vesting conditions.

The equity-based remuneration amounts disclosed for 2017 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 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 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 key management personnel relating to remuneration arrangements for periods to 30 June 2017.

# Directors' Report

## REMUNERATION REPORT

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

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

During the financial year, the following options and performance rights over ordinary shares in the Company were exercised by key management personnel.

	Dr C.S. Goldschmidt	C.D. Wilks
<b>2017</b>		
Options issued in November 2011 as remuneration for periods to 30 June 2014 (having vested after satisfying challenging performance conditions which caused 56.4% of the total options issued to be forfeited), with a \$11.43 exercise price	389,605	194,801
Performance rights issued in November 2011 as remuneration for periods to 30 June 2016 (having vested after satisfying challenging performance conditions which caused 65% of the total rights issued to be forfeited), with a nil exercise price	44,094	22,047
<b>2017 Total intrinsic value of options and rights at the date of exercise</b>	<b>\$5,478,239</b>	<b>\$2,838,451</b>
<b>2016</b>		
Performance rights issued in November 2011 as remuneration for periods to 30 June 2014 (having vested after satisfying challenging performance conditions which caused 58% of the total rights issued to be forfeited), with a nil exercise price	39,685	19,842
Performance rights issued in November 2011 as remuneration for periods to 30 June 2015 (having vested after satisfying challenging performance conditions which caused 50% of the total rights issued to be forfeited), with a nil exercise price	47,244	23,622
<b>2016 Total intrinsic value of options and rights at the date of exercise</b>	<b>\$1,724,766</b>	<b>\$862,373</b>

#### 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 58% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2017 (2016: 49%), and 58% of C.D. Wilks' remuneration for the 12 months to 30 June 2017 (2016: 47%). Within these components, the calculated value of options and performance rights over unissued ordinary shares in Sonic Healthcare Limited accounted for 13% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2017 (2016: 4%), and 13% of C.D. Wilks' remuneration for the 12 months to 30 June 2017 (2016: 1%).

The total value for remuneration disclosure purposes (to be allocated over the three-year vesting period) of the options and performance rights that were issued in 2017 as part of remuneration was \$1,970,614 for Dr C.S. Goldschmidt and \$875,465 for C.D. Wilks.

## REMUNERATION REPORT

### 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.

#### Remuneration for Dr C.S. Goldschmidt and C.D. Wilks

Remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks were revised in 2014, following a comprehensive review by the Remuneration and Nomination Committee. 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 the significant percentage of revenue 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 one of the best performing stocks on the ASX for the period from January 1993 to August 2017, with a return of over 34,000% (Total Shareholder Return, assuming reinvestment of dividends). The Committee therefore determined that Total Target Remuneration ('TTR') 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 broader than usual role he performs as Finance Director and CFO.

Target remuneration is split between Fixed Remuneration (~32%), Short-Term Incentives ('STI') (~34%), and Long-Term Incentives ('LTI') (~34%) (mix in line with market norms).

Summary of target remuneration for Dr C.S. Goldschmidt and C.D. Wilks:

	Actual STI Paid	% of Target STI Actually Paid	Target STI	Fixed Remuneration	Target LTI
	\$	%	\$	\$	\$
<b>Dr C.S. Goldschmidt</b>					
2016	2,094,463	90.0%	2,327,800	2,327,800	2,553,370
2017	2,694,620	102.2%	2,637,397	2,397,634	2,629,971
<b>C.D. Wilks</b>					
2016	980,505	90.0%	1,089,740	1,089,740	1,017,640
2017	1,172,027	102.2%	1,147,138	1,089,740	1,168,399

# ■ Directors' Report

## REMUNERATION REPORT

### d) Service agreements (continued)

#### 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 2014 detailed review set the fixed remuneration from 1 January 2014. The Board then approved a 3% increase in fixed remuneration with effect from 1 July 2015, and a further 3% from 1 July 2016 (however C.D. Wilks elected to apply the increase to his target LTI).

#### 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 (110% for Dr C.S. Goldschmidt and 105% for C.D. Wilks for 2017, and 100% for both for 2016) of 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 is used as a performance criterion, 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. Hurdles are set at the beginning of each year.

The EBITDA growth targets allow for the contributions from acquisitions that are known when the targets are set. The potential contribution to EBITDA growth of acquisitions that were not known in setting the target growth rate has been capped at a maximum of 2% for the purpose of the performance assessment.

Up to 30% of the target STI is awarded after an assessment of performance, based on specific objectives relating to:

- 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)

An annual assessment of each executive's performance is made by the Remuneration and Nomination Committee and a recommendation made to the Board for final determination. The table above shows the total STI amounts awarded by year. For the 2017 financial year, 30% (2016: 30%) of the target STI was awarded under the qualitative factors above, as, following a detailed assessment of each criteria, the Board was satisfied that the executives performed strongly in the areas of assessment during 2017, and no issues have arisen during the year that would suggest anything to the contrary. It is possible for the executives to earn up to 150% of the qualitative portion of the target STI, however, this was not awarded in 2017 (or 2016).

Underlying EBITDA growth of 5.31% was achieved in 2017, exceeding the 5% (2016: 19%) target level set in August 2016, resulting in 103.1% of the relevant 70% of target STI being paid (achieving between 100% and 200% of the target EBITDA growth triggered payment of pro rata between 100% and 150% of the relevant 70% of target STI). In 2016, 85.7% of the relevant 70% of target STI was paid.

## REMUNERATION REPORT

### d) Service agreements (continued)

#### iii) Long-Term Incentives ('LTI')

After approval by shareholders at the 2011 AGM, the executives were issued the following LTI (the 'FY2012 Issue') to provide incentives through to the end of the 2016 year, in the form of options and performance rights over shares in Sonic Healthcare Limited, subject to performance conditions.

Dr C.S. Goldschmidt		C.D. Wilks		Earliest Vesting Date	Performance conditions measurement period	Expiry date
Options	Rights	Options	Rights			
894,039	94,488	447,019	47,244	18 November 2014	3 years to 30 June 2014	18 November 2016
868,167	94,488	434,083	47,244	18 November 2015	4 years to 30 June 2015	18 November 2017
1,136,842	125,984	568,421	62,992	18 November 2016	5 years to 30 June 2016	18 November 2018
<b>2,899,048</b>	<b>314,960</b>	<b>1,449,523</b>	<b>157,480</b>			

Since the 2014 remuneration review, Dr C.S. Goldschmidt and C.D. Wilks receive annual grants of equity-based remuneration (conditional on approval by shareholders), 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.

After approval by shareholders at the 2014, 2015 and 2016 Annual General Meetings, the executives were issued the following LTI (the 'FY2015 Issue', 'FY2016 Issue' and 'FY2017 Issue'):

	FY2015 Issue		FY2016 Issue		FY2017 Issue	
	Dr C.S. Goldschmidt	C.D. Wilks	Dr C.S. Goldschmidt	C.D. Wilks	Dr C.S. Goldschmidt	C.D. Wilks
Options over shares in Sonic Healthcare Limited	504,887	201,221	548,404	218,565	464,659	206,430
Performance rights over shares in Sonic Healthcare Limited	71,564	28,521	65,774	26,214	60,822	27,021

# Directors' Report

## REMUNERATION REPORT

### d) Service agreements (continued)

### iii) Long-Term Incentives ('LTI') (continued)

	FY2015 Issue	FY2016 Issue	FY2017 Issue
Options exercise price	\$17.32	\$19.41	\$21.62
Performance condition measurement period	3 years to 30 June 2017	3 years to 30 June 2018	3 years to 30 June 2019
Earliest vesting date, if performance conditions are met	27 November 2017	20 November 2018	17 November 2019
Expiry date	27 November 2019	20 November 2020	17 November 2021
Fair value of each option at grant date	\$1.36	\$1.45	\$2.31
Fair value of each right at grant date	\$11.45	\$13.00	\$14.73

For all tranches of options and performance rights described above:

- Options can only vest when the market price of Sonic shares is higher than the exercise price.
- The exercise price of the options was determined using the Volume Weighted 5-day Average Market Price ('5-day VWAP') for Sonic shares preceding the date of grant.
- The number of options issued was determined based on a Black Scholes methodology valuation at the time of grant. The valuation did not allow for any discount relating to performance conditions.
- The number of performance rights issued was determined by dividing 50% of the maximum value of LTI by 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.

The performance conditions are as follows:

#### Performance Condition 1 ('PC1') – Sonic's Total Shareholder Return ('TSR') against the S&P ASX 100 Accumulation Index, excluding Banks and Resource companies 50% weighting (all Issues)

TSR Ranking achieved	Percentage of Options and Rights that vest
Below the 51st (FY2012 Issue: 50th) percentile	Nil options and rights to which PC1 applies
51st (FY2012 Issue: 50th) percentile	50% of options and rights to which PC1 applies
Greater than 51st (FY2012 Issue: 50th) 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 Banks and Resource companies) over the relevant performance periods.

## REMUNERATION REPORT

### d) Service agreements (continued)

#### iii) Long-Term Incentives ('LTI') (continued)

Relative TSR is used 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.

PC1 (TSR) Results						
Performance measurement period	TSR Rank Achieved	% Eligible to Vest	Vesting Options	Vesting Performance Rights	Forfeited Options	Forfeited Rights
1 July 2011 to 30 June 2014	67%	84%	584,406	59,527	86,123	11,339
1 July 2011 to 30 June 2015	76%	100%	651,126	70,866	-	-
1 July 2011 to 30 June 2016	60%	70%	596,841	66,141	255,791	28,347
1 July 2014 to 30 June 2017	61%	70.83%	250,069	35,445	102,986	14,598

Of the Issues and tranches described above, only the first three (2016: two) tranches of the options or performance rights issued in November 2011 had vested or been forfeited at 30 June 2017.

### Performance Condition 2 ('PC2') - Compound Average Growth Rate ('CAGR') in Return on Invested Capital ('ROIC') Weighting: FY2012 Issue: 50%, FY2015 Issue: 25%, FY2016 Issue: 0%, FY2017 Issue: 0%

CAGR ROIC achieved	Percentage of Options and Rights that vest
Less than 1.08% (FY2012 Issue: 3%) p.a.	Nil options and rights to which PC2 applies
1.08% (FY2012 Issue: 3%) p.a.	50% (FY2012 Issue: 30%) of options and rights to which PC2 applies
Greater than 1.08% and less than 3% (FY2012 Issue: 3% and 9%)	Pro rata between 50% (FY2012 Issue: 30%) and 100% of options and rights to which PC2 applies
3% (FY2012 Issue: 9%) or greater	100% of options and rights to which PC2 applies

ROIC was calculated as Earnings before Interest and Tax ('EBIT') less related tax and minority interests divided by capital employed (see below for detailed calculation). It was expressed as a percentage and the hurdle growth rates were growth in this percentage. Growth in ROIC was chosen as a performance hurdle in FY2012 and FY2015, as the Board believed that a primary focus should be improvement in the return from the substantial investments the Company had made in its offshore markets. The ROIC-related hurdle was not used for the FY2016 and FY2017 Issues, as the Board was concerned that the measure had proven too volatile to be an effective incentive, and that it could be a disincentive for the executives to pursue acquisitions that are value enhancing for shareholders in the medium and long-term (once growth and synergies are achieved). Under the FY2015 Issue, ROIC remained a hurdle until 30 June 2017.

$$\text{ROIC} = (\text{EBIT}^1 \text{ less minority interests}^2 \text{ less cash taxes paid in year}^3) / \text{Average}^4 \text{ invested capital}^5$$

<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

### d) Service agreements (continued)

### iii) Long-Term Incentives ('LTI') (continued)

PC2 (ROIC) Results						
Performance measurement period	Actual CAGR ROIC	% Eligible to Vest	Vesting Options	Vesting Performance Rights	Forfeited Options	Forfeited Rights
1 July 2011 to 30 June 2014	1.1%	-	-	-	670,529	70,866
1 July 2011 to 30 June 2015	(5.2)%	-	-	-	651,124	70,866
1 July 2011 to 30 June 2016	0.4%	-	-	-	852,631	94,488
1 July 2014 to 30 June 2017	(4.2)%	-	-	-	176,527	25,021

### Performance Condition 3 ('PC3') - Compound Average Growth Rate ('CAGR') in Earnings Per Share ('EPS')

Weighting: FY2012 Issue: 0%, FY2015 Issue: 25%, FY2016 Issue: 50%, FY2017 Issue: 0%

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.

PC3 (EPS) Results						
Performance measurement period	Actual CAGR EPS	% Eligible to Vest	Vesting Options	Vesting Performance Rights	Forfeited Options	Forfeited Rights
1 July 2014 to 30 June 2017	2.3%	-	-	-	176,526	25,021

## REMUNERATION REPORT

### d) Service agreements (continued)

#### iii) Long-Term Incentives ('LTI') (continued)

#### Performance Condition 4 ('PC4')- Aggregate Earnings Per Share ('EPS') Growth

**Weighting: FY2012 Issue: 0%, FY2015 Issue: 0%, FY2016 Issue: 0%, FY2017 Issue: 50%**

This hurdle is measured by comparing the Company's aggregate EPS over 3 years against an aggregate EPS target. 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. The percentage of options and performance rights subject to PC4 that vest will be as follows:

Aggregate EPS for FY2017 to FY2019	Percentage of Options and Rights that vest
Less than 355 cents	Nil options and rights to which PC4 applies
355 cents	40% of options and rights to which PC4 applies
Greater than 355 cents and less than 398 cents	Pro rata between 40% and 100% of options and rights to which PC4 applies
398 cents or greater	100% of options and rights to which PC4 applies

355 cents per share equates to compound annual growth of 4% and 398 cents per share equates to compound annual growth of 10%, in each case over the FY2016 EPS of 109.3 cents per share.

Whilst the general intention is to use statutory reported numbers for transparency in measuring performance under PC3 and PC4, given the periods 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, 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

### 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.

Director's Name	Balance at 1 July 2016	Issued during the 2017 year	(Forfeited) during the 2017 year	(Exercised) during the 2017 year	Balance at 30 June 2017	(Forfeited) since year end	Vested and exercisable at 30 June 2017
Dr C.S. Goldschmidt	3,013,822	464,659	(738,948)	(389,605)	2,349,928	(326,081)	831,978
C.D. Wilks	1,400,050	206,430	(369,474)	(194,801)	1,042,205	(129,958)	415,989

#### 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.

Director's Name	Balance at 1 July 2016	Issued during the 2017 year	(Forfeited) during the 2017 year	(Exercised) during the 2017 year	Balance at 30 June 2017	(Forfeited) since year end	Vested and exercisable at 30 June 2017
Dr C.S. Goldschmidt	263,322	60,822	(81,890)	(44,094)	198,160	(46,220)	-
C.D. Wilks	117,727	27,021	(40,945)	(22,047)	81,756	(18,420)	-

#### iii) Shareholdings

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.

Director's Name	Balance at 1 July 2016	Issued during the 2017 year on the exercise of options or rights	Shares provided as remuneration during the 2017 year	Other changes during the 2017 year	Balance at 30 June 2017
Dr C.S. Goldschmidt	617,172	433,699	-	(350,000)	700,871
C.D. Wilks	687,711	216,848	-	(245,000)	659,559
Dr P.J. Dubois	8,000	-	-	-	8,000
Prof. M.R. Compton	2,969	-	-	1,257	4,226
L.J. Panaccio	-	-	-	5,073	5,073
K.D. Spargo	11,000	-	-	2,000	13,000
Dr E.J. Wilson	2,000	-	-	1,000	3,000

## REMUNERATION REPORT

### f) Transactions with key management personnel

During the previous financial year, rental expense payments totalling \$228,452 were 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 preceding year. The Director, who retired from the Board on 19 November 2015, and who had an interest in the rental transactions in the 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 2017 (2016: \$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, 5 weeks after Sonic's Annual General Meeting, and 2-week periods following Sonic Healthcare's provision to the market at any other time of definitive guidance regarding the next annual result to be released. The Sonic Board of Directors must specifically consider and approve the opening of the 'trading window' in each instance. 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). Sonic's Chair or Managing Director may impose other periods when Designated Officers are prohibited from trading because price-sensitive, non-public information may exist. 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 and from short-term trading and short selling arrangements in relation to Sonic securities. Designated Officers are required to commit to these prohibitions by signing the Securities Trading Policy and will forfeit their equity reward should they be found to be in breach. Directors of Sonic Healthcare Limited are also prohibited from entering into margin lending or other secured financing arrangements in relation to Sonic securities without the prior approval of the Chair and disclosure of such arrangements to the Board.

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 2017, 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. 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 2016 Annual General Meeting

Over 90% of votes cast on a poll on Sonic Healthcare Limited's Remuneration Report for the 2016 financial year were in favour.

# ■ Directors' Report

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



**Dr C.S. Goldschmidt**  
Director



**C.D. Wilks**  
Director

Sydney  
18 September 2017



## **Auditor's Independence Declaration**

As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2017, 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', with a long horizontal flourish extending to the right.

Mark Dow  
Partner  
PricewaterhouseCoopers

18 September 2017

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# 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 wellbeing 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 18 September 2017, 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 ('the Recommendations') in advancing good corporate governance, and has applied the third edition during the 2017 financial year. Sonic's Board continues to review and improve Sonic's compliance with the Recommendations, implementing change in a prudent manner. Sonic's website ([www.sonichealthcare.com](http://www.sonichealthcare.com)) includes a Corporate Governance section which sets out the information required by the Recommendations, plus other relevant information, including copies of all Policies, Charters and Codes referred to 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 2017 financial year. Any issues of non-compliance with the Recommendations are specifically noted and explained.

# Corporate Governance Statement

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## 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 Directors,
- 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.

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

### 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
Prof. Mark Compton	56	3	Chairman, Non-executive, independent Director	Healthcare industry and company management	Member of Audit Committee and Remuneration and Nomination Committee
Dr Colin Goldschmidt	63	24	Managing Director, Chief Executive Officer	Healthcare industry and company management. Pathologist	Member of Risk Management Committee
Mr Chris Wilks	59	27	Finance Director, Chief Financial Officer	Finance, strategy, accounting, banking, secretarial and company management	
Dr Philip Dubois	71	16	Executive Director, Chief Executive Officer – Sonic Imaging	Diagnostic imaging industry and company management. Radiologist	
Mr Lou Panaccio	60	12	Non-executive, independent Director	Finance, healthcare industry and company management	Chair of Audit Committee, and member of Remuneration and Nomination Committee and Risk Management Committee
Ms Kate Spargo	65	7	Non-executive, independent Director	Law, governance and company oversight	Chair of Remuneration and Nomination Committee and member of Audit Committee
Dr Jane Wilson	59	7	Non-executive, independent Director	Medicine, finance, governance and company oversight. 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 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 that Sonic seeks to acquire. The Board currently comprises four independent and three Executive Directors.

Dr Dubois was appointed to the Board following the acquisition of Queensland X-Ray (Sonic's largest imaging practice), where he was the practice leader. His presence on the Board has played an important role in consolidating Sonic's imaging businesses 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, broader management experience, including senior leadership positions in listed companies, finance and legal skills, expertise in corporate governance, and expertise in acquiring and merging healthcare businesses. The Board considers that it currently 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

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

The Board has resolved that the position of Chairman of the Board is to be held by an independent Director. 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 Panaccio 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 shareholders 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 three 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. The Board Charter requires that Non-executive Directors who have already served 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 is as follows:

- Medical practitioners
- Risk management
- Industry-specific management experience
- Corporate governance
- Leadership experience (preferably CEO level)
- Legal
- Experience on other listed entity boards
- International experience
- Strategy and business development
- People management and remuneration
- Strategic focus
- Acquisitions and mergers
- Medical technology development
- Gender diversity
- Financial acumen
- Tenure diversity
- Banking/treasury experience

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.

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 six 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.

### 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.

# Corporate Governance Statement

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## 1. BOARD OF DIRECTORS

### 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, 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. The Sonic Board of Directors must specifically consider and approve the opening of the 'trading window' in each instance. 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). Sonic's Chair or Managing Director may impose other periods when Designated Officers are prohibited from trading because price-sensitive, non-public information may exist. All trading by Designated Officers must be notified to the Company Secretary. Prohibitions also apply to short-term trading, short selling, 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. Directors of Sonic Healthcare Limited are also prohibited from entering into margin lending or other secured financing arrangements in relation to Sonic securities without the prior approval of the Chair and disclosure of such arrangements to the Board. In addition, the Managing Director and Finance Director are required to obtain approval from the Chair 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 \$1,500,000 per annum, as approved by shareholders in November 2015. The total amount paid to Non-executive Directors in the 2017 financial year was \$955,000. 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*

Prof. M.R. Compton

Ms K.D. Spargo

The Committee operates under a formal Charter. 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 Board.

The principal role of the Audit Committee is to provide the Board, investors and other 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.
- oversight of the Company's internal audit function (known as the Sonic Business Assurance Program).
- 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, the head of the Business Assurance Program 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.

# Corporate Governance Statement

## 2. BOARD COMMITTEES

### b) Risk Management Committee

Members of the Risk Management Committee are:

Dr E.J. Wilson | *Chair*  
Dr C.S. Goldschmidt  
Mr L.J. Panaccio

The Committee operates under a formal Charter. The Charter requires that the Risk Management Committee comprises at least three members, the majority of whom must be independent Directors, and that the Chair of the Committee must be an independent Director.

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,
    - environmental, social and governance 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*  
Prof. M.R. Compton  
Mr L.J. Panaccio  
Dr E.J. Wilson

The Remuneration and Nomination Committee operates under a formal Charter. 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, retirement 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.

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 2017 was:

	2017	2016
<b>Non-executive Directors of Sonic Healthcare Limited</b>	50%	50%
<b>Directors of Sonic Healthcare Limited</b>	29%	29%
<b>Executive staff of the Group<sup>†</sup></b>	34%	32%
<b>Other senior leadership positions</b>	56%	55%
<b>Total senior leadership positions*</b>	53%	50%
<b>All employees</b>	75%	76%

<sup>†</sup> 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 2017.

# Corporate Governance Statement

## 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 2017 Corporate Responsibility Report, available on Sonic's website.

### 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. 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 coordinate the Company's approach to material business risk management.

# Corporate Governance Statement

## 4. IDENTIFYING AND MANAGING BUSINESS RISKS

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

Control systems and policy compliance are reviewed by Sonic's Business Assurance Program (Sonic's 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.

### c) Regulatory compliance

Sonic's laboratory, 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 are 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 2017 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.

# Corporate Governance Statement

## 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.

To augment the Code of Ethics and Core Values, the Company has formally implemented and disclosed the following global policies:

- Anti-bribery and Corruption Policy
- Diversity Policy
- Labour Standards and Human Rights Policy
- Workplace Health and Safety Policy
- Supplier Code of Conduct
- Privacy Policy
- Taxation Governance Statement
- Environmental Policy

## 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 coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

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

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 [www.sonichealthcare.com](http://www.sonichealthcare.com)), which includes electronic and other contact details;
- 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.

# Corporate Governance Statement

## 7. THE ROLE OF SHAREHOLDERS

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. The Company ensures that the relevant Notice of Meeting contains all material information in its possession relevant to a decision on whether to elect a Director.

## 8. EXTERNAL AUDITORS

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

## 9. PERFORMANCE EVALUATION OF THE BOARD, ITS COMMITTEES AND DIRECTORS, AND KEY EXECUTIVE OFFICERS

### a) The Board and its Committees

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

- the Chairman discusses with each Director their individual performance and ideas for improvement, based on surveys completed by each Director,
- 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, and
- periodically, an external consultant is engaged to coordinate the reviews and provide additional insights.

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.

# Corporate Governance Statement

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## 9. PERFORMANCE EVALUATION OF THE BOARD, ITS COMMITTEES AND DIRECTORS, AND KEY EXECUTIVE OFFICERS

### 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 2017 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 management personnel

The Managing Director evaluates key management personnel at least annually (including during the 2017 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.

Key management personnel receive letters of appointment with terms of employment governed by applicable employment laws.

# Concise Financial Report

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The Concise Financial Report is an extract from the full Financial Report for the year ended 30 June 2017. 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.

SONIC HEALTHCARE LIMITED  
ABN 24 004 196 909

30 JUNE 2017

# Income Statement

FOR THE YEAR ENDED 30 JUNE 2017

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

		Cents	Cents
<b>Basic earnings per share</b>	6	<b>102.7</b>	110.0
<b>Diluted earnings per share</b>	6	<b>102.1</b>	109.3

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

# Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2017

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

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

# Balance Sheet

AS AT 30 JUNE 2017

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

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

# Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2017

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

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

# Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2017

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

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

# Notes to the Concise Financial Statements

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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 2017.

# Notes to the Concise Financial Statements

30 JUNE 2017

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## 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 2017. The accounting policies adopted have been consistently applied to all years presented, except as stated below. Comparatives may be restated to enhance comparability with the current year.

### a) Presentation currency

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

### b) Changes in accounting policies

There were no material impacts on the financial statements of the Group as a consequence of new standards, effective 1 July 2016.

## NOTE 2 | SEGMENT INFORMATION

### Business segments

The Group's Chief Executive Officer and the Board of Directors (the chief operating decision makers) review the Group's performance both by the nature of services provided and geographic region. Discrete financial information about each operating segment is reported to the Chief Executive Officer and the Board of Directors on at least a monthly basis and is used to assess performance and determine the allocation of resources.

The Group has the following reportable segments.

#### i) Laboratory

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

#### ii) Imaging

Diagnostic imaging services provided in Australia.

#### iii) Other

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

The internal reports use a 'Constant Currency' basis for reporting revenue and EBITA with foreign currency elements restated using the relevant prior period average exchange rates. The segment revenue and EBITA have therefore been presented using Constant Currency.

# Notes to the Concise Financial Statements

30 JUNE 2017

## NOTE 2 | SEGMENT INFORMATION

### Business segments (continued)

2017	Laboratory	Imaging	Other	Eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue (Constant Currency)</b>					
External sales	4,439,051	441,745	423,873	-	5,304,669
Inter-segment sales	16	249	11,921	(12,186)	-
<b>Total segment revenue (Constant Currency)</b>	<b>4,439,067</b>	<b>441,994</b>	<b>435,794</b>	<b>(12,186)</b>	<b>5,304,669</b>
Currency exchange rate movements	(185,419)	-	-	-	(185,419)
<b>Total segment revenue (Statutory)</b>	<b>4,253,648</b>	<b>441,994</b>	<b>435,794</b>	<b>(12,186)</b>	<b>5,119,250</b>
Interest income					2,893
<b>Total revenue</b>					<b>5,122,143</b>
<b>Result</b>					
<b>Segment result (Constant Currency)</b>	<b>674,592</b>	<b>51,928</b>	<b>(2,440)</b>	<b>-</b>	<b>724,080</b>
Currency exchange rate movements	(27,968)	-	-	-	(27,968)
<b>Segment result (Statutory)</b>	<b>646,624</b>	<b>51,928</b>	<b>(2,440)</b>	<b>-</b>	<b>696,112</b>
Amortisation of intangibles					(55,126)
Unallocated net interest expense					(65,243)
<b>Profit before tax</b>					<b>575,743</b>
Income tax expense					(133,323)
<b>Profit after income tax expense</b>					<b>442,420</b>
<b>Depreciation</b>	<b>116,430</b>	<b>29,436</b>	<b>26,581</b>	<b>-</b>	<b>172,447</b>
<b>Other non-cash items</b>	<b>11,103</b>	<b>733</b>	<b>6,389</b>	<b>-</b>	<b>18,225</b>
2016	Laboratory	Imaging	Other	Eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>					
External sales	4,182,066	420,406	411,118	-	5,013,590
Inter-segment sales	35	269	11,076	(11,380)	-
Other income	-	-	34,766*	-	34,766
<b>Total segment revenue</b>	<b>4,182,101</b>	<b>420,675</b>	<b>456,960</b>	<b>(11,380)</b>	<b>5,048,356</b>
Interest income					4,130
<b>Total revenue</b>					<b>5,052,486</b>
<b>Result</b>					
<b>Segment result</b>	<b>625,124</b>	<b>47,743</b>	<b>42,313*</b>	<b>-</b>	<b>715,180</b>
Amortisation of intangibles					(54,528)
Unallocated net interest expense					(63,007)
<b>Profit before tax</b>					<b>597,645</b>
Income tax expense					(131,644)
<b>Profit after income tax expense</b>					<b>466,001</b>
<b>Depreciation</b>	<b>113,600</b>	<b>28,307</b>	<b>23,317</b>	<b>-</b>	<b>165,224</b>
<b>Other non-cash items</b>	<b>87,774</b>	<b>876</b>	<b>(28,096)</b>	<b>-</b>	<b>60,554</b>

\* FY2016 'Other' includes A\$34,766,000 non-recurring gain on property sales

# Notes to the Concise Financial Statements

30 JUNE 2017

## NOTE 2 | SEGMENT INFORMATION

### Geographical information

	Revenues from sales to external customers*		Non-current assets**^	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
<b>Australia</b>	<b>2,185,838</b>	2,083,578	<b>2,233,348</b>	2,207,320
<b>United States of America</b>	<b>1,105,541</b>	1,088,474	<b>1,715,668</b>	1,660,415
<b>Germany</b>	<b>958,650</b>	914,426	<b>1,247,126</b>	1,021,725
<b>Other</b>	<b>869,221</b>	927,112	<b>1,347,536</b>	1,306,625
<b>Total</b>	<b>5,119,250</b>	5,013,590	<b>6,543,678</b>	6,196,085

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

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

## NOTE 3 | REVENUE AND OTHER INCOME

	2017	2016
	\$'000	\$'000
<b>Services revenue</b>		
Medical services revenue	<b>5,053,724</b>	4,947,307
<b>Other revenue</b>		
Government grants	<b>30,304</b>	31,121
Interest received or due and receivable	<b>2,893</b>	4,130
Rental income	<b>13,051</b>	15,635
Other revenue	<b>22,171</b>	19,527
	<b>68,419</b>	70,413
Revenue from operations	<b>5,122,143</b>	5,017,720
<b>Other income</b>		
Net gain on sale of properties	<b>-</b>	34,766

The net gain on sale was a non-recurring item.

# Notes to the Concise Financial Statements

30 JUNE 2017

## NOTE 4 | DIVIDENDS

	2017	2016
	\$'000	\$'000
<b>Total dividends paid on ordinary shares during the year</b>		
Final dividend for the year ended 30 June 2016 of 44 cents (2015: 41 cents) per share paid on 27 September 2016 (2015: 22 October 2015), franked to 30% (2015: 55%)	182,963	164,908
Interim dividend for the year ended 30 June 2017 of 31 cents (2016: 30 cents) per share paid on 11 April 2017 (2016: 6 April 2016), franked to 20% (2016: 30%)	129,385	124,008
	<b>312,348</b>	288,916
<b>Dividends not recognised at year end</b>		
In addition to the above dividends, since year end the Directors declared a final dividend of 46 cents (2016: 44 cents) per ordinary share, franked to 20% (2016: 30%) based on tax paid at 30%. The aggregate amount of the final dividend payable on 11 October 2017 out of retained earnings at the end of the year, but not recognised as a liability is:	193,176	182,963
<b>Franked dividends</b>		
The 2017 final dividend declared after the year end was 20% franked out of existing franking credits and out of franking credits arising from the payment of income tax in the year ending 30 June 2018.		
Franking credits available at the year end for subsequent financial years based on a tax rate of 30%	4,629	14,855

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 Dividend Reinvestment Plan will operate for the FY2017 final dividend. The DRP operated for the FY2017 and FY2016 interim dividends.

## NOTE 5 | BUSINESS COMBINATIONS

### Acquisition of subsidiaries/business assets

Acquisitions of subsidiaries/business assets in the period included:

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

# Notes to the Concise Financial Statements

30 JUNE 2017

## NOTE 5 | BUSINESS COMBINATIONS

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

The contribution these acquisitions made to the Group's profit during the period was immaterial individually and in total. The initial accounting for these business combinations has only been determined provisionally at the date of this report, as the Group is still in the process of reviewing acquisition balance sheets and identifying assets and liabilities not previously recorded, so as to determine the fair values of the identifiable assets, liabilities and contingent liabilities acquired. Therefore, no comparisons of book and fair values are shown.

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

	Total
	\$'000
Consideration - cash paid	273,550
Less: Cash of entities acquired	(26,596)
	<b>246,954</b>
Deferred consideration	2,321
Consideration - other	20,492
<b>Total consideration</b>	<b>269,767</b>
<b>Carrying value of identifiable net assets of businesses acquired:</b>	
Debtors & other receivables	29,422
Prepayments	593
Inventory	7,924
Property, plant & equipment	9,254
Identifiable intangibles	25,409
Deferred tax assets	254
Trade creditors	(19,056)
Sundry creditors & accruals	(5,271)
Current tax liabilities	(113)
Deferred tax liabilities	(1,157)
Provisions	(2,488)
Borrowings	(2,244)
	<b>42,527</b>
Minority interests	(710)
<b>Goodwill</b>	<b>226,530</b>

The goodwill arising from the business acquisitions is attributable to their reputation in the local market, the benefit of marginal profit and synergies expected to be achieved from integrating the business with existing operations, expected revenue growth, future market development, the assembled workforce and knowledge of local markets. These benefits are not able to be individually identified or recognised separately from goodwill. \$26,038,000 of the purchased goodwill recognised is expected to be deductible for income tax purposes, over a fifteen year period.

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

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

# Notes to the Concise Financial Statements

30 JUNE 2017

## NOTE 6 | EARNINGS PER SHARE

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

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

Options and performance rights 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 and rights have not been included in the determination of basic earnings per share.

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

	2017	2016
Reconciliations of earnings used in calculating earnings per share	Shares	Shares
Net profit	442,420	466,001
Net (profit) attributable to minority interests	(14,647)	(14,627)
Earnings used in calculating basic and diluted earnings per share	427,773	451,374

# Notes to the Concise Financial Statements

30 JUNE 2017

## 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
18/11/11	18/11/18	\$11.43	596,841
02/07/12	02/07/19	\$12.57	105,000
18/10/13	18/10/18	\$15.43	165,000
13/12/13	13/12/18	\$15.21	75,000
27/11/14	27/11/19	\$17.32	250,069
30/01/15	30/11/19	\$18.84	690,000
20/10/15	20/08/20	\$18.49	925,000
20/11/15	20/11/20	\$19.41	766,969
11/12/15	11/10/20	\$19.78	2,103,333
17/11/16	17/09/21	\$21.62	800,000
17/11/16	17/09/21	\$22.02	200,000
17/11/16	17/11/21	\$21.62	671,089
05/07/17	05/05/22	\$23.34	1,000,000
<b>Total</b>			<b>8,348,301</b>

\* 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 unless otherwise specified:

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

Options granted under the plan expire after 58 months (unless otherwise specified) 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 2 July 2012, 18 October 2013, 13 December 2013 and 11 December 2015 are subject to different vesting and expiry periods. Options granted on 2 July 2012 are exercisable from 2 July 2017 until expiry on 2 July 2019. Options granted on 18 October 2013 are 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. For the options granted on 11 December 2015, one third are exercisable after 11 June 2018, two thirds after 11 June 2019, and up to 100% after 11 June 2020, subject to satisfying vesting conditions.

# Notes to the Concise Financial Statements

30 JUNE 2017

## NOTE 7 | SHARE OPTIONS

### a) Shares under options (continued)

#### 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 27 November 2014, 20 November 2015, and 17 November 2016, 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	Exercise price	Number of rights at date of report
27/11/14	27/11/19	Nil	35,445
20/11/15	20/11/20	Nil	91,988
17/11/16	17/11/21	Nil	87,843
<b>Total</b>			<b>215,276</b>

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

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

A total of 2,294,406 ordinary shares of Sonic were issued during the year ended 30 June 2017, under the Sonic Healthcare Limited Employee Option Plan. 751,126 options have been exercised since that date, but prior to the date of this report, resulting in the issue of 751,126 ordinary shares. The amounts paid on issue of those shares were:

Number of Options	Issue Price (per share)
500,000	\$11.14
20,000	\$12.57
425,000	\$15.21
155,000	\$15.43
500,000	\$21.30
711,126	\$21.43
389,605	\$23.00
150,000	\$23.19
194,801	\$23.51
<b>3,045,532</b>	

# Notes to the Concise Financial Statements

30 JUNE 2017

## NOTE 7 | SHARE OPTIONS

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

#### ii) Sonic Healthcare Limited Performance Rights Plan

A total of 68,621 performance rights were exercised during the year ended 30 June 2017, under the Sonic Healthcare Limited Performance Rights Plan, satisfied by the issue of 66,141 new ordinary shares and by 2,480 shares purchased on-market. Nil performance rights have been exercised since that date, but prior to the date of this report, resulting in the issue of nil ordinary shares. No amounts were payable on issue of those shares.

Number of Rights	Issue Price (per right)
2,480	\$16.89
66,141	\$22.01
<b>68,621</b>	

### c) Options and rights granted to officers

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

## NOTE 8 | EVENTS OCCURRING AFTER REPORTING DATE

Since the end of the financial year, the Directors are not aware of any matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years, other than the acquisition, on 3 July 2017 of Medical Laboratory Bremen, a laboratory practice in the North West of Germany, for an enterprise value of €63M, as announced to the market on 30 January 2017.

# Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2017

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The Directors declare that in their opinion, the Concise Financial Report of the Group for the year ended 30 June 2017, 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 2017. 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  
18 September 2017



## *Report of the Independent Auditor on the concise financial report to the members of Sonic Healthcare Limited*

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### *Our opinion*

In our opinion, the accompanying concise financial report of Sonic Healthcare Limited (the Company) and its controlled entities (together, the Group) for the year ended 30 June 2017 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

### **What we have audited**

The Group consolidated concise financial report derived from the financial report of the Group for the year ended 30 June 2017 comprises:

- the balance sheet as at 30 June 2017
- the income statement for the year then ended
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the cash flow statement for the year then ended
- the related notes
- the directors' declaration.

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### *Basis of opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibility under those standards are further described in the *Auditor's responsibilities for the audit of the concise financial report* section of our report.

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

### **Independence**

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the code.

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### *Concise financial report*

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards in the preparation of the financial report. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the financial report and the auditor's report thereon.

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### *The financial report and our report thereon*

We expressed an unmodified audit opinion on the financial report in our report dated 18 September 2017. That report also includes the communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period.

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### *Responsibilities of the directors 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 is necessary to enable the preparation of the concise financial report.

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### *Auditor's responsibilities for the audit of the concise financial report*

Our responsibility is to express an opinion on whether the concise financial report complies, in all material respects, with AASB 1039 *Concise Financial Reports* based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

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### *Report on the remuneration report*

The following paragraphs are copies from our report on the remuneration report of Sonic Healthcare Limited for the year ended 30 June 2017.

### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 31 to 45 of the directors' report for the year ended 30 June 2017. In our opinion, the remuneration report of Sonic Healthcare Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

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### *Responsibilities*

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.



PricewaterhouseCoopers



Mark Dow  
Partner

Sydney  
18 September 2017

# Shareholders' Information

## 1. INFORMATION RELATING TO SHAREHOLDERS

### a) Distribution schedule as at 12 September 2017

	No. of holders ordinary shares
1 - 1,000	39,706
1,001 - 5,000	23,524
5,001 - 10,000	1,872
10,001 - 100,000	884
100,001 and over	105
	<b>66,091</b>
<b>Voting rights</b>	
- on a show of hands	1/member
- on a poll	1/share
<b>Percentage of total shares held by the twenty largest registered holders</b>	69.64%
<b>Number of holders holding less than a marketable parcel</b>	709

### b) Substantial shareholders as at 12 September 2017

The Company has received substantial shareholding notices to 12 September 2017 in respect of the following holdings:

	No. of securities	Percentage held
The members of the Veritas Group	34,263,058	8.16%
BlackRock Group (including 1,680,434 American Depositary Receipts)	29,539,405	7.03%

# Shareholders' Information

## 1. INFORMATION RELATING TO SHAREHOLDERS

### c) Names of the twenty largest registered holders of equity securities as at 12 September 2017

	No. of securities	Percentage held
HSBC Custody Nominees (Australia) Limited	145,248,040	34.59%
J P Morgan Nominees Australia Limited	59,586,019	14.19%
Citicorp Nominees Pty Limited	20,384,025	4.85%
Jardvan Pty Ltd	15,108,704	3.60%
National Nominees Limited	8,145,812	1.94%
BNP Paribas Noms Pty Ltd <DRP>	6,958,315	1.66%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	5,574,160	1.33%
BNP Paribas Nominees Pty Ltd <Agency Lending Collateral>	4,441,000	1.06%
CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C>	3,977,489	0.95%
Polly Pty Ltd <A/C Patterson Family>	3,816,646	0.91%
Argo Investments Limited	3,080,069	0.73%
Blaise Mentha	2,571,626	0.61%
Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	1,981,687	0.47%
Goodoil Investments Pty Ltd <Timothy Roberts Invest A/C>	1,973,717	0.47%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	1,740,469	0.41%
Australian Foundation Investment Company Limited	1,703,358	0.41%
IOOF Investment Management Limited <IPS Super A/C>	1,676,038	0.40%
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	1,623,103	0.39%
Quintal Pty Ltd <Harken Family A/C>	1,521,138	0.36%
Netwealth Investments Limited <Wrap Services A/C>	1,334,004	0.32%
	<b>292,445,419</b>	<b>69.64%</b>

# Shareholders' Information

## 2. UNQUOTED EQUITY SECURITIES AS AT 12 SEPTEMBER 2017

	No. on issue	No. of holders
Options over unissued ordinary shares	8,804,340	95
Performance rights	279,916	2

## 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

With your support of electronic communication channels, Sonic Healthcare has significantly decreased its shareholder communication print production. Less than 3% of Sonic's shareholders still request a hard copy Annual Report, and over 36% of shareholders receive communications electronically. The result is a reduction in energy and water resources associated with paper production.

## 4. ANNUAL GENERAL MEETING

The Annual General Meeting will be held in the Fort Macquarie Room at the InterContinental Sydney Hotel, 117 Macquarie Street, Sydney, at 10.00 am on Wednesday, 22 November 2017.









SONIC  
HEALTHCARE

Quality is in our DNA