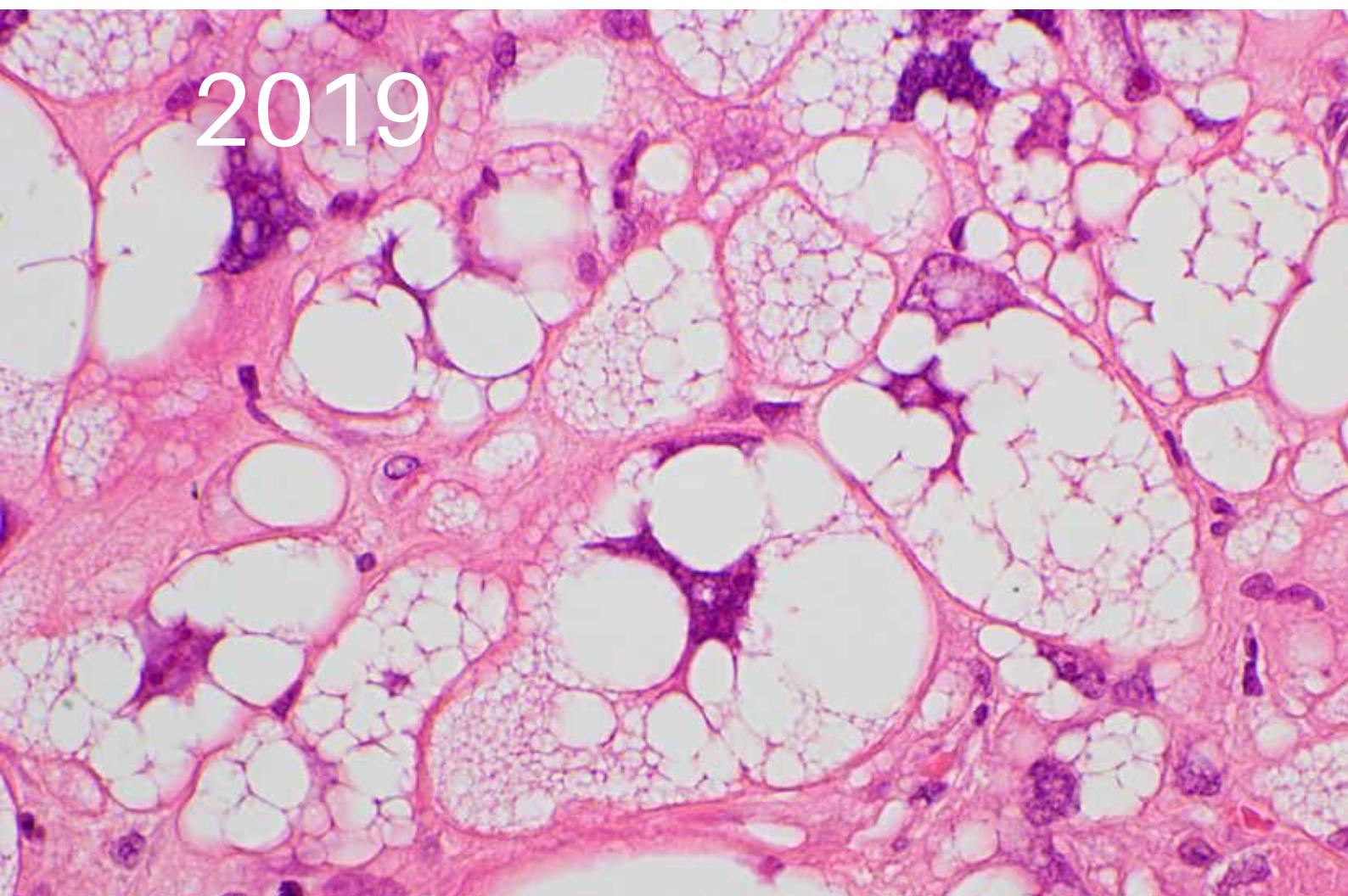


Concise Annual Report

2019



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 N. Mitchell
Mr L.J. Panaccio
Ms K.D. Spargo
Dr E.J. Wilson

COMPANY SECRETARY

Mr P.J. Alexander

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

Level 22, Grosvenor Place,
225 George Street, Sydney
New South Wales, 2000, Australia
P 61 2 9855 5444
F 61 2 9878 5066
W www.sonichealthcare.com

SHARE REGISTRY

Computershare Investor Services Pty Limited
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
E www.investorcentre.com/contact

AUDITOR

PricewaterhouseCoopers

SOLICITORS

Allens
Gilbert+Tobin

BANKERS

Australia and New Zealand Banking Group
BNP Paribas
Commerzbank
Commonwealth Bank of Australia
Crédit Industriel et Commercial
DNB Asia
HSBC
JPMorgan Chase Bank
Mizuho Bank
MUFG Bank
National Australia Bank
Westpac Banking Corporation

STOCK EXCHANGE LISTINGS

Sonic Healthcare Limited (SHL.AX) shares are listed on the Australian Securities Exchange. Sonic Healthcare Limited also has a Level 1 sponsored American Depository Receipt (ADR) facility managed by BNY Mellon (the 'Depository'). Sonic Healthcare Limited's ADRs are traded under the code SKHY.

Verification of Unaudited Information in this Annual Report

Unaudited information in this Annual Report comprises all information included in the Annual Report other than the Financial Report, the Remuneration Report within the Directors' Report, the Directors' Declaration, the Independent Auditor's Report and the Auditor's Independence Statement.

The integrity of the unaudited information has been verified as materially accurate and/or reasonable using the following processes:

- Financial information in the unaudited information has been tied to the current and/or previous audited Financial Reports, or has been gathered using the same reporting and consolidation process as used for the Financial Report (which includes several review layers), or has been sourced from third parties.
- The unaudited information has been reviewed and approved by the Managing Director and Finance Director individually, the Audit Committee, and the Board as a whole.
- Earnings guidance for the 2020 financial year is based on the detailed annual budgeting process undertaken by the Group, which culminates in Board approval of the budgets.
- The independent auditor has read the unaudited information and has considered whether the information is materially inconsistent with the Financial Report or their knowledge obtained in the audit, or otherwise appeared to be materially misstated. The auditor had nothing to report in this regard.

Forward-looking statements and opinions included in the unaudited information (which may be identified by the use of terminology including 'expects', 'believes', 'targets', 'likely', 'should', 'could', 'intends', 'aims', 'is estimated' or similar expressions) are not certainties, guarantees or predictions of future performance. Readers are cautioned not to place undue reliance on forward-looking statements or opinions.



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Cover image:

Histological photomicrograph of a liposarcoma, which is a malignant tumour of soft tissue arising from the body's fat cells.



Sonic Healthcare produced a record net profit for the 2019 financial year of A\$550 million, on revenues of A\$6.2 billion.



Chairman's Letter

Dear Fellow Shareholders,

On behalf of the Board of Sonic Healthcare, I take great pleasure in presenting to you the Company's 2019 Annual Report.

Sonic Healthcare produced a record net profit for the 2019 financial year of A\$550 million, on revenues of A\$6.2 billion. The Board has declared total dividends per share for the year of A\$0.84, a 4% increase on the prior year, continuing our progressive dividend policy.

A standout event in the 2019 year was the acquisition of Aurora Diagnostics in the USA, and the equity raised to finance the acquisition. Aurora has opened further growth paths for Sonic in the world's largest laboratory medicine market, as described in more detail elsewhere in this Annual Report. On behalf of the Board and management team, I wish to thank our shareholders for the strong support we received for both the A\$600 million institutional equity placement completed in December 2018 and the associated Share Purchase Plan (SPP) for retail shareholders completed in February 2019, which raised A\$328 million. Combined, these represented the largest equity raising the Company has ever undertaken.

The equity raised and our strong cash generation enabled a reduction in net debt of A\$184 million (after payments for acquisitions and dividends), lowering Sonic's gearing below our long-term average. This means that our balance sheet is very strong, and ready to support further growth. A very pleasing aspect of the financial results for 2019 was that our Return on Invested Capital (ROIC) increased from 8.6% to 8.7%, whilst A\$1 billion of additional capital was put to work. Whilst ROIC is a volatile measure, this is a good outcome.

Board renewal, development and diversity continue to be important considerations for your Board. Sonic's Board currently comprises five independent directors and three executive directors, including a pathologist, a radiologist and a registered General Medical Practitioner, in keeping with our Medical Leadership culture and strategy. We are actively recruiting for an additional independent, non-executive director, preferably a qualified medical practitioner, and hope to have the position filled by the Company's 2019 Annual General Meeting or soon afterwards.

We have set ourselves the objective to reach at least 30% female representation on our Board within two years – I note we have had more than 20% since 2010 and currently have 40% female representation of our independent Non-executive Directors. Mr Lou Panaccio, who has been Chairman of our Audit Committee since October 2010, is retiring from that position this month. Lou will remain on the Committee, and the Board has chosen Mr Neville Mitchell as the new Committee Chairman. On the Board's behalf, I sincerely thank Lou for the exceptional leadership he has demonstrated in his role as Chairman of the Audit Committee, and congratulate Neville on his appointment. Dr Philip Dubois is standing for re-election at this year's AGM, with the full support of the Board. Philip has indicated that, should he be re-elected by shareholders at the 2019 AGM, he will retire from the Board by the end of that three-year term.

I strongly recommend that all Sonic shareholders read our latest Corporate Responsibility Report, available on our website. This report describes how Sonic cares for our people, the environment, our own communities and communities in acute need. The Board takes great pride in Sonic's standing in these important issues, and believes that our shareholders can rightfully be proud as well. Sonic's standing as a socially responsible company continues to be recognised by external parties, including through ongoing inclusion in the FTSE4Good Index Series.

Sonic Healthcare has a clear and proven growth strategy and the cultural, financial, managerial and operational strength to further deliver on that strategy, so as to create value for shareholders, provide excellent service to our patients and their doctors, and enable fulfilling careers for our staff. I thank our doctors, managers, staff and my fellow Directors for their dedication, expertise and passion for the Company. I also thank you, our shareholders, for your continuing support of the Company and the Board.



Professor Mark Compton AM
Chairman

CEO Report

Sonic Healthcare produced another record financial result in the 2019 financial year, in line with our expectations. Financial highlights included:

- Revenue growth of 11.6% to A\$6.2 billion
- EBITDA growth of 13.3% to A\$1.1 billion
- Net profit growth of 15.6% to A\$550 million
- Earnings per share growth of 8.8% to A\$1.22

One of the key attributes of Sonic is the consistency of our financial performance and growth, which I think are best illustrated in the two charts below. They portray our annual revenue since Sonic listed on the Australian Securities Exchange in 1987, and our annual dividends from our inaugural dividend in 1994.

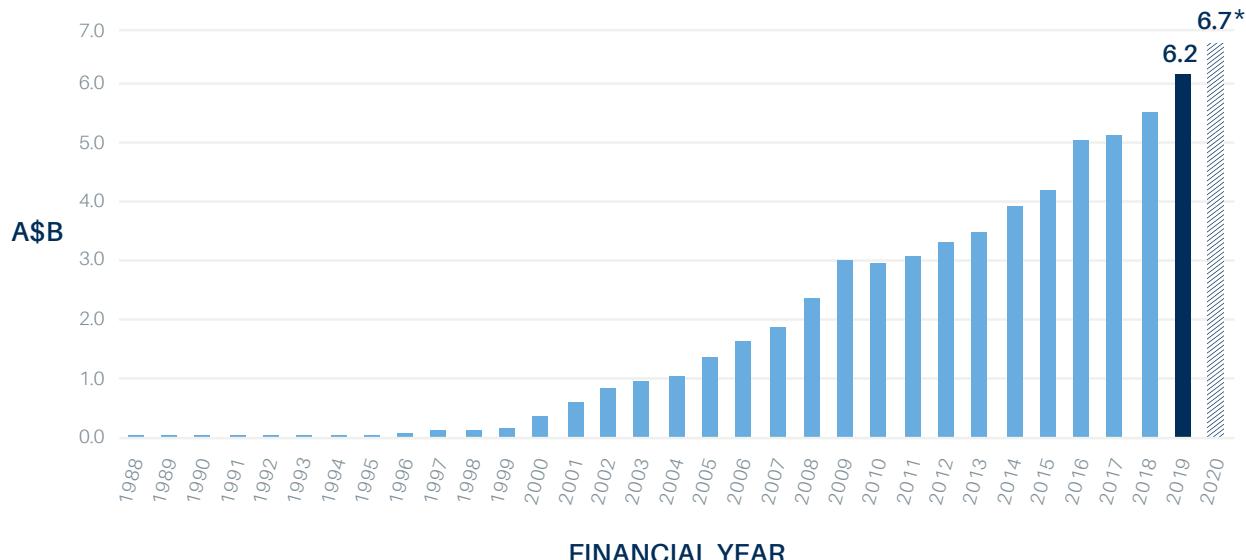
As illustrated, we are expecting further growth again in 2020, when we will benefit from a full year of the Aurora Diagnostics acquisition, which was completed in January 2019, as well as ongoing organic growth and, potentially, further acquisitions.

The Company reached a significant threshold in 2019 – this is the year that we exceeded \$1 billion of EBITDA for the first time. This is a great milestone for the Company and really a magnificent achievement for all of Sonic's people around the world.

Organic revenue growth for the Group as a whole in 2019 was pleasing, at around 4% on a constant currency basis. Sonic's Australian, US and UK laboratory operations and our Imaging division achieved higher organic growth rates, whilst the growth of our German and Belgian operations were impacted this year by regulatory changes. I would like to particularly highlight the continuation of strong profit and margin growth in Sonic's Australian and Swiss laboratory businesses, and in our Australian diagnostic imaging business.

As is usual for Sonic, organic growth was significantly enhanced by acquisitions in the past year, and we continue to work on a rich pipeline of further acquisition, joint venture and contract opportunities to further augment Sonic's growth, strength and expertise as a Company.

Revenue History



*FY2020 revenue based on market consensus forecast, including FX rate assumptions. Illustrative only, not Sonic guidance.

Sonic Healthcare produced another record financial result in the 2019 financial year, in line with our expectations.



Full-year Dividend History



Sonic also achieved a number of strategic milestones in the 2019 financial year, opening up new pathways for future growth. The most significant of these was the acquisition of Aurora Diagnostics for US\$540 million (equivalent to A\$750 million). Aurora is one of the leading anatomical pathology providers in the USA, with approximately 220 pathologists and 1,200 staff, operating 32 anatomical pathology practices across 19 US states.

Aurora is the largest single acquisition ever made by Sonic, with annual revenue in excess of US\$310 million. Following the Aurora acquisition, our US business is now our largest globally.

Sonic also acquired Pathologie Trier in July 2018, one of the largest (annual revenue of around €20 million) and most respected anatomical pathology practices in Germany.

The acquisitions of Aurora Diagnostics and Pathologie Trier are initial steps in expansion into the anatomical pathology markets in the USA and Germany.

The addition of the pathologists in these practices to Sonic's existing team has created what I believe to be the largest pathologist group globally. Sonic's success to date has been driven by our Medical Leadership culture which, among other important tenets, recognises that pathologists are the natural leaders within laboratories.

We look forward to working with Aurora's and Trier's management and pathologists to grow and enrich both the anatomical pathology and clinical laboratory operations of our expanded US and German businesses. This strategy is well-founded on our deep and longstanding experience in anatomical pathology in Australia.

Other milestones in the year included the formation of a hospital laboratory joint venture with ProMedica Health System, Inc. in the mid-west of the USA, winning the cervical

screening contract to provide HPV testing for the population of London, and positioning ourselves well in the bidding processes for other major National Health Service laboratory contracts in the UK.

We also divested GLP Systems, a technology platform, at an attractive valuation, returning approximately \$A130 million of cash to Sonic. Sonic has not been a seller of businesses, however, after a decade of adding value to GLP Systems, the point was reached where its future lay more logically with Abbott as a major IVD equipment provider.

To summarise, the Company is in a healthy, strong and stable position, with growth momentum and significant opportunities ahead. We operate in eight countries, and employ 37,000 people. Our people are very actively delivering highest quality, essential healthcare services to 120 million patients each year. Our global team of more than 1,000 pathologists, along with our 200 radiologists, 2,000-plus partner general practitioners and thousands of qualified scientists and technical staff, underpin and enrich our global healthcare offering. Sonic's Medical Leadership culture differentiates Sonic in our markets, attracting referrals to our practices, making us an employer of choice, and attracting like-minded organisations for acquisition, joint ventures and laboratory outsource contracting. The talent and passion of our people are the driving force behind the continuous improvements in our businesses and to the overall success of Sonic Healthcare and I thank all Sonic staff for their dedication and the positive energy they bring to the Company.

Dr Colin Goldschmidt
CEO and Managing Director

Financial History

As at 30 June	2019	2018	2017	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue ^{1,3}	6,184,056	5,541,371	5,122,143	5,052,486	4,200,525
Earnings before interest, tax, depreciation and amortisation (EBITDA) ^{1,3}	1,074,828	948,288	868,559	880,404	694,649
Net profit after tax ^{1,2,3}	549,725	475,606	427,773	451,374	347,698
Net cash flow from operations	847,308	767,920	736,365	707,708	512,084
Total assets	9,959,834	8,200,934	7,878,165	7,370,619	6,348,705
Total liabilities	4,467,968	3,918,009	3,952,035	3,637,910	3,022,707
Net assets	5,491,866	4,282,925	3,926,130	3,732,709	3,325,998
Net interest-bearing debt	2,298,953	2,482,781	2,435,405	2,284,247	1,975,989

Statistics

Diluted earnings per share (cents) ^{1,2,3}	122.1	112.2	102.1	109.3	86.0
Dividends paid per ordinary share (cents)	82.0	78.0	75.0	71.0	69.0
Dividend payout ratio	66.4%	69.1%	73.0%	64.0%	79.7%
Gearing ratio	29.5%	36.7%	38.3%	38.0%	37.3%
Interest cover (times) ⁴	10.5	10.1	10.8	11.5	10.8
Debt cover (times) ⁴	2.1	2.5	2.7	2.6	2.7
Net tangible asset backing per share (\$)	(2.69)	(3.39)	(3.47)	(3.44)	(2.74)
Return (after tax) on invested capital ^{1,3}	8.7%	8.6%	8.1%	9.1%	7.2%
Return (after tax) on equity ^{1,2,3}	11.2%	11.6%	11.2%	12.8%	10.8%

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

2 2018 included a non-recurring income tax benefit of \$20,115,000 relating to the restatement of net deferred tax liabilities to the new 21% US corporate tax rate

3 2019 included a non-recurring pre-tax gain of \$50,385,000 (post-tax \$49,585,000) on the sale of GLP Systems

4 Calculated using bank debt facility covenant definitions



Concise Annual Report



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 2019.

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 N. Mitchell
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:

	2019	2018
	\$'000	\$'000
Interim dividend paid on 26 March 2019 (2018: 10 April 2018)	156,366	135,300
Final dividend payable on 25 September 2019 (2018: 27 September 2018)	242,148	208,746
Total dividend for the year	398,514	344,046

On 19 August 2019, the Board declared a final dividend in respect of the year ended 30 June 2019, of 51 cents per ordinary share, 30% franked (at a tax rate of 30%), payable on 25 September 2019, with a record date of 11 September 2019. An interim dividend of 33 cents per ordinary share, 20% franked (at 30%), was paid on 26 March 2019. These dividends included no conduit foreign income.

A final dividend of 49 cents per ordinary share was paid on 27 September 2018, in respect of the year ended 30 June 2018, out of profits of that year. The interim dividend in respect of the year ended 30 June 2018 was 32 cents per ordinary share, paid on 10 April 2018. These dividends included no conduit foreign income.

DIVIDEND REINVESTMENT PLAN (DRP)

The Company's Dividend Reinvestment Plan remains suspended for the FY2019 final dividend.

Directors' Report

OPERATING AND FINANCIAL REVIEW

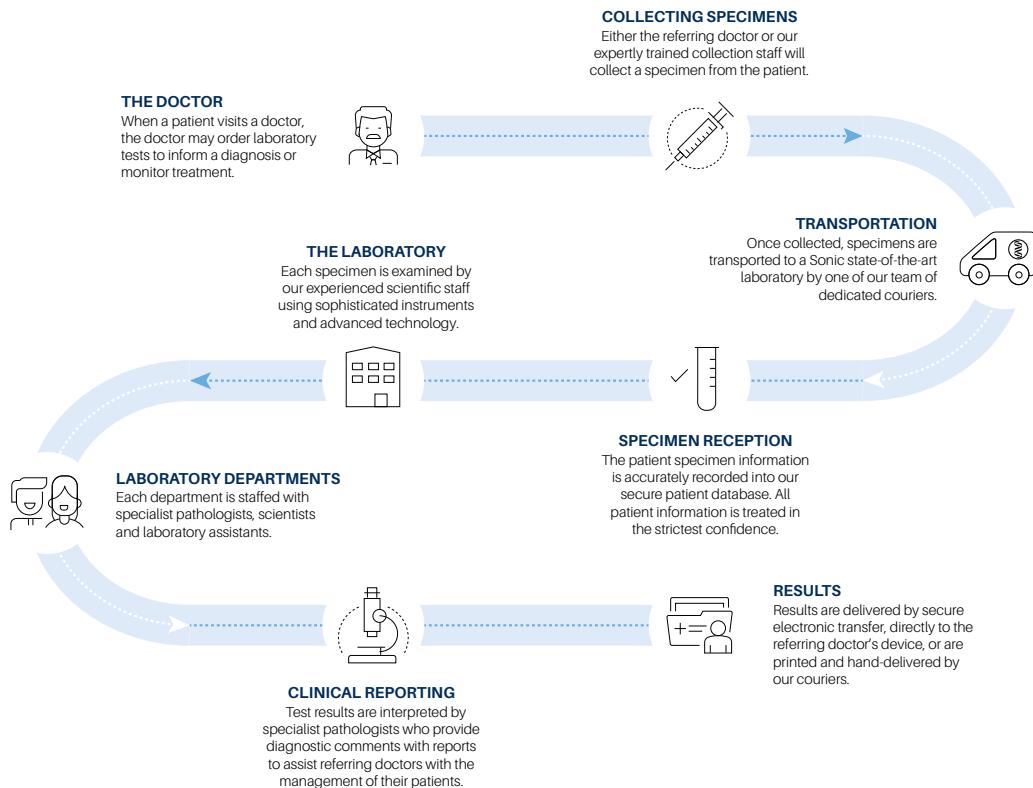
Operations

Sonic Healthcare is one of the world's leading providers of medical diagnostic services, contributing to the medical care of 120 million patients per annum. The Group provides highly specialised pathology/clinical laboratory and diagnostic imaging (including radiology) 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 37,000 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 the third largest 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

Laboratory medicine tests generally fall into categories 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 or clinical pathology 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's laboratories are 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.

Directors' Report

OPERATING AND FINANCIAL REVIEW

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 233 primary care clinics across Australia, providing facilities and administrative services to more than 2,400 general practitioners. Seventy per cent 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:

	2019 Constant Currency ¹	2019 Statutory	2018 Statutory	2019 Constant Currency ¹ v 2018 Statutory	2019 Statutory v 2018 Statutory
	\$'000	\$'000	\$'000	% Change	% Change
Revenue	5,979,319	6,184,056	5,541,371	7.9%	11.6%
Non-recurring gain on GLP Systems sale	(47,625)	(50,385)	–		
Impact of new accounting standard (AASB 15)	9,284	9,284	–		
Underlying Revenue²	5,940,978	6,142,955	5,541,371	7.2%	10.9%
Underlying EBITDA²	1,026,190	1,060,828	962,052	6.7%	10.3%
Non-recurring gain on GLP Systems sale	47,625	50,385	–		
Impact of new accounting standard (AASB 15)	(9,284)	(9,284)	–		
Non-recurring costs ⁴	(25,945)	(27,101)	(13,764)		
EBITDA³	1,038,586	1,074,828	948,288		13.3%
Depreciation and lease amortisation	(203,988)	(209,856)	(191,809)	6.3%	
EBITA	834,598	864,972	756,479		
Amortisation of intangibles	(61,381)	(63,288)	(64,229)	(4.4)%	
Net interest expense	(73,967)	(79,427)	(75,269)	(1.7)%	
Income tax expense ⁵	(159,733)	(163,188)	(131,916)	21.1%	
Net (profit) attributable to minority interests	(9,057)	(9,344)	(9,459)		
Net profit attributable to Sonic shareholders	530,460	549,725	475,606	11.5%	15.6%
Cash generated from operations (Refer Note (h))		847,308	767,920		10.3%
Earnings per share					
Basic earnings per share (cents per share)	118.2	122.5	112.6		
Diluted earnings per share (cents per share)	117.8	122.1	112.2	5.0%	8.8%

1 For an explanation of 'Constant Currency' refer to (a) on the following page

2 Underlying Revenue and EBITDA = Revenue and EBITDA adjusted to remove the impact of accounting standard changes and non-recurring items in the current and/or previous year

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

4 Non-recurring costs mainly relate to acquisitions, contract bids, laboratory relocations, mergers and restructuring

5 Income tax expense in the 2018 year included a one-off US net tax benefit of A\$20,115,000

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

Directors' Report

OPERATING AND FINANCIAL REVIEW

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, meaning that Sonic's offshore earnings and assets fluctuate when reported in AUD.

The average currency exchange rates for the year to 30 June 2019 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 (that is, 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:

	2019 Statutory	2018 and Constant Currency
AUD/USD	0.7154	0.7754
AUD/EUR	0.6270	0.6499
AUD/GBP	0.5527	0.5760
AUD/CHF	0.7116	0.7526
AUD/NZD	1.0666	1.0852

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

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

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

Directors' Report

OPERATING AND FINANCIAL REVIEW

b) Revenue

Total revenue growth for the year was 11.6% (or 7.9% at Constant Currency exchange rates, that is, applying the average rates for the FY2018 year to the current year results). Organic revenue growth of 4% (Constant Currency) was achieved for the Group as a whole.

Revenue breakdown	2019 Statutory Revenue	% of 2019 Statutory Revenue	2019 Constant Currency Revenue	2018 Revenue	2019 Constant Currency v 2018
	AUD M	%	AUD M	AUD M	Growth
Laboratory - Australia	1,470	24%	1,470	1,403	4.8%
Laboratory - USA	1,441	24%	1,329	1,131	17.5%
Laboratory - Europe	2,244	37%	2,155	2,064	4.4%
Laboratory - NZ	34	<1%	33	28	17.9%
Imaging - Australia	500	8%	500	473	5.7%
Other	447	7%	446	439	1.6%
Revenue - underlying	6,136	100%	5,933	5,538	7.1%
Non-recurring gain on GLP Systems sale	50		48	-	
Impact of new accounting standard (AASB 15)	(9)		(9)	-	
Interest income	7		7	3	
Total revenue	6,184		5,979	5,541	7.9%

The Laboratory division enjoyed revenue growth of 8% in the year (on a Constant Currency basis), including ~4% organic revenue growth.

Sonic's Australian Laboratory organic revenue growth of 5% was strong and included revenue from the National Bowel Cancer Screening contract won by Sonic, effective 1 January 2018.

US organic revenue growth was strong at ~5% on a Constant Currency basis. Total US revenue was enhanced by the acquisition of Aurora Diagnostics on 30 January 2019, but reduced by ~A\$33M as Sonic merged its US Mid-west division into its joint venture with ProMedica Health System, Inc. on 1 September 2018. US revenue was also impacted by Medicare (PAMA) fee cuts, effective from 1 January 2018 and 1 January 2019.

Within Europe, Sonic's UK operations achieved organic growth of 9% (Constant Currency), enhanced by a full year of the Barnet/Chase Farm NHS hospital laboratory outsource contract, which commenced in October 2017. German and Belgian organic growth was flat. German revenue was impacted by 1 April 2018 regulatory changes to referrer 'bonus' calculations relating to the EBM fee system. These were partially offset by selective fee quota increases. German growth was enhanced by the acquisition of Pathologie Trier in July 2018. Swiss organic growth was 4% (Constant Currency).

Imaging organic revenue growth of 6% was in line with market growth.

Current period revenue for Sonic Clinical Services (SCS), Sonic's medical centre and occupational health businesses (the major components of the Other segment, which also included Sonic's laboratory automation development subsidiary, GLP Systems, and other minor operations), was reduced by A\$9.3M due to the new revenue accounting standard AASB 15 (effective 1 July 2018).

Revenue was enhanced by currency exchange rate movements, which increased reported (Statutory) revenue by A\$205M compared to the prior year, and by the gain on the sale of GLP Systems (A\$50M).

Directors' Report

OPERATING AND FINANCIAL REVIEW

c) EBITDA

Underlying EBITDA grew 10.3% or 6.7% on a Constant Currency basis. The non-recurring costs of A\$27M mainly related to acquisitions, contract bids, laboratory relocations, mergers and restructuring.

Current period EBITDA was reduced by A\$9.3M due to the impact of the new (effective 1 July 2018) revenue accounting standard AASB 15.

EBITDA growth in the Laboratory division was enhanced by the Aurora Diagnostics acquisition in the US and the Pathologie Trier acquisition in Germany. The Australian and Swiss laboratory businesses performed particularly strongly. Sonic's Imaging business reported 7% earnings growth.

Consumables cost decreased as a percentage of revenue due to ongoing success with procurement initiatives and as a result of changes in mix in Sonic's total business, in particular, expansion in anatomical pathology (through Aurora and Trier) which uses relatively less consumables.

d) Depreciation and lease amortisation

Depreciation and leased asset amortisation increased 6.3% on the comparative period (at Constant Currency rates) as a result of growth of the Company.

e) Intangibles amortisation

Intangibles amortisation relates to internally developed and purchased software. In the comparative period it also included ~A\$9M of amortisation of contract costs (including doctor contracts in SCS), however, under the new accounting standard AASB 15, this ceased from 1 July 2018.

f) Interest expense

Net interest expense reduced 1.7% on the prior year (at Constant Currency rates) reflecting lower net debt following the equity raisings related to the Aurora Diagnostics acquisition.

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). Bank debt drawn in Euro and CHF is currently subject to negative base interest rates, meaning that Sonic pays only the relevant margins under the facilities.

Interest rate hedging arrangements are in place in accordance with Sonic's Treasury Policy. About half of Sonic's drawn debt is subject to fixed rate coupons.

g) Tax expense

The effective tax rate of 23% reflects a concessional tax rate in Germany on the gain on sale of GLP Systems. Normalised for this benefit, the effective tax rate is 24.4%, in line with the guidance provided in August 2018 and February 2019 of ~25%, and in line with the prior year (once normalised for the one-off, non-cash net benefit of A\$20M related to the revaluing of US net deferred tax liabilities to the new US corporate tax rate of 21% in that year).

h) Cash flow from operations

Cash generated from operations was 10% higher than in the comparative period. Gross operating cash flow equated to 102% of EBITDA (after adjusting for non-operating cash items in EBITDA, being the gain on sale of GLP Systems, less the revenue accounting standard impact), a strong result, however, tax payments were substantially higher in the current period, reducing cash flow growth.

Directors' Report

OPERATING AND FINANCIAL REVIEW

Financial position

On 30 January 2019, Sonic completed the US\$540M (enterprise value, equivalent to ~A\$750M) acquisition of Aurora Diagnostics. Aurora is one of the leading anatomical pathology providers in the USA, with approximately 220 pathologists and 1,200 staff, operating 32 anatomical pathology practices across 19 US states. Aurora is the largest single acquisition ever made by Sonic, although it represents less than 10% of Sonic on any major metric (including revenue, profit, and enterprise value). Aurora generated pro-forma revenue and EBITDA of approximately US\$310M and US\$59M respectively in the 12 months to 30 September 2018. Aurora's contribution to Sonic's net profit after tax in 2019 was A\$22M.

Other business acquisitions completed in the year (none of which were material to Sonic) included Pathologie Trier, one of the largest (annual revenue of ~€20M) and most respected anatomical pathology practices in Germany (completed July 2018), and a number of other small healthcare businesses.

A significant component of the total consideration for these acquisitions was attributable to goodwill.

On 26 June 2019 Sonic divested its 85% shareholding in its laboratory automation subsidiary, GLP Systems, at an attractive valuation, returning approximately A\$130M of cash to Sonic. Sonic has not been a seller of businesses traditionally, however, after a decade of adding value to GLP Systems, the point was reached where its future lay more logically with Abbott as a major IVD equipment provider. GLP Systems' trading results were immaterial to Sonic, however the gain on sale after tax was A\$50M.

Sonic's net assets at 30 June 2019 of A\$5,492M increased by A\$1,209M, or 28%, on the prior year. The main components of this increase were:

- A\$928M from the issue of ordinary Sonic shares under an Institutional Placement and Shareholder Purchase Plan to fund the Aurora Diagnostics acquisition and future growth
- A\$37M from the issue of ordinary Sonic shares resulting from the exercise of employee options and rights
- A\$108M relating to net currency exchange rate translation impacts
- A\$156M due to retained earnings (operating profit less dividends paid and other adjustments)

Net (of cash) interest-bearing debt decreased A\$184M (7%) from the prior year level to A\$2,299M. This net decrease resulted from the (net) equity raised during the year of A\$944M, plus cash generated from operations and the sale of GLP Systems, net of A\$863M relating to payments for business acquisitions and A\$109M of currency exchange rate impacts.

Sonic's net interest-bearing debt at 30 June 2019 comprised:

	Facility Limit (M)	Drawn (M)	AUD (M) Available
Notes held by USA investors - USD (fixed coupons)	US\$405	US\$405	-
Notes held by USA investors - Euro (fixed coupons)	€515	€515	-
Bank debt facilities			
USD limits	US\$660	US\$560	143
Euro limits	€425	€267	256
AUD (Multicurrency) limits	A\$48	-	48
CHF limits	CHF317	CHF265 ⁺	76
Minor debt/leasing facilities	n/a	A\$4*	-
Cash	n/a	A\$(737)*	737
Available funds at 30 June 2019			1,260

⁺ Includes debt drawn in GBP (£59M)

* Various currencies

Directors' Report

OPERATING AND FINANCIAL REVIEW

Sonic is required to disclose A\$826M of debt drawn under facilities which expire before 30 June 2020 as a current liability as at 30 June 2019. As a result, the Balance Sheet shows a deficiency of working capital of A\$96M. Sonic intends to refinance this debt and foresees no difficulty in doing so, based on discussions with existing lenders and approaches from potential new lenders. Sonic also has significant headroom available in cash and undrawn facilities. The financial report has therefore been prepared on a 'going concern' basis.

Sonic's credit metrics at 30 June 2019 were as follows:

	30.6.19	31.12.18	30.6.18
Gearing ratio	29.5%	29.3%	36.7%
Interest cover (times)	10.5	10.0	10.1
Debt cover (times)	2.1	2.0	2.5

Definitions:

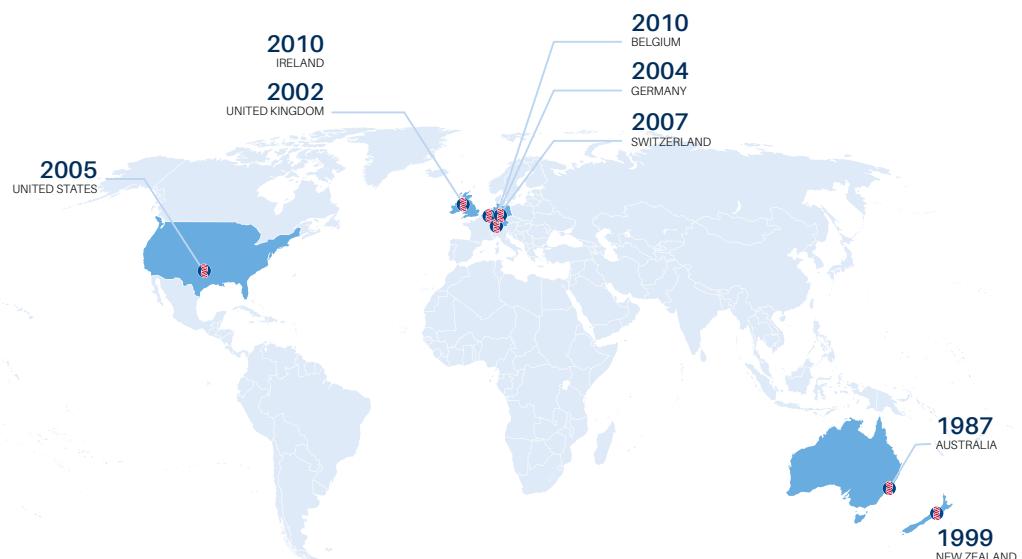
- Gearing ratio = Net debt/[Net debt + equity] (USPP note covenant limit <55%)
- Interest cover = EBITA/Net interest expense (bank covenant limit >3.25)
- Debt cover = Net debt/EBITDA (bank covenant limit <3.5)
- Calculations as per Sonic's senior debt facility definitions

Sonic's senior debt facility limits are 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)
2020	-	579	-	-
2021	-	250	-	192
2022	-	75	305	-
2023	48	161	120	125
2024	-	-	185	-
2026	-	-	245	-
2032	-	-	85	-
	48	1,065	940	317

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

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



Directors' Report

OPERATING AND FINANCIAL REVIEW

Business model and strategies

Since the early 1990s, Sonic Healthcare has consistently 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 that 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 and improved performance. Detailed benchmarking leading to best practice, group purchasing, IT, E-health, quality system sharing and centralisation of testing are all examples of continuous improvement 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 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. Similarly, hospital systems choose to partner with Sonic for laboratory services on the basis of Sonic's culture. 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 (including through winning laboratory outsourcing contracts) and to complete value-enhancing acquisitions and joint ventures, 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.

Directors' Report

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 and joint ventures. Organic growth in the markets in which Sonic participates has, and in Sonic's view is likely to continue to, average approximately 5% per annum over the long term. 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.

The Aurora Diagnostics acquisition represented a major step for Sonic into the US anatomical pathology market, which is estimated to be in excess of US\$10B per annum (in addition to ~US\$70B for the clinical laboratory market). It provides a strategic platform for future growth in the USA, not only in anatomical pathology, but also in clinical laboratory services and through hospital laboratory outsourcing. Aurora's practices have relationships with approximately 23,000 referring physicians and more than 100 hospitals. The 220 pathologists working in Aurora's practices will significantly enrich Sonic's Medical Leadership culture, providing further differentiation in the US market. Following the Trier acquisition, further anatomical pathology opportunities are also being targeted in Germany, addressing a €1B market (in addition to at least €4B for the clinical laboratory market). The strategy to expand in these two markets is underpinned by Sonic's deep anatomical pathology experience in other markets, especially Australia.

Within Sonic's existing eight countries of operation, future acquisitions are most likely to occur in the USA and Germany, given the size and fragmentation of those markets, although opportunities will also be targeted in Switzerland and Belgium. Sonic is not actively seeking laboratory acquisitions in Australia (due to potential anti-trust limitations), New Zealand or Ireland. In the UK, acquisitions are unlikely, as the market is dominated by the National Health Service (NHS) and Sonic is by far the largest private participant. However, substantial growth opportunities exist from potential NHS outsourcing contracts, including current bidding processes for contracts, with potential revenues totalling more than £150M per annum.

About half of the clinical laboratory market in the USA is represented by hospital laboratories, and Sonic has a strategy to seek to partner with hospital groups for their laboratory services. To date, Sonic has formed four joint ventures with US hospital groups, and further partnerships are anticipated.

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 medical centre businesses outside Australia.

Sonic intends to maintain a solid investment-grade profile with conservative leverage to preserve Sonic's reputation, 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.

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 but may be synergistic (GLP Systems was an example of this). 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.

With regard to more short-term prospects, on 20 August 2019 Sonic provided guidance in relation to forecast results for the 2020 financial year as follows:

Directors' Report

OPERATING AND FINANCIAL REVIEW

a) Guidance excluding the impact of AASB 16

Sonic expects underlying EBITDA growth of 6-8% for FY2020 on a Constant Currency basis (applying FY2019 average currency exchange rates to FY2020) over the FY2019 underlying EBITDA of A\$1,052M (base restated from A\$1,061M to A\$1,052M as the impact of the revenue accounting standard change will be considered 'underlying' in FY2020).

Net interest expense is expected to increase by ~3% from the FY2019 level of A\$79.4M on a Constant Currency basis, mainly as a result of a margin step-up on the US\$313M bridge facility associated with the Aurora acquisition, and expected higher margins on refinancing to occur in January 2020. In addition, the mix of debt has changed towards USD, which has a higher base rate than Sonic's other currencies.

Capital expenditure on property, plant and equipment is expected to be significantly lower in FY2020. The effective tax rate is expected to be approximately 25%.

Key guidance considerations:

- Excludes any future business acquisitions
- Incorporates known fee reductions in the USA equivalent to ~2% of total group EBITDA
- No other regulatory changes are assumed
- Current base interest rates are assumed to prevail
- Excludes the impact of the new lease accounting standard AASB 16, which is effective from 1 July 2019

b) Estimated impact of AASB 16 in FY2020

AASB 16 primarily impacts accounting by lessees, as it requires the recognition of right-of-use assets and lease liabilities for all leases unless the lease term is less than 12 months or the underlying asset is of a low value. Assets and liabilities arising from a lease are initially measured on a present value basis, including non-cancellable lease payments and any payments to be made in optional periods if the lessee is reasonably certain to extend the lease. Lease payments, previously expensed through the operating lease rental expense line in the Income Statement, will be replaced with a straight-line amortisation of the right-of-use asset and an interest expense from carrying the lease liability at present value. The standard is effective for Sonic's financial statements commencing from 1 July 2019.

A team of senior Sonic Finance staff are project managing the implementation of this standard. Work completed so far includes reviewing the current systems that the Group has for managing lease data, analysing contracts for evidence of embedded lease arrangements, policy development, modelling the potential financial impacts of the standard using current lease information, and selecting an AASB 16 compliant third party lease management software system. Work is well advanced on system implementation and business processes.

Note that the application of AASB 16 will not impact cash flows.

Using exchange rates as at 30 June 2019 for the balance sheet and FY2019 average rates (Constant Currency) for profit, Sonic estimates the impact on transition for AASB 16 to be:

- Lease liabilities to be recognised on 1 July 2019 of ~A\$1.2 billion
- Right-of-use assets to be recognised at similar or slightly lower level than lease liabilities
- FY2020 EBITDA to increase by ~A\$0.3 billion for leases in effect at 30 June 2019. The actual financial impact for FY2020 will vary for new leases entered into, or any lease modifications, that occur during the year
- A minor decrease in net profit for FY2020 due to the front-loading of interest expense

Sonic will apply the modified retrospective transition approach and therefore will not restate comparative periods.

The estimated impact of AASB 16 adoption as at 1 July 2019 is subject to change until Sonic presents its first financial statements under the new standards for the half year to 31 December 2019. In addition to statutory disclosures, Sonic will present its FY2020 results (half year and full year) such that the impacts of AASB 16 are easily identified and like-for-like comparisons with FY2019 can be made. Sonic's debt covenants will continue to be measured without the impact of AASB 16.

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 allows 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 joint ventures and long-term contracts to provide diagnostic testing. There is a risk that an acquisition, joint venture 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. In addition, the broad range of tests (~3,000) offered by Sonic's laboratories provides protection against new developments.
- 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 or damaged its reputation with them, 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 cybersecurity breach, could have significant operational, financial and/or reputational impacts, particularly if confidential patient data were to be obtained by unauthorised persons. Sonic implements strategies which management believes significantly reduce this risk.

Directors' Report

OPERATING AND FINANCIAL REVIEW

- Whilst individual events are unlikely to have any significant impact, inaccurate diagnostic results due to actual or alleged mistakes or errors could result in financial loss and/or reputational damage, particularly if the issue is systemic. Sonic maintains insurance cover to mitigate its financial exposure and has processes in place to manage reputational risks.
- 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.

After serious consideration, Sonic's Board does not believe the Company has any material exposure to environmental or social sustainability risks, given the industries and geographies in which it operates. Whilst Sonic has operations in the UK, the nature of those operations are such that Brexit is not considered a material risk to Sonic (however precautions are planned to be taken to further reduce any 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



Directors' Report

INFORMATION ON DIRECTORS

a) Directors' profiles



Professor Mark Compton AM

Chairman

BSc, MBA, FAICD, FCHSM, FAIM, FRS (NSW)

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 ASX-listed Next Science Limited and non-executive Chairman of not-for-profit organisations St Luke's Care and the Order of St John (St John Ambulance). His previous experience includes Chief Executive Officer of each of St Luke's Care, Immune Systems Therapeutics Limited and the Royal Flying Doctor Service of Australia. He was also Chief Executive Officer and Managing Director of the formerly ASX-listed companies SciGen Limited and Alpha Healthcare Limited. Prof. Compton has also held a number of non-executive director roles, including for formerly ASX-listed Independent Practitioner Network Limited, Chairman of the Woolcock Institute of Medical Research, non-executive Director of Macquarie University Hospital and Chairman and Chancellor of St John Ambulance Australia (having served as a volunteer for more than 45 years). 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 by Her Majesty the Queen as a Knight in the Order of St John in 2004 and as 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.



Christopher Wilks

Finance Director

BCom, 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.

Directors' Report

INFORMATION ON DIRECTORS



Dr Philip Dubois

MBBS, 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).



Neville Mitchell

BCom, CA
Non-executive, independent Director, appointed September 2017

Mr Mitchell is a qualified Chartered Accountant with international healthcare and finance experience. He was Chief Financial Officer and Company Secretary of ASX-listed Cochlear Limited (until March 2017), a world-leading medical device developer, manufacturer and seller of hearing devices. Mr Mitchell was a key member of Cochlear's executive team, responsible for the setting and execution of the company's growth strategy from its listing in 1995 until his resignation.

Mr Mitchell currently holds non-executive director roles with ASX-listed healthcare companies Fisher and Paykel Healthcare Corporation Limited (from November 2018) and Osprey Medical Inc. (from July 2012). He is a non-executive Director of QBiotics (from November 2017), an unlisted public company, and a member of the Australian Board of Taxation. Mr Mitchell was previously a non-executive Director of ASX-listed Sirtex Medical Limited (from April 2017 to September 2018). He has also previously performed roles with a number of industry and government committees, including Chairman of the Group of 100 (Australia's peak body for senior finance executives), and Chairman, Standing Committee (Accounting and Auditing), for the Australian Securities and Investments Commission (ASIC). Mr Mitchell is a member of the Audit Committee and the Risk Management Committee.



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 Avita Medical Limited (non-executive Chairman from July 2014) and Rhythm Biosciences Limited (non-executive Director from August 2017). He is also a non-executive Director of Unison Housing Limited, Invictus Biopharma Limited and NeuralDx Limited. Mr Panaccio was the Chief Executive Officer and executive Director of Melbourne Pathology (acquired by Sonic in 1999) for 10 years to 2001, the Chief Executive Officer of Monash IVF until 2009 and the executive Chairman of Health Networks Australia until 2017. He was also a non-executive Director of ASX-listed Genera Biosystems Limited from November 2010 until 28 June 2019 (Chairman from July 2011 until 28 June 2019). Mr Panaccio is Chair of the Audit Committee, a member of the Remuneration and Nomination Committee, and a member of the Risk Management Committee.

Directors' Report

INFORMATION ON DIRECTORS



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 20 years and her current directorships include the ASX-listed companies CIMIC Group Limited (from September 2017), Adairs Limited (from May 2015) and Sigma Healthcare Limited (from December 2015). She is also a non-executive Director of Colinvest Limited, the Future Fuels Cooperative Research Centre, and Geelong Football Club Limited. Ms Spargo was previously a non-executive Director of Fletcher Building Limited (March 2012 to September 2017), UGL Limited (October 2010 to January 2017) and Xenith IP Group Limited (from April 2017 until 15 August 2019). Ms Spargo is Chair of the Remuneration and Nomination Committee and is a member of the Audit Committee.



Dr Jane Wilson

MBBS, 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. Dr Wilson is currently a Guardian of the Future Fund, non-executive Director of ASX-listed companies Transurban Group (since January 2017) and Costa Group Holdings Limited (from April 2019), and a non-executive Director of the General Sir John Monash Foundation. She is also Co-Chair of the Australian Government Advisory Board on Technology and Healthcare Competitiveness. Dr Wilson was Deputy Chancellor of the University of Queensland and has previously served on boards of ASX-listed companies, government-owned corporations and not-for-profit companies.

Dr Wilson was awarded the 2016 Australian Institute of Company Directors Queensland Gold Medal Award for contribution to business and the wider community. She holds a Bachelor of Medicine and an Honorary Doctor of Business from the University of Queensland and an MBA from the Harvard Business School. Dr Wilson is Chairman of the Risk Management Committee and is a member of the Remuneration and Nomination Committee.

■ Directors' Report

INFORMATION ON DIRECTORS

b) Company Secretary



Paul Alexander

BEC, CA, FFin

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 25 September 2019

Director's name	Class of shares	Number of shares	Interest	Number of options	Number of performance rights
Dr C.S. Goldschmidt	Ordinary	719,690	Personally	1,349,406*	142,932*
C.D. Wilks	Ordinary	565,735	Personally	587,833*	63,500*
	Ordinary	85,190	Beneficially	-	-
Prof. M.R. Compton	Ordinary	459	Personally	-	-
	Ordinary	7,052	Beneficially	-	-
Dr P.J. Dubois	Ordinary	8,770	Beneficially	-	-
N. Mitchell	Ordinary	9,770	Beneficially	-	-
L.J. Panaccio	Ordinary	6,026	Beneficially	-	-
K.D. Spargo	Ordinary	3,000	Personally	-	-
	Ordinary	16,000	Beneficially	-	-
Dr E.J. Wilson	Ordinary	3,770	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. 255,008 of Dr C.S. Goldschmidt's and 101,633 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 2019, and the numbers of meetings attended by each Director (for Committees, while they were a member of the relevant Committee) were:

Director's name	Full meetings of Directors		Meetings of Committees					
	Number of meetings attended	Number of meetings held	Audit		Remuneration and Nomination		Risk Management	
Dr C.S. Goldschmidt	13	13	-	-	-	-	3	3
C.D. Wilks	13	13	-	-	-	-	-	-
Prof. M.R. Compton	13	13	5	5	4	4	-	-
Dr P.J. Dubois	13	13	-	-	-	-	-	-
N. Mitchell	13	13	5	5	-	-	3	3
L.J. Panaccio	13	13	5	5	4	4	3	3
K.D. Spargo	13	13	5	5	4	4	-	-
Dr E.J. Wilson	13	13	-	-	4	4	3	3

Directors' Report

INSURANCE OF OFFICERS

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

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

ENVIRONMENTAL REGULATION

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

NON-AUDIT SERVICES

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

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

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

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 47.

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

	2019	2018
	\$	\$
PricewaterhouseCoopers - Australian firm and related practices (including overseas PricewaterhouseCoopers firms)		
Taxation and accounting services	263,575	279,000

Directors' Report

SHARE OPTIONS

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

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 2019 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 22 November 2017, shareholders approved a maximum amount of \$2,000,000 for remuneration of Non-executive Directors, of which \$1,376,000 was paid in 2019. In 2019 the Chairman's annual remuneration was \$425,000, inclusive of all Board Committee work, and the base Non-executive Director fee was \$185,000. Board Committee fees were as follows:

Fees per annum	Chair	Members
Audit	\$40,000	\$20,000
Risk Management	\$30,000	\$15,000
Remuneration and Nomination	\$35,000	\$18,000

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

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*

N. Mitchell

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, other than N. Mitchell (from 29 September 2017), were also key management personnel through the year ended 30 June 2018.

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'.

Directors' Report

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):

	2015	2016	2017	2018	2019	Compound Average Annual Growth Rate ¹
Growth in Underlying EBITDA (excluding non-recurring items and on a constant currency basis)	(1.9)%	13.8%	5.3%	6.4%	6.7%	5.8%
Growth in EBITDA (on a constant currency basis)	(6.2)%	20.5%	2.5%	7.3%	9.5%	6.2%
Net profit attributable to members (\$'000)	347,698	451,374	427,773	475,606	549,725	7.4%
Diluted earnings per share (cps)	86.0	109.3	102.1	112.2	122.1	5.0%
Dividends paid per share (cps)	69	71	75	78	82	5.1%
Enterprise value ² (\$'000)	10,566,549	11,229,432	12,588,332	12,900,794	15,143,172	11.8%
Total shareholder return ³	90.0%	63.0%	56.1%	23.1%	40.7%	
Change in total cash remuneration of executives ⁴	(1.2)%	44.3%	10.6%	(0.1)%	7.9%	11.2%
Change in total remuneration of executives ⁵	(9.8)%	34.4%	21.2%	13.1%	(6.3)%	9.3%

¹ The compound average annual growth rate is calculated over the five-year period shown with 2014 as the base year.

² Enterprise value is the Company's market capitalisation (number of issued shares times closing share price) plus net interest-bearing debt at 30 June.

³ Total shareholder return is calculated over a rolling three-year performance period and assumes dividend reinvestment.

⁴ 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).

⁵ 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 applied to 75% (70% in previous years) of the target short-term incentives (STI) for the Managing Director and Finance Director was met. In the base year (2014) for the Compound Average Annual Growth Rate (CAGR), the minimum EBITDA growth rate was not met, setting a low base for the CAGR calculations. Total remuneration has also fluctuated depending upon whether elements of equity-based remuneration have met challenging (non-market based) performance conditions. Over the five-year period, total remuneration has increased to reward the key management personnel for their part in delivering strong Total Shareholder Returns. Total Shareholder Return over the five-year period was 86.6%.

Directors' Report

REMUNERATION REPORT

The chart below shows the Company's share price (SHL.AX) performance over the five years to 30 June 2019, versus the relative performance of the ASX 200.

Sonic Healthcare 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 2019	Short-term employee benefits			Post-employment benefits	
	Salary & fees	Other benefits ¹	Short-term incentives (STI)	Superannuation	Total cash remuneration ²
Director's name	\$	\$	\$	\$	\$
Dr C.S. Goldschmidt Managing Director	2,377,103	-	3,140,907	20,531	5,538,541
C.D. Wilks Finance Director	1,069,209	-	1,366,140	20,531	2,455,880
Dr P.J. Dubois Director	787,808	2,317	-	23,875	814,000
Prof. M.R. Compton Chairman and Non-executive Director	404,469	-	-	20,531	425,000
N. Mitchell Non-executive Director	200,913	-	-	19,087	220,000
L.J. Panaccio Non-executive Director	237,469	-	-	20,531	258,000
K.D. Spargo Non-executive Director	219,469	-	-	20,531	240,000
Dr E.J. Wilson Non-executive Director	212,785	-	-	20,215	233,000

¹Other benefits include fringe benefits tax

²Excludes long service leave accruals and equity-based remuneration

Directors' Report

REMUNERATION REPORT

12 months to 30 June 2018	Short-term employee benefits			Post-employment benefits	
	Salary & fees	Other benefits ¹	Short-term incentives (STI)	Superannuation	Total cash remuneration ²
Director's name	\$	\$	\$	\$	\$
Dr C.S. Goldschmidt Managing Director	2,377,585	-	2,690,155	20,049	5,087,789
C.D. Wilks Finance Director	1,069,691	-	1,170,085	20,049	2,259,825
Dr P.J. Dubois Director	780,623	8,170	-	25,207	814,000
Prof. M.R. Compton Chairman and Non-executive Director	404,951	-	-	20,049	425,000
N. Mitchell (from 29 September 2017) Non-executive Director	150,685	-	-	14,315	165,000
L.J. Panaccio Non-executive Director	237,951	-	-	20,049	258,000
K.D. Spargo Non-executive Director	219,951	-	-	20,049	240,000
Dr E.J. Wilson Non-executive Director	212,951	-	-	20,049	233,000

¹ Other benefits include fringe benefits tax

² Excludes long service leave accruals and equity-based remuneration

In addition to the cash remuneration disclosed above, the value of long service leave accrued for each relevant executive for the 12 months to 30 June 2019 was: Dr C.S. Goldschmidt \$39,028 (2018: \$39,289) and C.D. Wilks \$17,626 (2018: \$17,689).

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 2019 was \$703,246 (2018: \$1,623,263), and for C.D. Wilks it was \$306,067 (2018: \$692,299). The options and performance rights are subject to challenging vesting conditions and only 35.4% (2018: 46.5%) of the options and performance rights with a performance measurement period for three years to 30 June 2019 (2018: three years to 30 June 2018) satisfied the vesting conditions.

The equity-based remuneration amounts disclosed for 2019 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/right, the impact of dilution, the non-tradeable nature of the option/right, 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/right. 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 2019.

Directors' Report

REMUNERATION REPORT

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
2019		
Options 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 options issued to be forfeited) with a \$11.43 exercise price	397,894	198,947
Performance rights issued in November 2015 as remuneration for periods to 30 June 2018 (having vested after satisfying challenging performance conditions which caused 53.5% of the total rights issued to be forfeited) with a nil exercise price	30,585	12,190
2019 Total intrinsic value of options and rights at the date of exercise	\$6,334,881	\$3,096,362
2018		
Options 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 options issued to be forfeited) with a \$11.43 exercise price	434,084	217,042
Performance rights issued in November 2014 as remuneration for periods to 30 June 2017 (having vested after satisfying challenging performance conditions which caused 64.6% of the total rights issued to be forfeited) with a nil exercise price	25,344	10,101
2018 Total intrinsic value of options and rights at the date of exercise	\$4,890,298	\$2,389,410

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 61% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2019 (2018: 64%), and 60% of C.D. Wilks' remuneration for the 12 months to 30 June 2019 (2018: 63%). Within these components, the calculated value of options and performance rights over unissued ordinary shares in Sonic Healthcare Limited accounted for 11% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2019 (2018: 24%) and 11% of C.D. Wilks' remuneration for the 12 months to 30 June 2019 (2018: 23%).

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 2019 as part of remuneration was \$1,700,550 for Dr C.S. Goldschmidt and \$755,501 for C.D. Wilks.

Directors' Report

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 are reviewed annually by the Remuneration and Nomination Committee, usually based on market benchmarking analysis and information on possible remuneration arrangements obtained from Ernst & Young, who are directly engaged by the Committee as independent remuneration consultants. Ernst & Young consider the level of total and individual components of remuneration and make 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 42 companies in the latest review.
- 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 20 companies in the latest review.

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

The Committee has determined that Total Target Remuneration (TTR) for Dr C.S. Goldschmidt should be positioned around the 75th percentile of the comparator groups and Total Target Remuneration for C.D. Wilks should be positioned around the 80th percentile of the comparator groups, reflecting the broader than usual role he performs as Finance Director and CFO. In making these determinations, the Committee considered 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 since their appointment.

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
				\$	
Dr C.S. Goldschmidt					
2018	2,690,155	102.0%	2,637,397	2,397,634	2,629,971
2019	3,140,907	119.1%	2,637,397	2,397,634	2,629,971
C.D. Wilks					
2018	1,170,085	102.0%	1,147,138	1,089,740	1,168,399
2019	1,366,140	119.1%	1,147,138	1,089,740	1,168,399

Target remuneration was not increased for 2018 or 2019.

Directors' Report

REMUNERATION REPORT

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.

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) of the executives' fixed remuneration.

Up to 75% 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 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 1% (2018: 2%) for the purpose of the performance assessment.

Up to 25% 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)

In 2018, the split of the STI was 70%/30% quantitative/qualitative, however, this was changed to 75%/25% for 2019 as the Board was of the view that given the known strengths of these long-serving executives in the qualitative factors, more emphasis should be placed on financial outcomes.

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.

The underlying EBITDA growth target for 2019 was 4.0% (the mid-point of Sonic's earnings growth guidance given to the market in August 2018). Underlying EBITDA growth of 6.7% was achieved in 2019, however this included contributions from acquisitions that were not known in setting the growth target. The 1% cap on these contributions reduced the growth rate to 4.7% for the purpose of the performance assessment, resulting in 108.8% of the relevant 75% 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 75% of target STI). In 2018, 102.9% of the relevant 70% of target STI was paid.

In relation to the qualitative performance assessment, it was determined to award 150% (the maximum possible) of the relevant 25% of target STI for 2019. This was the first year ever that more than 100% has been awarded (2018: 100% of the relevant 30%). The Board was not only satisfied that the executives performed very strongly in the usual areas of assessment during the year, but 2019 was a standout year for Sonic in which the executives secured the Aurora Diagnostics acquisition, an extremely important strategic step for Sonic in the USA and the largest acquisition in the Company's history, successfully conducted Sonic's largest ever equity raisings, and crystallised significant value created over a decade with the sale of GLP Systems (note that the A\$50 million gain on sale was excluded from underlying EBITDA growth for the purpose of the quantitative portion of the STI).

Directors' Report

REMUNERATION REPORT

iii) Long-Term Incentives (LTI)

Dr C.S. Goldschmidt and C.D. Wilks receive annual grants of equity-based remuneration in the form of options and performance rights over shares in Sonic Healthcare Limited (conditional on approval by shareholders), subject to performance conditions with measurement periods of three years. Annual grants allow 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 2015, 2016, 2017 and 2018 Annual General Meetings, the executives were issued the following LTI (the 'FY2016 Issue', 'FY2017 Issue', 'FY2018 Issue' and 'FY2019 Issue'):

	FY2016 Issue		FY2017 Issue		FY2018 Issue		FY2019 Issue	
	Dr C.S. Goldschmidt	C.D. Wilks						
Options over shares in Sonic Healthcare Limited	548,404	218,565	464,659	206,430	467,467	207,678	462,372	205,415
Performance rights over shares in Sonic Healthcare Limited	65,774	26,214	60,822	27,021	60,766	26,996	60,626	26,934
	FY2016 Issue		FY2017 Issue		FY2018 Issue		FY2019 Issue	
Options exercise price	\$19.41		\$21.62		\$21.64		\$21.69	
Performance condition measurement period	3 years to 30 June 2018		3 years to 30 June 2019		3 years to 30 June 2020		3 years to 30 June 2021	
Earliest vesting date, if performance conditions are met	20 November 2018		17 November 2019		22 November 2020		21 November 2021	
Expiry date	20 November 2020		17 November 2021		22 November 2022		21 November 2023	
Fair value of each option at grant date	\$1.45		\$2.31		\$1.89		\$1.96	
Fair value of each right at grant date	\$13.00		\$14.73		\$12.97		\$13.09	

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 five-day Average market Price (five-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 five-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.

Of the Issues described above, only the FY2016 Issue options and performance rights had vested or been forfeited at 30 June 2019.

Directors' Report

REMUNERATION REPORT

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 percentile	Nil options and rights to which PC1 applies
51st percentile	50% of options and rights to which PC1 applies
Greater than 51st and less than 75th percentile	Pro rata between 50% and 100% of options and rights to which PC1 applies
75th percentile and above	100% of options and rights to which PC1 applies

Under PC1, Sonic's performance is ranked by percentile according to its TSR against the TSRs of the component companies of the reference group (being the S&P ASX 100 Accumulation Index, excluding Banks and Resource companies) over the relevant performance periods.

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 2015 to 30 June 2018	33%	-	-	-	383,484	45,994
1 July 2016 to 30 June 2019	61%	70.83%	237,666	31,110	97,879	12,812

Performance Condition 2 (PC2) - Compound Average Growth Rate (CAGR) in Earnings Per Share (EPS)

Weighting: FY2016 Issue: 50%, FY2017 Issue: 0%, FY2018 Issue: 0%, FY2019 Issue: 0%

CAGR EPS	Percentage of Options and Rights that vest
Less than 4% p.a.	Nil options and rights to which PC2 applies
4% p.a.	40% of options and rights to which PC2 applies
Greater than 4% and less than 10% p.a.	Pro rata between 40% and 100% of options and rights to which PC2 applies
10% p.a. or greater	100% of options and rights to which PC2 applies

EPS was 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 was chosen as a hurdle, as it is a direct measure of Company performance and maintains a strong correlation with long-term shareholder return.

Directors' Report

REMUNERATION REPORT

PC2 (EPS) Results						
Performance measurement period	Actual CAGR EPS	% Eligible to Vest	Vesting Options	Vesting Performance Rights	Forfeited Options	Forfeited Rights
1 July 2015 to 30 June 2018	9.3%	93%	356,641	42,775	26,844	3,219

Performance Condition 3 (PC3) - Aggregate Earnings Per Share (EPS) Growth

Weighting: FY2016 Issue: 0%, FY2017 Issue: 50%, FY2018 Issue: 25%, FY2019 Issue: 25%

This hurdle is measured by comparing the Company's aggregate EPS over three 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. EPS is calculated on a 'Constant Currency' basis (other than for the FY2017 Issue), using the same exchange rates each year to convert the financial year foreign earnings into AUD as applied in the base financial year, being the average rates for that year. Using a Constant Currency measure of EPS removes volatility from exchange rate movements that are out of the control or influence of the executives. 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 PC3 that vest will be as follows:

Aggregate EPS (cents) for 3 years ending	2019	2020	2021	Percentage of Options and Rights that vest
Less than	355	331	364	Nil options and rights to which PC3 applies
Equal to	355	331	364	40% of options and rights to which PC3 applies
Between	355-398	331-372	364-408	Pro rata between 40% and 100% of options and rights to which PC3 applies
Equal to or greater than	398	372	408	100% of options and rights to which PC3 applies

The hurdle levels equate to compound annual growth of 4-10% over the base year EPS.

PC3 (Aggregate EPS) Results						
Performance measurement period	Actual EPS	% Eligible to Vest	Vesting Options	Vesting Performance Rights	Forfeited Options	Forfeited Rights
1 July 2016 to 30 June 2019	336.4	-	-	-	335,544	43,921

Directors' Report

REMUNERATION REPORT

Performance Condition 4 (PC4) – Target Average Return on Invested Capital (ROIC)

Weighting: FY2016 Issue: 0%, FY2017 Issue: 0%, FY2018 Issue: 25%, FY2019 Issue: 25%

ROIC is calculated as Earnings before Interest and Tax (EBIT), less related tax and minority interests, divided by average capital employed (see below for detailed calculation). It is expressed as a percentage. ROIC has been chosen as a performance hurdle, as the Board believes that a primary focus in coming years should be improvement in the return from the substantial investments the Company has made into its businesses.

ROIC = (EBIT¹ less minority interests² less cash taxes paid in year³) / Average⁴ invested capital⁵

¹ EBIT is statutory EBIT per the Annual Report.

² Minority interests are as disclosed in the Income Statement of the Annual Report.

³ 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).

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

⁵ Invested capital is measured as shareholders' equity plus net interest-bearing debt less deferred taxes.

The Board sets a ROIC target at the beginning of each measurement year, taking into account market conditions and company-specific factors at the time. The ROIC target for the first year (2018) was 8.3%. 2018 ROIC achieved was 8.6%. The ROIC target for 2019 was 8.6% (equal to FY2018, as the Board was aware of factors (including business acquisitions completed in July 2018) which would dilute ROIC in FY2019). 2019 ROIC achieved was 8.7%. After completion of the three-year measurement period, the average of the actual ROIC over the three years will be compared to the average of the three ROIC targets ('Target Average ROIC').

Measurement of the average actual ROIC will exclude any significant uncontrollable or one-off events, and the initial impact of business development initiatives, as approved by the Board.

The percentage of options and performance rights subject to PC4 that vest will be as follows:

Average ROIC over 3 years	Percentage of Options and Rights that vest
Less than Target Average ROIC	Nil options and rights to which PC4 applies
Equal to Target Average ROIC	40% of options and rights to which PC4 applies
Greater than Target Average ROIC and less than 110% of Target Average ROIC	Pro rata between 40% and 100% of options and rights to which PC4 applies
110% of Target Average ROIC or greater	100% of options and rights to which PC4 applies

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.

Directors' Report

REMUNERATION REPORT

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 2018	Issued during the 2019 year	(Forfeited) during the 2019 year	(Exercised) during the 2019 year	Balance at 30 June 2019	(Forfeited) since year end	Vested and exercisable at 30 June 2019
Dr C.S. Goldschmidt	2,057,230	462,372	(293,396)	(397,894)	1,828,312	(300,100)	433,814
C.D. Wilks	902,883	205,415	(116,932)	(198,947)	792,419	(133,323)	172,896

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 2018	Issued during the 2019 year	(Forfeited) during the 2019 year	(Exercised) during the 2019 year	Balance at 30 June 2019	(Forfeited) since year end	Vested and exercisable at 30 June 2019
Dr C.S. Goldschmidt	187,362	60,626	(35,189)	(30,585)	182,214	(39,282)	-
C.D. Wilks	80,231	26,934	(14,024)	(12,190)	80,951	(17,451)	-

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 2018	Issued during the 2019 year on the exercise of options or rights	Shares provided as remuneration during the 2019 year	Other changes during the 2019 year	Balance at 30 June 2019
Dr C.S. Goldschmidt	760,299	428,479	-	(397,894)	790,884
C.D. Wilks	686,702	211,137	-	(198,177)	699,662
Prof. M.R. Compton	6,741	-	-	770	7,511
Dr P.J. Dubois	8,000	-	-	770	8,770
N. Mitchell	5,000	-	-	4,770	9,770
L.J. Panaccio	5,256	-	-	770	6,026
K.D. Spargo	15,000	-	-	4,000	19,000
Dr E.J. Wilson	3,000	-	-	770	3,770

Directors' Report

REMUNERATION REPORT

f) Transactions with key management personnel

There were no other transactions with key management personnel during 2019 or 2018.

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 2019 (2018: \$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, five 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 2019, 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 2018 Annual General Meeting

More than 94% of votes cast on a poll on Sonic Healthcare Limited's Remuneration Report for the 2018 financial year were in favour.

■ Directors' Report

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



Dr C.S. Goldschmidt
Director



C.D. Wilks
Director

Sydney
25 September 2019



Auditor's Independence Declaration

As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2019, 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 "Brett Entwistle".

Brett Entwistle
Partner
PricewaterhouseCoopers

Sydney
25 September 2019

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

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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
- 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 25 September 2019, 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 complied with the third edition during the 2019 financial year. For the 2020 financial year, Sonic intends to report against the fourth edition of the Corporate Governance Principles and Recommendations, which was released in February 2019. Sonic's Board believes Sonic has been in compliance with the fourth edition from 1 July 2019. Sonic's website (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 (replaced from 1 July 2019 with Sonic's Code of Conduct) 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 2019 financial year. Any issues of non-compliance with the Recommendations are specifically noted and explained.

Corporate Governance Statement

1. BOARD OF DIRECTORS

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

a) Role of the Board

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

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

The Board's overall responsibilities include:

- demonstrating leadership at strategic and cultural levels
- 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
- 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:

Director's name	Age	Term of office (Years)	Position	Expertise	Committees
Prof. Mark Compton	58	5	Chairman, Non-executive, independent Director	Healthcare industry and company management	Member of Audit Committee and Remuneration and Nomination Committee
Dr Colin Goldschmidt	65	26	Managing Director, Chief Executive Officer	Healthcare industry and company management. Pathologist	Member of Risk Management Committee
Mr Chris Wilks	61	29	Finance Director, Chief Financial Officer	Finance, strategy, accounting, banking, secretarial and company management	
Dr Philip Dubois	73	18	Executive Director, Chief Executive Officer - Sonic Imaging	Diagnostic imaging industry and company management. Radiologist	
Mr Neville Mitchell	60	2	Non-executive, independent Director	Finance, tax, international healthcare and company management	Member of Audit Committee and Risk Management Committee
Mr Lou Panaccio	62	14	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	67	9	Non-executive, independent Director	Law, governance and company oversight	Chair of Remuneration and Nomination Committee and member of Audit Committee
Dr Jane Wilson	61	9	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 which Sonic seeks to acquire. The Board currently comprises five 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, tax 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

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 twelve 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 (with input from the Remuneration and Nomination Committee) regularly reviews its succession planning. A matrix is used to guide the assessment of the current Directors, and to identify desirable characteristics for future appointments. The matrix is as follows:

- | | |
|---|---|
| <ul style="list-style-type: none">■ Medical practitioners■ Industry-specific management experience■ Leadership experience (preferably CEO level)■ Experience on other listed entity boards■ Strategy and business development■ Strategic focus■ Medical technology development■ Financial acumen, including taxation knowledge■ Banking/treasury experience | <ul style="list-style-type: none">■ Risk management■ Corporate governance■ Legal■ International experience■ People management and remuneration■ Acquisitions and mergers■ Gender diversity■ Tenure diversity |
|---|---|

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

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, a 5-week window following the Annual General Meeting, 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 shareholdings 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 \$2,000,000 per annum, as approved by shareholders in November 2017. The total amount paid to Non-executive Directors in the 2019 financial year was \$1,376,000. 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
Mr N. Mitchell
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, including in relation to taxation
 - compliance with the policy framework in place from time to time
 - 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. The Committee meets at least twice per year.

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 per 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 both the Chair of the Audit Committee and 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 N. Mitchell

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
 - reputation risks
 - operational risks, including clinical risks, 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, inclusive and productive environment that is free from discrimination and harassment based on race, colour, religion, political beliefs, gender, gender identity, socio-economic or cultural background, perspective, experiences, sexual orientation, marital or family status, 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 Managing Director 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 2019 was:

	2019	2018
Non-executive Directors of Sonic Healthcare Limited	40%	40%
Directors of Sonic Healthcare Limited	25%	25%
Executive staff of the Group⁺	36%	34%
Other senior leadership positions	57%	57%
Total senior leadership positions*	53%	53%
All employees	75%	75%

⁺ 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 2019. In addition, the Company has the objective to have not less than 30% female representation on the Board by June 2021.

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 Sonic's Corporate Responsibility Reports 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 (including taxation 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
- 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
- central team for management of taxation-related risks
- 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's Core Values, a uniting code of conduct embraced by Sonic employees
- centrally administered Group insurance program, ensuring a consistent and adequate approach across all operating areas
- 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

From July 2019 the control environment also included Sonic's Code of Conduct and Global Whistleblower Policy.

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 is required to meet and remain compliant with set performance criteria determined by government and industry bodies.

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

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

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

d) Managing Director and Finance Director certification

Sonic has adopted a policy requiring the Managing Director and the Finance Director to provide the Board with written certification in relation to its financial reporting processes. For the 2019 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
- 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 (replaced from July 2019 by Sonic's Code of Conduct) 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
- Labour Standards and Human Rights Policy
- Supplier Code of Conduct
- Taxation Governance Statement
- Global Whistleblower Policy (from July 2019)
- Diversity Policy
- Workplace Health and Safety Policy
- Privacy Policy
- 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 ahead of the presentation.

The Company's investor relations program facilitates effective two-way communication with investors and analysts. In addition to large/institutional investors, the Company seeks to engage with retail shareholder groups, including meeting with representatives of the Australian Shareholders' Association at least annually. 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), 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
- 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. All shareholder enquiries are responded to in a fair and respectful manner.

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 and all substantive resolutions are decided by a poll.

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
- 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

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 2019 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's Core Values, Foundation Principles, Federation model and culture of Medical Leadership
- corporate governance and compliance
- risk management
- external standing and reputation (including stakeholder management, brand and quality)
- 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 and other senior managers at least annually (including during the 2019 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 2019. 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. 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.

Income Statement

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019	2018
		\$'000	\$'000
Revenue from operations	3	6,133,671	5,541,371
Other income	3	50,385	-
Total		6,184,056	5,541,371
Labour and related costs		(2,848,122)	(2,543,798)
Consumables used		(995,288)	(918,211)
Operating lease rental expense		(351,909)	(334,451)
Depreciation and amortisation of physical assets		(209,856)	(191,809)
Repairs and maintenance		(169,130)	(151,661)
Transportation		(158,562)	(137,808)
Utilities		(139,017)	(126,509)
Borrowing costs		(86,063)	(78,444)
Amortisation of intangibles		(63,288)	(64,229)
Other expenses from ordinary activities		(440,564)	(377,470)
Profit from ordinary activities before income tax expense		722,257	616,981
Income tax expense		(163,188)	(131,916)
Profit from ordinary activities after income tax expense		559,069	485,065
Net (profit) attributable to minority interests		(9,344)	(9,459)
Profit attributable to members of Sonic Healthcare Limited		549,725	475,606

		Cents	Cents
Basic earnings per share	6	122.5	112.6
Diluted earnings per share	6	122.1	112.2

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

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	\$'000	\$'000
Profit from ordinary activities after income tax expense	559,069	485,065
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	109,109	92,068
<i>Items that will not be reclassified to profit or loss</i>		
Actuarial (losses) on retirement benefit obligations	(22,203)	(278)
Other comprehensive income for the period, net of tax	86,906	91,790
Total comprehensive income for the period	645,975	576,855
Total comprehensive income attributable to:		
Members of Sonic Healthcare Limited	634,016	561,824
Minority interests	11,959	15,031
645,975	576,855	

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

Balance Sheet

AS AT 30 JUNE 2019

	2019	2018
	\$'000	\$'000
Current assets		
Cash and cash equivalents	736,646	313,268
Receivables	827,932	747,355
Inventories	119,673	106,780
Other	68,933	64,306
Total current assets	1,753,184	1,231,709
Non-current assets		
Receivables	40,201	23,916
Other financial assets	88,135	40,471
Property, plant and equipment	1,268,319	1,155,481
Intangible assets	6,764,738	5,722,188
Deferred tax assets	39,166	25,755
Other	6,091	1,414
Total non-current assets	8,206,650	6,969,225
Total assets	9,959,834	8,200,934
Current liabilities		
Payables	627,311	519,290
Interest-bearing liabilities	826,004	3,752
Current tax liabilities	125,455	103,196
Provisions	222,321	207,619
Other	48,293	34,006
Total current liabilities	1,849,384	867,863
Non-current liabilities		
Interest-bearing liabilities	2,209,595	2,792,297
Deferred tax liabilities	151,116	120,795
Provisions	139,550	114,431
Other	118,323	22,623
Total non-current liabilities	2,618,584	3,050,146
Total liabilities	4,467,968	3,918,009
Net assets	5,491,866	4,282,925
Equity		
Parent entity interest		
Contributed equity	3,966,892	3,005,875
Reserves	146,275	27,889
Retained earnings	1,299,163	1,143,643
Total parent entity interest	5,412,330	4,177,407
Minority interests	79,536	105,518
Total equity	5,491,866	4,282,925

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2019

	Share capital	Reserves	Retained earnings	Total	Minority interests	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2017	2,885,615	(53,020)	996,791	3,829,386	96,744	3,926,130
Profit for period	-	-	475,606	475,606	9,459	485,065
Other comprehensive income for the period	-	86,496	(278)	86,218	5,572	91,790
Total comprehensive income for the period	-	86,496	475,328	561,824	15,031	576,855
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(328,476)	(328,476)	-	(328,476)
Shares issued	118,284	(7,461)	-	110,823	-	110,823
Transaction costs on shares issued net of tax	(66)	-	-	(66)	-	(66)
Transfers to share capital	2,573	(2,573)	-	-	-	-
Share-based payments	-	4,742	-	4,742	-	4,742
Acquisition of treasury shares	(499)	-	-	(499)	-	(499)
Allocation of treasury shares	(32)	(9)	-	(41)	-	(41)
Contribution from minority interests	-	-	-	-	(940)	(940)
Acquisition of minority interests	-	(286)	-	(286)	1,121	835
Dividends paid to minority interests	-	-	-	-	(6,438)	(6,438)
Balance at 30 June 2018	3,005,875	27,889	1,143,643	4,177,407	105,518	4,282,925
Change in accounting standards	-	-	(6,890)	(6,890)	-	(6,890)
Restated balance at 1 July 2018	3,005,875	27,889	1,136,753	4,170,517	105,518	4,276,035
Profit for period	-	-	549,725	549,725	9,344	559,069
Other comprehensive income for the period	-	106,494	(22,203)	84,291	2,615	86,906
Total comprehensive income for the period	-	106,494	527,522	634,016	11,959	645,975
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(365,112)	(365,112)	-	(365,112)
Shares issued	964,499	(11,430)	-	953,069	-	953,069
Transaction costs on shares issued net of tax	(6,366)	-	-	(6,366)	-	(6,366)
Transfers to share capital	2,413	(2,413)	-	-	-	-
Share-based payments	-	3,878	-	3,878	-	3,878
Allocation of treasury shares	471	(471)	-	-	-	-
Sale from minority interests	-	1,505	-	1,505	(3,199)	(1,694)
Acquisition of minority interests	-	20,823	-	20,823	(26,015)	(5,192)
Dividends paid to minority interests in controlled entities	-	-	-	-	(8,727)	(8,727)
Balance at 30 June 2019	3,966,892	146,275	1,299,163	5,412,330	79,536	5,491,866

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 2019

	2019	2018
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	6,258,438	5,641,609
Payments to suppliers and employees (inclusive of goods and services tax)	(5,207,533)	(4,713,563)
Gross operating cash flow	1,050,905	928,046
Interest received	6,636	3,175
Borrowing costs	(83,930)	(73,969)
Income taxes paid	(126,303)	(89,332)
Net cash inflow from operating activities	847,308	767,920
Cash flows from investing activities		
Payment for purchase of controlled entities, net of cash acquired	(863,405)	(143,145)
Payments for property, plant and equipment	(281,578)	(225,617)
Proceeds from sale of subsidiaries and non-current assets	141,433	4,354
Payments for intangibles	(105,070)	(102,006)
Repayment of loans by other entities	13,142	6,261
Loans to other entities	(3,851)	(4,283)
Net cash (outflow) from investing activities	(1,099,329)	(464,436)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities (net of transaction costs and related taxes)	943,975	15,427
Proceeds from borrowings	1,363,839	744,115
Repayment of borrowings	(1,246,425)	(952,431)
Transaction with non-controlling interest	-	(504)
Dividends paid to Company's shareholders	(365,112)	(233,673)
Dividends paid to minority interests in subsidiaries	(8,611)	(6,353)
Net cash inflow/(outflow) from financing activities	687,666	(433,419)
Net increase/(decrease) in cash and cash equivalents	435,645	(129,935)
Cash and cash equivalents at the beginning of the financial year	313,268	437,617
Effects of exchange rate changes on cash and cash equivalents	(12,267)	5,586
Cash and cash equivalents at the end of the financial year	736,646	313,268

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 2019.

Notes to the Concise Financial Statements

30 JUNE 2019

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 2019. 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

The Group adopted the new accounting standards AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments from 1 July 2018. The Group applied the modified retrospective approach to AASB 15 which means the cumulative impact of the adoption could be recognised in retained earnings as of 1 July 2018, with comparative information not required to be restated. There were no retrospective adjustments as a result of adopting AASB 9.

Impact of adopting AASB 15

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

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

The main impact on the Group's revenue recognition policies from applying the new standard is the requirement to recognise consideration payable to a customer as a reduction of the transaction price, and therefore of revenue, where this payment is not for a distinct good or service. The Group makes payments to doctors (customers) in its medical centre and occupational health businesses in exchange for contracting the Group's services for an agreed period of time. These payments were previously capitalised as an intangible asset and amortised through the amortisation of intangibles line in the Income Statement. The amount that has been recognised against revenue for the year to 30 June 2019 is \$9,284,000, with a balance of unamortised payments of \$24,866,000 in the Receivables lines at the period end. Had the new standard applied in the comparative period, the equivalent amounts would have been \$8,057,000 and \$23,697,000. Note that there is no net impact to the net profit, net assets or cash flows as a consequence of this change in accounting treatment. Medical services revenue will continue to be recognised on a completed test or service basis.

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

Impact of adopting AASB 9

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

Notes to the Concise Financial Statements

30 JUNE 2019

Classification and measurement

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

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

Impairment

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

Hedging

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

c) Working capital

Sonic is required to disclose \$826M of debt drawn under facilities which expire before 30 June 2020 as a current liability as at 30 June 2019. As a result, the Balance Sheet shows a deficiency of working capital of \$96M. Sonic intends to refinance this debt and foresees no difficulty in doing so, based on discussions with existing lenders and approaches from potential new lenders. Sonic also has significant headroom available in cash and undrawn facilities. The financial report has therefore been prepared on a 'going concern' basis.

NOTE 2 | SEGMENT INFORMATION

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 (up until the sale on 26 June 2019 of GLP Systems) and other minor operations. The \$50 million gain on sale of GLP Systems is also included in 2019. In addition, acquisition costs and certain other non-recurring costs are expensed in this segment.

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 2019

NOTE 2 | SEGMENT INFORMATION

2019	Laboratory	Imaging	Other	Eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue (Constant Currency)					
External sales	4,987,419	499,553	438,086	-	5,925,058
Inter-segment sales	-	221	12,969	(13,190)	-
Other income	-	-	47,625	-	47,625
Total segment revenue (Constant Currency)	4,987,419	499,774	498,680	(13,190)	5,972,683
Currency exchange rate movements	201,354	-	3,383	-	204,737
Total segment revenue (Statutory)	5,188,773	499,774	502,063	(13,190)	6,177,420
Interest income					6,636
Total revenue					6,184,056
Result					
Segment result (Constant Currency)	745,523	68,341	20,734	-	834,598
Currency exchange rate movements	27,382	-	2,992	-	30,374
Segment result (Statutory)	772,905	68,341	23,726	-	864,972
Amortisation of intangibles					(63,288)
Unallocated net interest expense					(79,427)
Profit before tax					722,257
Income tax expense					(163,188)
Profit after income tax expense					559,069
Depreciation	146,796	31,469	31,591	-	209,856
Other non-cash items	15,889	1,899	(45,931)	-	(28,143)
2018	Laboratory	Imaging	Other	Eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
External sales	4,625,062	473,024	440,110	-	5,538,196
Inter-segment sales	7	215	12,549	(12,771)	-
Total segment revenue	4,625,069	473,239	452,659	(12,771)	5,538,196
Interest income					3,175
Total revenue					5,541,371
Result					
Segment result	699,813	63,299	(6,633)	-	756,479
Amortisation of intangibles					(64,229)
Unallocated net interest expense					(75,269)
Profit before tax					616,981
Income tax expense					(131,916)
Profit after income tax expense					485,065
Depreciation	134,384	30,363	27,062	-	191,809
Other non-cash items	16,372	2,332	8,056	-	26,760

Notes to the Concise Financial Statements

30 JUNE 2019

NOTE 2 | SEGMENT INFORMATION

Geographical information

	Revenues from sales to external customers*		Non-current assets*^	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
Australia	2,389,473	2,306,810	2,327,746	2,274,133
United States of America	1,440,987	1,130,946	2,742,287	1,811,980
Germany	1,249,723	1,157,527	1,587,061	1,431,283
Other	1,046,852	942,913	1,510,390	1,426,074
Total	6,127,035	5,538,196	8,167,484	6,943,470

* 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

	2019	2018
	\$'000	\$'000
Services revenue		
Medical services revenue	6,075,618	5,506,480
Other revenue		
Interest received or due and receivable	6,636	3,175
Rental income	13,112	12,744
Other revenue	38,305	18,972
	58,053	34,891
Revenue from operations	6,133,671	5,541,371
Other income		
Gain on GLP Systems sale	50,385	-
Disaggregated revenue		
Laboratory		
Australia	1,469,028	1,401,786
Germany	1,231,507	1,148,220
USA	1,440,378	1,130,782
Switzerland	430,644	390,137
UK & Ireland	434,042	382,167
Belgium	146,378	141,396
New Zealand	33,797	27,766
Non-laboratory		
Imaging	499,249	472,491
Other (medical centres, occupational health services etc.)	428,900	430,707
	6,113,923	5,525,452

Contract asset balances of \$11,147,000 and \$13,719,000 have been recognised in current receivables and non-current receivables as at 30 June 2019 relating to upfront doctor payments in the medical centre and occupational health businesses.

Notes to the Concise Financial Statements

30 JUNE 2019

NOTE 4 | DIVIDENDS

	2019	2018
	\$'000	\$'000
Total dividends paid on ordinary shares during the year		
Final dividend for the year ended 30 June 2018 of 49 cents (2017: 46 cents) per share paid on 27 September 2018 (2017: 11 October 2017), franked to 30% (2017: 20%)	208,746	193,176
Interim dividend for the year ended 30 June 2019 of 33 cents (2018: 32 cents) per share paid on 26 March 2019 (2018: 10 April 2018), franked to 20% (2018: 20%)	156,366	135,300
	365,112	328,476
Dividends not recognised at year end		
In addition to the above dividends, since year end the Directors declared a final dividend of 51 cents (2018: 49 cents) per ordinary share, franked to 30% (2018: 30%) based on tax paid at 30%. The aggregate amount of the final dividend payable on 25 September 2019 out of retained earnings at the end of the year, but not recognised as a liability is:	242,148	208,746
Franked dividends		
The 2019 final dividend declared after the year end was 30% franked out of franking credits available at year end and those arising from the payment of income tax in the year ending 30 June 2020.		
Franking credits available at the year end for subsequent financial years based on a tax rate of 30%	8,579	-

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 is suspended for the 2019 final dividend, as it was for the 2019 interim dividend and the 2018 final dividend. The DRP operated for the 2018 interim dividend.

NOTE 5 | BUSINESS COMBINATIONS

Acquisition of subsidiaries/business assets

Acquisitions of subsidiaries/business assets in the period included:

- US anatomical pathology business, Aurora Diagnostics, LLC on 30 January 2019.
- A number of small healthcare businesses.

The contribution to net profit after tax for the Sonic Group by Aurora for the current financial period was \$22M. The profit of Aurora in the prior financial year is not comparable to the profit under Sonic's ownership due to a materially different capital structure. The accounting for this business combination is provisional at the date of this report.

The contribution the other acquisitions made to the Group's profit during the period was immaterial individually and in aggregate. The accounting for these other business combinations has been finalised at the date of this report.

Notes to the Concise Financial Statements

30 JUNE 2019

NOTE 5 | BUSINESS COMBINATIONS

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

	Aurora \$'000	Other \$'000	Total \$'000
Consideration - cash paid	726,017	118,374	844,391
Less: Cash of entities acquired	(1,606)	(1,369)	(2,975)
	724,411	117,005	841,416
Deferred consideration	-	68,988	68,988
Total consideration	724,411	185,993	910,404
Fair value of identifiable net assets of businesses acquired:			
Debtors and other receivables	53,375	5,625	59,000
Prepayments	5,903	228	6,131
Inventory	868	1,404	2,272
Property, plant and equipment	11,757	5,546	17,303
Identifiable intangibles	532	238	770
Trade creditors	(16,362)	(588)	(16,950)
Sundry creditors and accruals	(36,637)	(1,165)	(37,802)
Current tax liabilities	(187)	-	(187)
Deferred tax liabilities	(9,127)	-	(9,127)
Lease liabilities	(2,787)	-	(2,787)
Lease exit costs	(68)	-	(68)
Provisions	(2,156)	(699)	(2,855)
Other liabilities	(30,497)	-	(30,497)
Borrowings	-	(202)	(202)
	(25,386)	10,387	(14,999)
Minority interests	-	56	56
Goodwill	749,797	175,662	925,459

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. \$438,104,000 of the purchased goodwill recognised is expected to be deductible for income tax purposes, over a 15-year period.

Acquisition-related costs of \$7,867,000 are included in other expenses in the Income Statement.

The fair value of acquired debtors and other receivables is \$59,000,000. The gross contractual amount due is \$90,262,000, of which \$31,262,000 is expected to be uncollectible.

Notes to the Concise Financial Statements

30 JUNE 2019

NOTE 6 | EARNINGS PER SHARE

	2019	2018
	Cents	Cents
Basic earnings per share	122.5	112.6
Diluted earnings per share	122.1	112.2

	2019	2018
	Shares	Shares
Weighted average number of ordinary shares used as the denominator Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	448,784,480	422,212,272
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	450,309,430	423,777,046

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.

	2019	2018
	\$'000	\$'000
Reconciliations of earnings used in calculating earnings per share		
Net profit	559,069	485,065
Net (profit) attributable to minority interests	(9,344)	(9,459)
Earnings used in calculating basic and diluted earnings per share	549,725	475,606

Notes to the Concise Financial Statements

30 JUNE 2019

NOTE 7 | SHARE OPTIONS/RIGHTS

a) Shares under option

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

i) Sonic Healthcare Limited Employee Option Plan

Grant date	Expiry date	Exercise price of option*	Number of options at date of report
30/01/15	30/11/19	\$18.84	26,500
20/10/15	20/08/20	\$18.49	552,500
20/11/15	20/11/20	\$19.41	356,641
11/12/15	11/10/20	\$19.78	1,356,333
17/11/16	17/09/21	\$21.62	725,000
17/11/16	17/09/21	\$22.02	180,000
17/11/16	17/11/21	\$21.62	237,666
05/07/17	05/05/22	\$23.34	950,000
22/11/17	22/11/22	\$21.64	675,145
21/11/18	21/11/23	\$21.69	667,787
14/12/18	14/10/23	\$21.83	2,000,000
21/02/19	21/12/23	\$24.30	980,000
Total			8,707,572

* 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 2019

NOTE 7 | SHARE OPTIONS/RIGHTS

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.

Grant date	Expiry date	Exercise price	Number of rights at date of report
17/11/16	17/11/21	Nil	31,110
22/11/17	22/11/22	Nil	87,762
21/11/18	21/11/23	Nil	87,560
Total			206,432

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 1,609,341 ordinary shares of Sonic were issued during the year ended 30 June 2019 under the Sonic Healthcare Limited Employee Option Plan. 844,069 options have been exercised since that date, but prior to the date of this report, resulting in the issue of 844,069 ordinary shares. The amounts paid on issue of those shares were:

Number of Options	Amounts paid (per share)
596,841	\$11.43
110,000	\$15.43
50,000	\$15.21
35,000	\$12.57
250,069	\$17.32
297,500	\$18.49
488,500	\$18.84
530,500	\$19.78
75,000	\$21.62
20,000	\$22.02
2,453,410	

Notes to the Concise Financial Statements

30 JUNE 2019

NOTE 7 | SHARE OPTIONS/RIGHTS

ii) Sonic Healthcare Limited Performance Rights Plan

A total of 45,523 performance rights were exercised during the year ended 30 June 2019 under the Sonic Healthcare Limited Performance Rights Plan, satisfied by the issue of 42,775 new ordinary shares and by 2,748 shares purchased on-market. Nil performance rights have been exercised since 30 June 2019 and up to the date of this report. No amounts were payable on issue of those shares.

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 who are not already disclosed as key management personnel.

NOTE 8 | EVENTS OCCURRING AFTER REPORTING DATE

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

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2019

The Directors declare that in their opinion, the Concise Financial Report of the Group for the year ended 30 June 2019 as set out on pages 61 to 77 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 2019. 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
25 September 2019

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

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 2019 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 2019 comprises:

- the balance sheet as at 30 June 2019
- 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.

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.

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.

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001

T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124

T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

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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 25 September 2019. 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.

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.

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*.

Report on the remuneration report

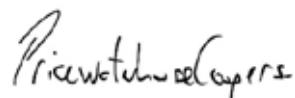
The following paragraphs are copies from our report on the remuneration report of Sonic Healthcare Limited for the year ended 30 June 2019.

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 2019. In our opinion, the remuneration report of Sonic Healthcare Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

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



Brett Entwistle
Partner

Sydney
25 September 2019

Shareholders' Information

1. INFORMATION RELATING TO SHAREHOLDERS

a) Distribution schedule as at 13 September 2019

	No. of holders ordinary shares
1-1,000	37,402
1,001-5,000	26,080
5,001-10,000	2,106
10,001-100,000	918
100,001 and over	93
	66,599
Voting rights	
- on a show of hands	1/member
- on a poll	1/share
Percentage of total shares held by the twenty largest registered holders	72.69%
Number of holders holding less than a marketable parcel	636

b) Substantial shareholders as at 13 September 2019

The Company has received substantial shareholding notices to 13 September 2019 in respect of the following holdings:

	No. of securities	Percentage held
BlackRock Group (including 2,028,166 American Depository Receipts)	37,246,603	7.84%
The members of the Veritas Group	34,010,324	7.16%

Shareholders' Information

1. INFORMATION RELATING TO SHAREHOLDERS

c) Names of the 20 largest registered holders of equity securities as at 13 September 2019

	No. of securities	Percentage held
HSBC Custody Nominees (Australia) Limited	185,656,351	39.10%
J P Morgan Nominees Australia Pty Limited	68,656,132	14.46%
Citicorp Nominees Pty Limited	26,904,423	5.67%
Jardvan Pty Ltd	15,109,474	3.18%
National Nominees Limited	11,237,659	2.37%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	5,901,845	1.24%
BNP Paribas Noms Pty Ltd <DRP>	4,473,662	0.94%
Argo Investments Limited	3,626,053	0.76%
Australian Foundation Investment Company Limited	3,159,672	0.67%
Polly Pty Ltd <A/C Patterson Family>	2,817,416	0.59%
Blaise Menthा	2,775,230	0.58%
HSBC Custody Nominees (Australia) Limited-GSCO ECA	2,067,196	0.44%
Australian Executor Trustees Limited <IPS Super A/C>	1,972,115	0.42%
Citicorp Nominees Pty Limited <Colonial First State INV A/C>	1,873,292	0.39%
HSBC Custody Nominees (Australia) Limited <NT-Commwlth Super Corp A/C>	1,824,668	0.38%
Netwealth Investments Limited <Wrap Services A/C>	1,709,230	0.36%
Quintal Pty Ltd <Harken Family A/C>	1,521,908	0.32%
AMP Life Limited	1,344,276	0.28%
Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	1,337,364	0.28%
HSBC Custody Nominees (Australia) Limited	1,220,296	0.26%
	345,188,262	72.69%

Shareholders' Information

2. UNQUOTED EQUITY SECURITIES AS AT 13 SEPTEMBER 2019

	No. on issue	No. of holders
Options over unissued ordinary shares	9,140,995	110
Performance rights	263,165	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

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 2.5% of Sonic's shareholders still request a hard copy Annual Report, and more than 66% 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 10.00am on Tuesday 19 November 2019.



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