
# Annual Report 2020

ABN 24 004 196 909

SONIC HEALTHCARE LIMITED

# Corporate Directory

**DIRECTORS**
Prof. M.R. Compton | *Chairman*
Dr C.S. Goldschmidt | *Managing Director*
Mr C.D. Wilks | *Finance Director*
Prof. S. Crowe
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

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**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 Depositary Receipt (ADR) facility managed by BNY Mellon (the 'Depositary'). Sonic Healthcare Limited's ADRs are traded under the code SKHHY.

**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.
- 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.

**Cover**
Phlebotomist/pathology collector Natasha Ta from Clinpath Pathology, South Australia, collecting a COVID-19 specimen from a patient


Inset
Pathologists Dr Peter McQuillan and Dr Mukta Rayoo from Melbourne Pathology consulting on a diagnosis

# Contents

Sonic Healthcare produced a net profit for the 2020 financial year of A$528 million, on revenues of A$6.8 billion.

# Chairman's Letter

Dear Fellow Shareholders,

On behalf of Sonic Healthcare's Board of Directors, I am pleased to present the Company's 2020 Annual Report.

Sonic Healthcare produced a net profit for the 2020 financial year of A$528 million, on revenues of A$6.8 billion. Despite the impacts of the COVID-19 pandemic on the 2020 financial results (which are described elsewhere in this Report), the Board has been able to support shareholders with a modest 1.2% increase in total dividends per share (to A$0.85) for the year, continuing our progressive dividend policy.

Sonic's balance sheet is very strong, underpinning the Company's operations and ready to support future growth. Robust cash generation in 2020 facilitated a reduction in net interest bearing debt of A$277 million (after payments for acquisitions and dividends), resulting in Sonic's gearing being well below our long-term average. In fact, the ratio of Net Debt to EBITDA was at the lowest level in 20 years, a solid position to be in during these uncertain times.

In relation to Board renewal, development and diversity, a number of important changes have occurred in the last twelve months. The Board selected Mr Neville Mitchell as the new (from 1 October 2019) Chair of the Audit Committee, succeeding Mr Lou Panaccio, who retired from the Chair position he has held for almost 10 years. Mr Panaccio will remain a member of the Committee and has worked closely with Mr Mitchell to ensure a seamless transition.

Professor Suzanne Crowe AO joined the Board from 6 April 2020 as an independent, Non-executive Director. Prof. Crowe is a qualified medical specialist in Infectious Disease. Whilst Suzanne had agreed to join our Board several months earlier, the timing of her commencement could hardly have been more beneficial, with her insights into the COVID-19 pandemic of great utility to the Board and the Company over the last six months. Suzanne's appointment was consistent with, and continues to enrich, Sonic's Medical Leadership culture and strategy.

Dr Philip Dubois, who has been an Executive Director on the Board since 2001, retired from his executive position with the Company in June 2020. Philip is therefore now considered a Non-executive Director. He has advised that he will retire from the Sonic Board by the end of his current three year term (November 2022).

Sonic's Board now comprises seven Non-executive Directors, six of whom are considered independent, plus two Executive Directors (being the Chief Executive Officer and the Chief Financial Officer). The Board includes a pathologist, a radiologist, a medical specialist and a registered general medical practitioner, in keeping with our Medical Leadership culture.

Prof. Crowe's appointment has also resulted in the Board achieving its gender diversity objective to have at least 30% female membership (now at 33%, up from 25% previously).

Board renewal, development and diversity remain areas of active consideration for the Sonic Board.

As is the case each year, I heartily recommend that you read Sonic's latest Corporate Responsibility Report, available on our website. This Report describes how Sonic cares for its people, the environment, its own communities and communities in acute need. Sonic's standing as a socially responsible company continues to be recognised by external parties, including through ongoing inclusion in the FTSE4Good Index Series. The Board is very proud of Sonic's efforts in these critical areas, and hopes that shareholders feel this pride as well.

The COVID-19 pandemic has challenged and continues to challenge Sonic's leaders, the doctors and other healthcare professionals we serve, their patients and our staff in ways that are without precedent. The response from all parts of the organisation has been nothing short of magnificent. Sonic's Medical Leadership culture and values that underpin all we do each day have risen to the fore, and our people continue to play a crucial role in combatting the pandemic. I have never been more proud to be part of this Company, and I thank every one of our 37,000 staff for their courage, dedication and expertise. I include in this expression of thanks the directors of the Company who have shown their usual great dedication, diligence and expertise in a rapidly changing environment with many unknowns as the pandemic unfolded. Their skill and leadership is also to be commended.

I would also like to thank you, our shareholders, for your continuing support of the Company and the Board.

**Professor Mark Compton AM**
Chairman

# CEO Report

Sonic Healthcare's 2020 financial year was dominated by the impact of the COVID-19 pandemic, both in terms of the effect on the Company's financial results, but more importantly, the impact on our people and communities. The response to the pandemic of our leadership teams and 37,000 staff around the world has been truly inspiring.

Throughout the pandemic to date, our operations have continued seamlessly to provide our essential routine, non-COVID healthcare services. In addition, our practices and people have risen to play crucial frontline roles in combating the pandemic. Our staff in Australasia, the USA and Europe have used their experience, expertise and company infrastructure to go from zero to testing thousands of patients every day for COVID-19 in a matter of weeks. To date, we have performed more than 6 million COVID-19 PCR tests globally, and we continue to increase testing capacity further to meet the needs of the communities in which we operate. Our imaging and clinical services businesses have also adjusted rapidly to the new environment in which we find ourselves. Sonic's Medical Leaders around the world are collaborating internally and working with governments and other healthcare authorities to develop, support and enhance pandemic control initiatives.

In relation to our financial results, after reporting a strong first half-year and starting the second half well, our businesses around the world were almost simultaneously impacted by dramatic falls in base business patient volumes from mid-March 2020, caused by social restrictions and fear of infection. With significant uncertainty surrounding the potential extent of the falls and the timing to recovery, Sonic's operations responded swiftly, firstly to secure the safety of staff and patients and then to reduce costs and conserve cash to mitigate against the revenue shortfalls.

The declines in base business revenues varied significantly by market, but early stabilisation of levels became evident in late April, followed by commencing recovery during May, at different rates in each market. Fortunately, our base business volumes in most markets had largely recovered by 30 June 2020, and COVID-19 testing volumes ramped up through the period providing a partial offset. This enabled Sonic to report modest earnings growth for the year, and to maintain our final dividend at the prior year level.

Since year-end, revenue growth rates have been substantially higher than usual, boding well for the 2021 year, although it is uncertain how long these high growth rates will continue as they are dependent on potential fluctuations in both base business and COVID-19 testing revenues.

Financial highlights for the 2020 financial year included:

- Underlying* revenue growth of 11.5% to A$6,839 million
- Underlying* EBITDA growth of 5.4% to A$1,109 million
- Underlying* net profit growth of 6.5% to A$552 million
- Statutory net profit of A$528 million
- Full year dividends up 1.2% to A$0.85 per share

* Underlying numbers exclude the impacts of the new lease accounting standard AASB 16, which came into effect for Sonic from 1 July 2019, as well as non-recurring gains and costs in the current and previous year.

Underlying revenue growth for 2020 was enhanced by the Aurora Diagnostics acquisition in the USA, which was completed 30 January 2019, and currency exchange rate movements (which added A$221 million). Group organic revenue growth averaged ~4% on a Constant Currency basis, including 3% in the USA, 5% each in Australian Pathology, Switzerland and the UK, 6% in Germany, -2% in Belgium, 4% in Sonic Imaging and flat growth for Sonic Clinical Services ('SCS'). Organic growth rates were substantially impacted by the COVID-19 pandemic and the extent to which the relevant operations were able to ramp up COVID-19 testing in the last quarter of the year. COVID-19 testing was not relevant to the Imaging or SCS operations.

Sonic remains positioned for future growth, with well established brands, leading market positions, our embedded Medical Leadership culture, and a strong balance sheet underpinning our global operations. We continue to target organic revenue growth, as well as synergistic acquisitions, joint ventures, and contract opportunities.

Sonic Healthcare continues to play a central role in combating COVID-19, conducting the essential testing that enables treatment, contact tracing and quarantining. As a global healthcare company with established quality credentials, and modern, extensive infrastructure in place, Sonic was able to respond rapidly and with conviction to make a meaningful contribution to pandemic control. COVID-19 has proven that challenging times drive innovation and that unimagined problems inspire previously unimaginable solutions.

## The response to the pandemic of our leadership teams and 37,000 staff around the world has been truly inspiring.

In almost every facet of our operations, we have had to adapt and innovate to meet the challenges and solve the problems which this pandemic has presented. From specimen collection arrangements, staff health and safety and data entry to specimen processing, laboratory information systems and reporting, there have been root-and-branch changes required to adapt to our new normal.

Sonic's people have risen magnificently to the COVID-19 pandemic and perhaps more than any other year, 2020 has demonstrated the stability, spirit and strength of the Company, its culture and its people. This is a story of dedication, expertise and professional heroism, which I acknowledge with respect, admiration and humility, and I take this opportunity to thank each and every member of our global team for their contribution to an extraordinary team effort that will never be forgotten.

**Dr Colin Goldschmidt**
CEO and Managing Director

Sonic remains positioned for future growth, with well established brands, leading market positions, our embedded Medical Leadership culture, and a strong balance sheet underpinning our global operations.

# Financial History

Note that 2020 reflects the impacts of adopting the new lease accounting standard AASB 16 from 1 July 2019 and is therefore not comparable to the other years.

| As at 30 June | 2020[1] | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Revenue[2,4] | **6,831,843** | 6,184,056 | 5,541,371 | 5,122,143 | 5,052,486 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA)[2,4] | **1,411,834** | 1,074,828 | 948,288 | 868,559 | 880,404 |
| Net profit after tax[2,3,4] | **527,749** | 549,725 | 475,606 | 427,773 | 451,374 |
| Net cash flow from operations | **1,360,298** | 847,308 | 767,920 | 736,365 | 707,708 |
| Total assets | **12,127,130** | 9,959,834 | 8,200,934 | 7,878,165 | 7,370,619 |
| Total liabilities | **6,462,732** | 4,467,968 | 3,918,009 | 3,952,035 | 3,637,910 |
| Net assets | **5,664,398** | 5,491,866 | 4,282,925 | 3,926,130 | 3,732,709 |
| Net interest-bearing debt[5] | **2,021,969** | 2,298,953 | 2,482,781 | 2,435,405 | 2,284,247 |

| Statistics | | | | | |
|---|---|---|---|---|---|
| Diluted earnings per share (cents)[2,3,4] | **110.6** | 122.1 | 112.2 | 102.1 | 109.3 |
| Dividends paid per ordinary share (cents) | **85.0** | 82.0 | 78.0 | 75.0 | 71.0 |
| Dividend payout ratio | **76.5%** | 66.4% | 69.1% | 73.0% | 64.0% |
| Gearing ratio[6] | **26.1%** | 29.5% | 36.7% | 38.3% | 38.0% |
| Interest cover (times)[6] | **11.5** | 10.5 | 10.1 | 10.8 | 11.5 |
| Debt cover (times)[6] | **1.8** | 2.1 | 2.5 | 2.7 | 2.6 |
| Net tangible asset backing per share ($) | **(2.72)** | (2.69) | (3.39) | (3.47) | (3.44) |
| Return (after tax) on invested capital[2,4] | **7.3%** | 8.7% | 8.6% | 8.1% | 9.1% |
| Return (after tax) on equity[2,3,4] | **9.5%** | 11.2% | 11.6% | 11.2% | 12.8% |

[1] 2020 reflects the impacts of adopting the new lease accounting standard AASB 16 from 1 July 2019 and is therefore not comparable to the other years
[2] 2016 included a non-recurring pre- and post-tax gain of $34,766,000 on the sale and leaseback of properties
[3] 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
[4] 2019 included a non-recurring pre-tax gain of $50,385,000 (post-tax $49,585,000) on the sale of GLP Systems
[5] Net interest-bearing debt for 2020 excludes lease liabilities under AASB 16
[6] Calculated using debt facility covenant definitions

**Inset**
Chris Tresize, radiographer from Queensland X-Ray, preparing a patient for a CT scan

# Annual Report 2020

**30 JUNE 2020**

SONIC HEALTHCARE LIMITED
ABN 24 004 196 909

# Directors' Report

Your Directors present their report on the Group consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the year ended 30 June 2020.

## 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

Prof. S. Crowe was appointed as a Director of Sonic Healthcare with effect from 6 April 2020.

## 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:

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Interim dividend paid on 25 March 2020 (2019: 26 March 2019) | **161,519** | 156,366 |
| Final dividend paid on 22 September 2020 (2019: 25 September 2019) | **243,488** | 242,148 |
| **Total dividend for the year** | **405,007** | 398,514 |

On 19 August 2020, the Board declared a final dividend in respect of the year ended 30 June 2020 of 51 cents per ordinary share, 30% franked (at a tax rate of 30%), paid on 22 September 2020, with a record date of 8 September 2020. An interim dividend of 34 cents per ordinary share, 30% franked (at 30%), was paid on 25 March 2020. These dividends included no conduit foreign income.

A final dividend of 51 cents per ordinary share was paid on 25 September 2019, in respect of the year ended 30 June 2019, out of profits of that year. The interim dividend in respect of the year ended 30 June 2019 was 33 cents per ordinary share, paid on 26 March 2019. These dividends included no conduit foreign income.

## DIVIDEND REINVESTMENT PLAN ('DRP')

The Company's Dividend Reinvestment Plan remains suspended for the FY2020 final dividend.

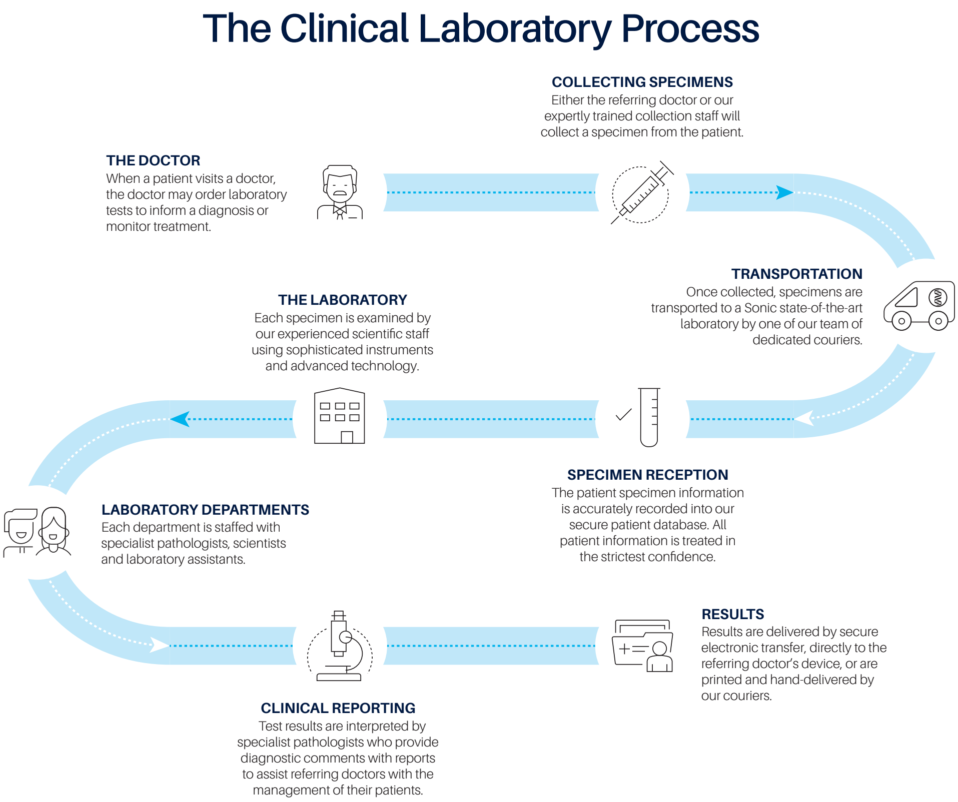
## OPERATING AND FINANCIAL REVIEW

### Operations

Sonic Healthcare is one of the world's leading providers of medical diagnostic services, contributing to the medical care of more than 115 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:




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.

As part of Sonic's response to the COVID-19 pandemic, Sonic's laboratories quickly established and ramped up capacity to provide COVID-19 PCR (polymerase chain reaction) molecular pathology testing to diagnose the virus. To date, Sonic's laboratories have performed more than 6 million COVID-19 PCR tests. Sonic's laboratories also offer an immunoserology test to detect antibodies to COVID-19.

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.

## OPERATING AND FINANCIAL REVIEW

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 227 primary care clinics across Australia, providing facilities and administrative services to approximately 2,460 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. Sonic has adopted the new accounting standard AASB 16 Leases from 1 July 2019 and, under the transitional provisions, has not restated comparatives. Whilst the impact of AASB 16 in the period is immaterial to Revenue from ordinary activities and Profit after tax from ordinary activities attributable to members, it is material to components of the financial results. To enhance comparability, the analysis below and commentary in the following pages of this report focus on financial performance excluding the impacts of AASB 16.

| | | | | | % Change Excluding AASB 16 | |
|---|---|---|---|---|---|---|
| | 2020 Statutory | 2020 Constant Currency[1] excluding AASB 16 | 2020 Actual Currency excluding AASB 16 | 2019 Statutory | 2020 Constant Currency[1] v 2019 Statutory | 2020 Actual Currency v 2019 Statutory |
| | $'000 | $'000 | $'000 | $'000 | | |
| **Revenue** | **6,831,843** | 6,639,830 | 6,859,819 | 6,184,056 | 7.4% | 10.9% |
| Non-recurring gains[4] | – | (19,767) | (21,068) | (50,385) | | |
| **Underlying Revenue[2]** | **6,831,843** | 6,620,063 | 6,838,751 | 6,133,671 | 7.9% | 11.5% |
| **Underlying EBITDA[2]** | **1,425,059** | 1,068,775 | 1,108,833 | 1,051,544 | 1.6% | 5.4% |
| Non-recurring gains[4] | – | 19,767 | 21,068 | 50,385 | | |
| Non-recurring costs[5] | **(13,225)** | (12,822) | (13,225) | (27,101) | | |
| **EBITDA[3]** | **1,411,834** | 1,075,720 | 1,116,676 | 1,074,828 | | 3.9% |
| Depreciation | **(540,658)** | (226,909) | (233,204) | (209,856) | 8.1% | |
| **EBITA** | **871,176** | 848,811 | 883,472 | 864,972 | | |
| Amortisation of intangibles | **(65,210)** | (63,494) | (65,210) | (63,288) | 0.3% | |
| Net interest expense | **(106,903)** | (75,430) | (78,500) | (79,427) | (5.0)% | |
| Income tax expense | **(157,160)** | (162,483) | (168,065) | (163,188) | (0.4)% | |
| Net (profit) attributable to minority interests | **(14,154)** | (13,853) | (14,154) | (9,344) | | |
| **Net profit attributable to Sonic shareholders** | **527,749** | 533,551 | 557,543 | 549,725 | (2.9)% | 1.4% |
| Less: after tax impacts of non-recurring items | | | (5,440) | (31,412) | | |
| **Underlying net profit[2]** | | | 552,103 | 518,313 | | 6.5% |
| **Cash generated from operations** | **1,360,298** | | 1,066,828 | 847,308 | | 25.9% |
| **Earnings per share** | | | | | | |
| Basic earnings per share (cents per share) | **111.1** | **112.4** | **117.4** | 122.5 | | |
| Diluted earnings per share (cents per share) | **110.6** | **111.8** | **116.8** | 122.1 | (8.4)% | (4.3)% |

[1] For an explanation of 'Constant Currency' refer to (a) on the following page
[2] Underlying Revenue, EBITDA and Net Profit = Revenue, EBITDA and Net Profit adjusted to remove the impact of non-recurring items in the current and/or previous year
[3] EBITDA = Earnings before interest, tax, depreciation and amortisation
[4] Non-recurring gains: FY2020 gain on sale of Hawaii laboratory building. FY2019 gain on sale of GLP systems subsidiary.
[5] Non-recurring costs mainly relate to acquisitions, contract bids, laboratory relocations, mergers and restructuring

An explanation of the figures reported above is provided in the following pages of this report. Additional information on the impacts of the COVID-19 pandemic is included in the CEO Report within this Annual 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 2020 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.

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:

| | 2020 Statutory | 2019 and Constant Currency |
|---|---|---|
| AUD/USD | **0.6712** | 0.7154 |
| AUD/EUR | **0.6068** | 0.6270 |
| AUD/GBP | **0.5328** | 0.5527 |
| AUD/CHF | **0.6557** | 0.7116 |
| AUD/NZD | **1.0544** | 1.0666 |

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

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

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

## OPERATING AND FINANCIAL REVIEW

b) *Revenue*

| Revenue breakdown | 2020 Statutory Revenue | % of 2020 Statutory Revenue | 2020 Constant Currency Revenue | 2019 Revenue | 2020 Constant Currency v 2019 |
|---|---|---|---|---|---|
| | AUD M | | AUD M | AUD M | Growth |
| Laboratory – Australia and New Zealand | **1,574** | **23%** | **1,573** | 1,504 | 4.6% |
| Laboratory – USA | **1,861** | **27%** | **1,746** | 1,441 | 21.2% |
| Laboratory – Europe | **2,460** | **36%** | **2,358** | 2,244 | 5.0% |
| Imaging – Australia | **520** | **8%** | **520** | 500 | 4.0% |
| Other | **418** | **6%** | **418** | 438 | (4.6%) |
| Revenue – underlying | **6,833** | **100%** | **6,615** | 6,127 | 8.0% |
| Non-recurring gain | **21** | | **20** | 50 | |
| Impact of new accounting standard (AASB 16) | **(28)** | | **–** | – | |
| Interest income | **6** | | **5** | 7 | |
| **Total revenue** | **6,832** | | **6,640** | 6,184 | 7.4% |

Total revenue growth (excluding AASB 16 impact) for the year was 11%, enhanced by the Aurora Diagnostics acquisition (completed 30 January 2019) and currency exchange rate movements (which added A$221M to Statutory Revenue). Group organic revenue growth was ~4% at Constant Currency exchange rates (i.e. applying the average rates for the year ended 30 June 2019 to the current year results).

For the 8.5 months to mid-March 2020, Sonic's revenue growth and trading results were in line with expectation, however in the second half of March, the COVID-19 pandemic and associated lockdowns precipitated dramatic falls in base patient volumes and revenues, almost simultaneously across Sonic's global businesses. With significant uncertainty surrounding the potential extent of the falls and the timing to recovery, Sonic's operations responded swiftly, firstly to secure the safety of staff and then to reduce costs to mitigate against the revenue shortfalls.

The declines in base business (i.e. excluding COVID-19 testing) revenues varied significantly by market, but early stabilisation of levels became evident in late April, followed by commencing recovery during May, at different rates in each market. By 30 June 2020, the majority of Sonic's divisions had returned to pre-COVID levels of base revenues. Base revenues in the USA, the UK, Ireland, and Belgium were still below pre-COVID levels but trending positively. In addition to the recovery of base revenues, many of Sonic's laboratory businesses had ramped up substantial COVID-19 testing.

Flowing from this, Sonic's revenues for March and April 2020 were substantially below forecast, with May and June results stronger than expected. This positive trend has continued to date post-year end.

The Laboratory division achieved revenue growth of 14% in the year (9% on a Constant Currency basis), including ~4% organic revenue growth (Constant Currency).

Sonic's Australian Laboratory business achieved organic revenue growth of ~5%, including robust growth from COVID-19 and genetic testing. None of Sonic's Australian businesses received COVID-19 related government subsidies. Sonic did not qualify for the JobKeeper government assistance program due to its size.

# Directors' Report

## OPERATING AND FINANCIAL REVIEW

US revenue grew 21% on a Constant Currency basis, including the Aurora acquisition. US organic revenue growth was approximately 3% on a Constant Currency basis, including significant COVID-19 testing revenues. US revenue included US$20M of government grants provided to ensure essential laboratory services were maintained during the pandemic.

Within Europe, Sonic's UK operations achieved organic growth of ~5% (Constant Currency). UK revenue included £6.5M of government support to ensure essential services were maintained during the pandemic. German organic growth was ~6%, enhanced by significant COVID-19 testing volumes. Swiss and Belgian organic growth was ~5% and ~(2)% respectively (Constant Currency).

Imaging revenue growth was ~4%, driven by investments in greenfield sites and new equipment in the current and prior periods offsetting the COVID-19 volume declines.

Revenue growth for Sonic Clinical Services ('SCS'), Sonic's medical centre and occupational health businesses (the major components of the Other segment, which also includes other minor operations), was flat, due to the impacts of the COVID-19 pandemic. The Other segment included revenue and earnings of GLP Systems in the comparative period, prior to its sale in June 2019.

Non-recurring gains comprise the gain on sale of Sonic's main laboratory building in Hawaii in FY2020, and the gain on sale of GLP Systems in FY2019. The Hawaii laboratory was leased back on a long-term basis, and under AASB 16, the gain on sale became a small loss.

c) *EBITDA*

Underlying EBITDA grew 5%, or 2% on a Constant Currency basis, excluding the impacts of AASB 16. The non-recurring costs of A$13M related to acquisition and contract bidding expenses, and restructuring costs, including relating to rationalisation of sites in the SCS businesses and efficiency improvements in the Laboratory and Imaging divisions. Other than some minor acquisition costs in the second half, these costs were incurred in the first half of the year.

Margins declined for the full year due to the impacts of the COVID-19 pandemic. For the first half of the year both the Laboratory and Imaging divisions had reported margin expansion. Despite organic revenue growth of ~4% for the full year, the size and speed of the base business volume reductions due to the pandemic were such that the margin impact in March and April could not be fully offset in May and June 2020. In addition, the pandemic caused costs such as medical consumables (including personal protective equipment for Sonic's staff) and freight to increase as a percentage of revenue.

Statutory EBITDA was increased by $A295M due to the impact of the new (effective 1 July 2019) lease accounting standard AASB 16.

d) *Depreciation*

Depreciation increased 8% on the comparative period (at Constant Currency rates and excluding the impact of AASB 16), reflecting the growth of the Company.

e) *Intangibles amortisation*

Intangibles amortisation relates to internally developed and purchased software.

f) *Interest expense and debt facilities*

Net interest expense decreased 5% on the prior year (at Constant Currency rates and excluding the impact of AASB 16), largely due to the equity raisings associated with the Aurora acquisition in the prior year, and the strong cash generation in the year.

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

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

## OPERATING AND FINANCIAL REVIEW

g) *Tax expense*

The effective tax rate (excluding AASB 16 impacts) is ~23%, similar to the rate in the prior year.

h) *Cash flow from operations*

Excluding the impacts of AASB 16, cash generated from operations was 26% higher than in the comparative period and gross operating cash flow equated to 114% of EBITDA. Cash generation was augmented by cash preservation initiatives and the receipt of prepayments of ~A$63M of US Medicare testing revenue. This amount is reversing in H1 FY2021 as the testing is performed.

# Directors' Report

## OPERATING AND FINANCIAL REVIEW

### Financial position

Sonic's net assets at 30 June 2020 of A$5,664M increased by A$173M, or 3%, on the prior year. The main components of this increase were:

- A$23M from the issue of ordinary Sonic shares resulting from the exercise of employee options and rights
- A$34M relating to net currency exchange rate translation impacts
- A$118M due to retained earnings (operating profit less dividends paid and other adjustments)
- A$20M reduction due to the transition impact of AASB 16

Excluding the impacts of AASB 16, which increased debt by A$1,364M at 30 June 2020, net (of cash) interest-bearing debt decreased A$277M (12%) from the prior year level to A$2,022M. This net decrease largely resulted from strong cash flow generated from operations, net of A$98M relating to payments for business acquisitions and A$31M of currency exchange rate impacts. None of the business acquisitions completed in the year were material to Sonic. A significant component of the total consideration for these acquisitions was attributable to goodwill.

Sonic's net interest-bearing debt at 30 June 2020 (excluding AASB 16 impacts) comprised:

| | Facility limit (M) | Drawn (M) | AUD (M) available |
|---|---|---|---|
| **Notes held by USA investors – USD (fixed coupons)** | US$800 | US$800 | – |
| **Notes held by USA investors – Euro (fixed coupons)** | €515 | €515 | – |
| **Bank debt facilities** | | | |
| USD limits | US$175 | US$120 | 80 |
| Euro limits | €390 | €308 | 134 |
| AUD (Multicurrency) limits | A$48 | A$48 | – |
| CHF limits | CHF307 | CHF182 | 192 |
| **Debt drawn in facilities above in different currencies to facility limits** | | | |
| AUD | – | 113 | (113) |
| GBP | – | 66 | (118) |
| **Minor debt/leasing facilities** | n/a | A$17+ | – |
| **Cash** | n/a | A$(1,230)+ | 1,230 |
| **Available funds at 30 June 2020** | | | **1,405** |

+ Various currencies

Sonic's credit metrics at 30 June 2020 were as follows:

| | 30.6.20 | 31.12.19 | 30.6.19 |
|---|---|---|---|
| **Debt cover (times)** | 1.8 | 2.1 | 2.1 |
| **Interest cover (times)** | 11.5 | 11.2 | 10.5 |
| **Gearing ratio** | 26.1% | 29.9% | 29.5% |

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

Sonic's debt cover ratio at 30 June 2020 was at its lowest level for 20 years.

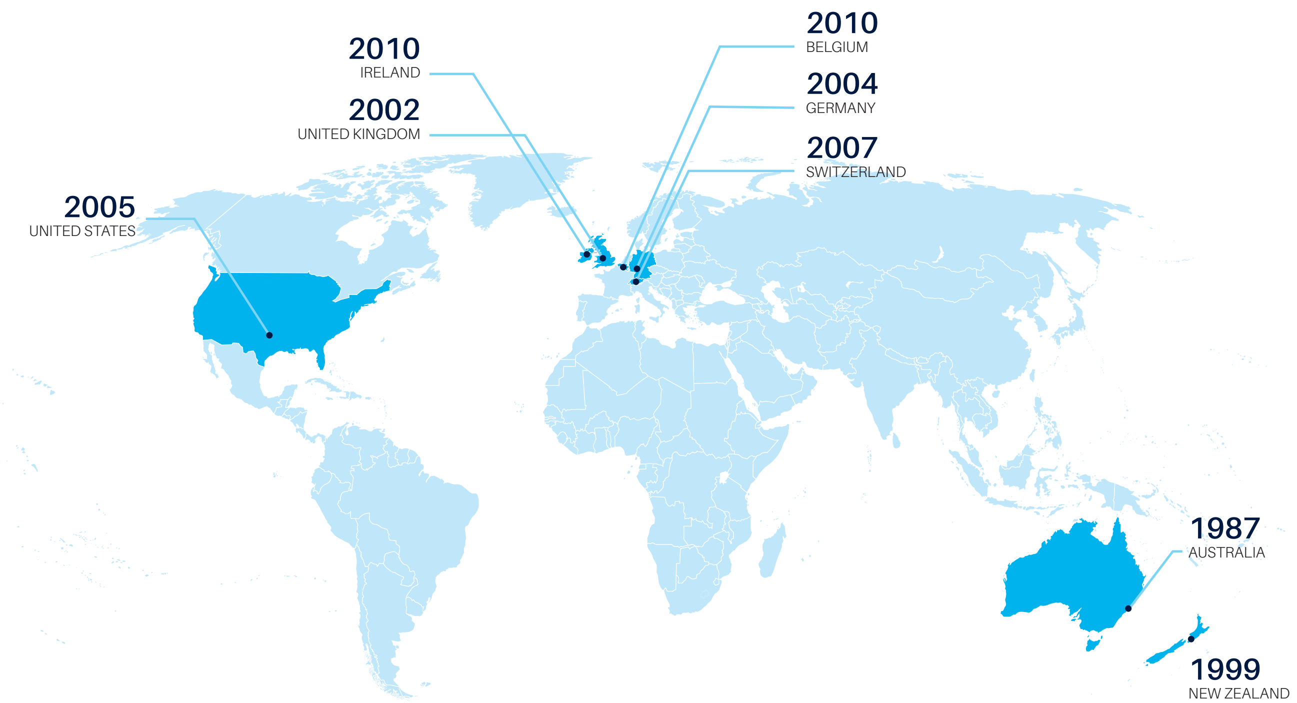
## OPERATING AND FINANCIAL REVIEW

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) |
|---|---|---|---|---|
| 2021 (USD January, CHF July) | – | 250 | – | 182 |
| 2022 | – | 75 | 270 | – |
| 2023 | 48 | 100 | 120 | 125 |
| 2024 | – | – | 185 | – |
| 2026 | – | – | 245 | – |
| 2030 | – | 300 | – | – |
| 2032 | – | 150 | 85 | – |
| 2035 | – | 100 | – | – |
| | **48** | **975** | **905** | **307** |

Sonic's excellent relationships with its banks, its investment-grade credit metrics, staggered facility maturity profile, 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 within the Group leading to best practice, group purchasing, IT, E-health, quality system sharing and centralisation of testing are all examples of continuous improvement activities 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.

## 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 (for example, COVID-19 PCR testing) 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 in January 2019 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 are significantly enriching Sonic's Medical Leadership culture, providing further differentiation in the US market. Anatomical pathology opportunities are also being targeted in Germany with several acquisitions made to date addressing a highly fragmented €1B per annum market (in addition to at least €4B for the clinical laboratory market). The strategy to expand in anatomical pathology in addition to clinical laboratory medicine 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 and private hospital laboratory outsourcing contracts.

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. Sonic currently has 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.

With regard to more short-term prospects, Sonic has not provided 2021 annual earnings guidance to date due to COVID-19 related unpredictability. As advised to the market in August, revenue growth rates since year end have been substantially higher than historical rates, augmented by strong COVID-19 testing volumes. Base laboratory business revenues during this period have been higher than in the prior year in most countries, with negative but generally improving growth in the US and UK. Imaging revenue has also been growing significantly above historical organic growth rates. The outlook is dependent on fluctuations in base business and COVID-19 testing revenues. Due to the uncertain environment, current growth rates may not be sustained. In general, Sonic's experience has been that if base business volumes are negatively impacted by the pandemic, COVID-19 testing volumes tend to increase.

A market update will be provided at Sonic's Annual General Meeting on 12 November 2020.

# Directors' Report

## OPERATING AND FINANCIAL REVIEW

In light of the ongoing COVID-19 pandemic, the Board of Sonic has applied increased focus to issues such as going concern, asset values and provisions. Given current trading conditions and experience of the pandemic to date, the strength of Sonic's balance sheet, liquidity and cash flows, and the industries and markets in which the Company operates, no significant issues were identified.

As a result of 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. These opportunities are assessed by management and the Board to determine whether their pursuit is in the best interests of shareholders. Further information on likely strategic developments has not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the interests of the Group.

### Risks

Sonic's approach to identifying and managing business risks is described in the Corporate Governance Statement included in the Annual Report 2020. The major risks to consider in assessing Sonic's future prospects are:

- COVID-19 or another pandemic or epidemic could impact Sonic's patient volumes and/or ability to provide core services. Whilst the experience with the COVID-19 pandemic to date has demonstrated Sonic's resilience and the important role of a major laboratory company in such a scenario, this may not be the case in every circumstance.
- 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.

## OPERATING AND FINANCIAL REVIEW

- 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. 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 has implemented strategies to mitigate this risk which it believes comply with or exceed best practice in each of its countries of operation. The Company has a comprehensive Information Security Management System in place, supported by staff training and awareness programs. External facing systems are monitored and regularly tested (including third party penetration testing). As part of Sonic's compliance work for specific country requirements (such as KRITIS in Germany, ISM and ISO27001 in Australia, SOC2, ISO27001 and HITRUST in USA) these protections are continually reviewed and improved.
- 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 including reviewing disclosures of peers, Sonic's Board does not believe the Company has any other material exposures to environmental or social sustainability risks, given the industries and geographies in which it operates.

The above list should not be taken to be a comprehensive list of risks associated with Sonic. In particular, it excludes risks relating to the general economic environment and other generic risk areas that affect most companies.

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

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since the end of the financial year, the Directors are not aware of any matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

# Directors' Report

## INFORMATION ON DIRECTORS

### a) Directors' profiles

**Professor Mark Compton AM**
Chairman
BSc, MBA, FAICD, FCHSM, FAIM, 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 Business School), Non-executive Director of ASX-listed Next Science Limited (since 2018) 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

### Professor Suzanne Crowe AO

MBBS (Hons), FRACP, MD, FAICD

*Non-executive, independent Director, appointed 6 April 2020*

Professor Crowe is a qualified medical specialist and physician-scientist, holding medical and MD degrees from Monash University, and an internal medicine specialist qualification in Infectious Diseases from the Royal Australasian College of Physicians. She is a Fellow of the Australian Institute of Company Directors and holds a Diploma in Medical Laboratory Technology from the Royal Melbourne Institute of Technology. Professor Crowe's current positions include Non-executive Director of ASX-and NASDAQ-listed Avita Therapeutics Ltd (from January 2016), Non-executive Director of St Vincent's Health Australia Ltd (from January 2013), and Emeritus Professor of Medicine at Monash University, Melbourne (from 2020). She retired from Burnet Institute as Associate Director in 2018 following a 30-year research career, having played an integral role in Burnet's development as a global research organisation. Professor Crowe retired as Principal Specialist in Infectious Diseases at The Alfred Hospital, Melbourne in 2019 after 35 years of service. She has served as a Member of the Prime Minister's Science Engineering and Innovation Council (India/China Working Group), as Head of the World Health Organization ('WHO') Regional Reference Laboratory for HIV Resistance Testing and as an HIV advisor to WHO for 25 years. She was appointed a Fellow of the Australian Academy of Health and Medical Sciences in 2015, and an Officer of the Order of Australia (AO) in 2020, in recognition of her distinguished service to health and aged care administration, clinical governance, biomedical research, and to education.

### Dr Philip Dubois

MBBS, FRCR, FRANZCR, FAICD

*Non-executive Director, appointed July 2001*

Dr Dubois was appointed as an Executive Director of Sonic in July 2001 and retired from his executive position as CEO of Sonic's Imaging Division in June 2020. He remains on the Sonic Board as a Non-executive Director. 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 Chair of the Audit Committee and a member of the Risk Management Committee.

# Directors' Report

## INFORMATION ON DIRECTORS

### 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- and NASDAQ-listed Avita Therapeutics Inc. (Non-executive Chairman from July 2014) and ASX-listed Rhythm Biosciences Limited (Non-executive Director from August 2017). He is also a Non-executive Director of Unison Housing Limited, Azure Health Technology Limited, NeuralDx Limited and Metro Pain Group. Mr Panaccio was the Chief Executive Officer and Executive Director of Melbourne Pathology (acquired by Sonic in 1999) for ten 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 a member of the Audit Committee, the Remuneration and Nomination Committee, and the Risk Management Committee.

### Kate Spargo

LLB (Hons), BA, FAICD

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

Ms Spargo has gained broad business experience as both a legal advisor, having worked in private practice and government, and as a director. Ms Spargo has been a director of both listed and unlisted companies over the last 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 the Non-executive Chairman of CoInvest 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). 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 Harvard Business School. Dr Wilson is Chair of the Risk Management Committee and is a member of the Remuneration and Nomination Committee.

## 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.

## INFORMATION ON DIRECTORS

### c) Directors' interests in shares, options and performance rights as at 23 September 2020

| Director's name | Class of shares | Number of shares | Interest | Number of options | Number of performance rights |
|---|---|---|---|---|---|
| Dr C.S. Goldschmidt | Ordinary | 746,238 | Personally | 1,366,229+ | 148,664+ |
| C.D. Wilks | Ordinary | 547,368 | Personally | 606,964+ | 66,047+ |
| | Ordinary | 94,760 | Beneficially | – | – |
| Prof. M.R. Compton | Ordinary | 459 | Personally | – | – |
| | Ordinary | 8,807 | Beneficially | – | – |
| Prof. S. Crowe | Ordinary | 856 | Personally | – | – |
| Dr P.J. Dubois | Ordinary | 11,770 | Beneficially | – | – |
| N. Mitchell | Ordinary | 9,770 | Beneficially | – | – |
| L.J. Panaccio | Ordinary | 8,026 | Beneficially | – | – |
| K.D. Spargo | Ordinary | 3,000 | Personally | – | – |
| | Ordinary | 19,000 | Beneficially | – | – |
| Dr E.J. Wilson | Ordinary | 7,770 | Personally | – | – |

+ Vesting of 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. 164,559 of Dr C.S. Goldschmidt's and 73,107 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 2020, and the numbers of meetings attended by each Director (while they were a member of the Board or relevant Committee) were:

| | Full meetings of Directors | | Meetings of Committees | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Audit | | Remuneration and Nomination | | Risk Management | |
| Director's name | Number of meetings attended | Number of meetings held | Number of meetings attended | Number of meetings held | Number of meetings attended | Number of meetings held | Number of meetings attended | Number of meetings held |
| Dr C.S. Goldschmidt | 12 | 12 | – | – | – | – | 3 | 3 |
| C.D. Wilks | 12 | 12 | – | – | – | – | – | – |
| Prof. M.R. Compton | 12 | 12 | 6 | 6 | 4 | 4 | – | – |
| Prof. S. Crowe+ | 5 | 5 | – | – | – | – | – | – |
| Dr P.J. Dubois | 12 | 12 | – | – | – | – | – | – |
| N. Mitchell | 12 | 12 | 6 | 6 | – | – | 3 | 3 |
| L.J. Panaccio | 12 | 12 | 6 | 6 | 4 | 4 | 3 | 3 |
| K.D. Spargo | 12 | 12 | 6 | 6 | 4 | 4 | – | – |
| Dr E.J. Wilson | 12 | 12 | – | – | 4 | 4 | 3 | 3 |

+ Note Prof. S. Crowe was appointed as a Director on 6 April 2020

## 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 54.

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

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| **PricewaterhouseCoopers – Australian firm and related practices (including overseas PricewaterhouseCoopers firms)** | | |
| Taxation and other services | **403,197** | 263,575 |

# Directors' Report

## SHARE OPTIONS

Information on share options is detailed in Note 35 – Share based payments.

## 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

### Letter from the Chair of the Remuneration and Nomination Committee

Dear Shareholders,

We are pleased to present the 2020 Remuneration Report, which focuses on the impact of the COVID-19 pandemic, our remuneration outcomes, and our response to the first ‘strike’ in 2019. We have detailed in this Remuneration Report a change to remuneration for our executives for 2020, as well as changes for 2021.

There is no doubt that 2020 has been one of the most challenging years for Sonic Healthcare’s business, as for so many others. The impact of the COVID-19 pandemic has placed enormous demands on our people, our resources and our processes. We had been tracking to our earnings guidance until March this year, but our Company had to then rapidly adapt to the demands of testing with respect to a new and dangerous virus. At the same time we saw major reductions in volumes of routine testing, as people stayed away from their doctors.

Our facilities remained fully operational as we focussed on the health and safety of our staff, and our patients. Our international expertise came to the fore, with collaboration and innovation in testing and resource management across our federation used to provide millions of COVID-19 tests in a variety of settings.

Of particular significance was the way in which our people stepped up to manage the impact of the pandemic. Our procurement people had to ensure that all of our global sites had adequate supplies of Personal Protective Equipment, testing equipment, reagents and kits to cope with the extraordinary demand. Our staff coordinated the establishment of COVID-19 specimen collection in dedicated collection centres, introduced self-collection and supervised self-collection of COVID-19 specimens, and coordinated the early introduction of drive-through COVID-19 centres. We managed a very large decline in volumes from routine testing, involving cost reductions in labour by a hiring freeze, no overtime, a halt to capex, hours reductions and salary sacrifice. The Company has not participated in the JobKeeper or similar programs in Australia, and has received only relatively modest support in some of our other jurisdictions.

As a testament to our Medical Leadership culture, our teams responded and adapted rapidly to a new operating environment and our results in 2020 demonstrate the commitment of the staff and management through this challenging period. The Board thanks our employees for their exemplary contributions and for their dedication to serving our communities.

#### Remuneration outcomes for 2020

The Board did not exercise any discretion with respect to incentive based remuneration. The Board, CEO and CFO reduced their remuneration by 50% during April and May as a means of showing support for staff, given the challenges being faced.

The STI for the executives was paid at 25% of target. There was no award in relation to the quantitative earnings target for the STI, while the full award to the executives was made in relation to the qualitative component.

The total STI payments were approximately one fifth of what they were last year. This year the executives have agreed to defer 30% of their STI payment into equity for 2 years.

For the LTI, there was less impact from COVID-19 on the outcome in relation to the measures, given the relatively shorter duration of COVID-19 within the three year performance period. The LTI amount awarded was 70.9% of the target opportunity. This was based on relative total shareholder return achieved at the 77th percentile, average ROIC of 8.5% and compound EPS growth of 4.1%.

# Directors' Report

## REMUNERATION REPORT

### Response to the first strike

At our AGM in 2019, 25.6% of votes were cast against the adoption of our 2019 Remuneration Report. We have considered carefully the comments made by investors and proxy adviser firms, and the overall structure and measures in our remuneration approach. We have also consulted further with investors and proxy adviser firms. There was a variety of reasons given by investors and proxy advisers for the vote last year and we have tried to distil the main areas of concern and to respond to them. We have made a number of changes for 2021 which we trust will address the concerns. We have been mindful of balancing investor interests with those of our key executives. We want to reward our investors for their trust in the Company as well as reward excellent, long serving and committed executives who have delivered consistent value to investors over many years.

The changes are detailed in the Remuneration Report but in summary:

On the STI, we have:

- increased the threshold performance hurdle and also increased the earnings performance target
- added a hurdle of achievement of 80% of target EBITDA growth before any contribution can be included from acquisitions which are unknown at the time of setting the target. The amount which can be included as a result of such acquisitions is capped at 1% of any additional earnings
- reweighted the qualitative component from 25% to 20% of the target opportunity
- removed the outperformance opportunity on the qualitative component, returning it to 100%
- agreed to defer into equity for 2 years 50% of any payment made with respect to the quantitative or earnings related component of the STI, that is, on 80% of target opportunity.

On the LTI, we have:

- increased the threshold EPS CAGR target from 4% to 5% per year
- reduced the proportion available to vest at reaching threshold performance from 40% to 30%
- provided the executives with the opportunity to earn up to 150% of the target rather than 100% for performance above 10% EPS growth

Also on the remuneration mix for Dr Goldschmidt, we have increased the weighting of the LTI opportunity relative to the STI opportunity in line with market comparators.

We remain committed to achieving the appropriate balance between investor and executive rewards and we will continue to monitor the alignment of our remuneration approach with Company performance.

You may notice that our Remuneration Report is in a new format this year. We have tried to enhance the readability of the Report but of course, continue to welcome feedback on all aspects of our approach.

As we continue to travel through and out the other side of the COVID-19 pandemic we will continue to listen to feedback from investors and other stakeholders as we craft remuneration arrangements that provide just encouragement and reward to the executives whilst ensuring shareholders' interests are kept at the fore.

**Kate Spargo**
23 September 2020

## REMUNERATION REPORT

### In this report



### a) Key management personnel

The table below lists the Directors of Sonic Healthcare Limited, who were the key management personnel ('KMP') of the Group throughout the financial years ended 30 June 2020 and 2019 (unless otherwise indicated).

| Name | Position |
|---|---|
| Non-executive Directors | |
| **Prof. M.R. Compton** | Chairman |
| **Prof S. Crowe (from 6 April 2020)** | Non-executive Director |
| **N. Mitchell** | Non-executive Director |
| **L.J. Panaccio** | Non-executive Director |
| **K.D. Spargo** | Non-executive Director |
| **Dr E.J. Wilson** | Non-executive Director |
| Executive Directors | |
| **Dr C.S. Goldschmidt** | Managing Director |
| **C.D. Wilks** | Finance Director |
| **Dr P.J. Dubois** | Executive Director, CEO of Sonic Imaging |

The Board is satisfied that in light of the way the Company operates in a federation structure and the consequent distributed management model, there are no other KMP at the group level.

Dr P.J. Dubois retired from his executive position and therefore became a Non-executive Director effective 1 July 2020.

### b) Year in review

#### i) COVID-19 and business performance

The 2020 financial year was a busy and challenging period. For the 8.5 months to mid-March 2020, Sonic's financial performance was in line with the guidance given to the market in August 2019 of 6-8% underlying EBITDA growth on a Constant Currency basis. Social restrictions and fear of infection relating to the COVID-19 pandemic then caused dramatic falls in patient volumes and revenues from the second half of March, resulting in a short-term downturn in earnings. Sonic did not participate in the JobKeeper or similar programs in Australia, and received only relatively modest support in other jurisdictions. By 30 June 2020 the majority of Sonic's divisions had returned to pre-COVID-19 base volumes and revenues.

## REMUNERATION REPORT

In addition to the recovery of base volumes/revenues, many of Sonic's laboratory businesses had ramped up substantial COVID-19 testing, playing an essential role in combatting the pandemic. Sonic reported underlying EBITDA growth on a Constant Currency basis for the 2020 year of 1.6%.

Sonic Healthcare facilities remained fully operational throughout the pandemic. The health and safety of our 37,000 staff operating at the frontline of the pandemic response remained paramount, with strong focus on staff and patient well-being in working with potentially infective substances and patients.

In response to the pandemic, Sonic has completed more than 6 million COVID-19 PCR tests globally to date. Sonic Healthcare's Medical Leaders continue to support national initiatives in partnership with governments and public health authorities. Sonic has leveraged its international expertise to optimise the medical and operational response to the pandemic, mobilising resources and infrastructure to provide high-volume, rapid turn-around of COVID-19 testing, while managing supply chain challenges amidst global shortages and maintaining parallel focus on continuing to provide essential non-COVID-19 diagnostic and clinical services.

Revenue for the year was $6.8 billion, reflecting an underlying revenue increase of 11.5%. Reported net profit was $528 million, an underlying increase of 6.5%. Strong operating cash generation was assisted by receipt of A$63 million of prepaid US Medicare testing fees, and cash preservation initiatives. Dividends for the year totalled $0.85 per share, an increase of 1.2% over 2019, supported by Sonic's strong balance sheet, earnings and cash flows.

### ii) Remuneration impacts and outcomes

The Board did not exercise discretion to adjust any variable remuneration performance targets or outcomes for 2020.

In light of 2020 performance, remuneration impacts and outcomes were as follows:

#### Fixed remuneration

The Board, including the Managing Director and Finance Director, and other executives proactively volunteered to sacrifice a proportion of their salaries in response to the COVID-19 pandemic. All KMP sacrificed 50% of their 2020 fees/fixed remuneration from the early days of the pandemic, when the potential impact of social restrictions on Sonic Healthcare was uncertain, for an approximate eight week period. This decision reflected Sonic's leaders' dedication to Sonic Healthcare and displayed their commitment to showing support for our employees, customers, shareholders and the broader community in the face of the pandemic. Payment of fixed remuneration at full rates recommenced in June 2020.

#### Short Term Incentives ('STI')

- As a result of the impact of the COVID-19 pandemic on Sonic's 2020 underlying EBITDA growth, the EBITDA performance condition which relates to 75% of the target STI amount was not met.
- Reflecting strong performance against qualitative strategic targets, both Dr C.S. Goldschmidt and C.D. Wilks received 25% of their STI target (FY2019: 119.1%). Refer to section c) for more information on the qualitative performance assessment.
- For the 2020 STI award, 70% will be delivered in cash following the end of the financial year, while the remaining 30% will be deferred into rights to Sonic Healthcare shares. The rights and resulting shares are to be held for a total period of at least two years.

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

The 2018 LTI grant was tested for the performance condition period for the three years to 30 June 2020. The performance and subsequent amounts vested for each performance condition are outlined in Section c). In aggregate 70.9% of the total award vested.

Further detail on performance outcomes is included in Section c).

## REMUNERATION REPORT

iii) Response to the first strike

At the 2019 Annual General Meeting ('AGM') Sonic Healthcare received a 'first strike' with 25.6% of votes cast against the adoption of the 2019 Remuneration Report. A range of feedback from shareholders and proxy advisers was sought and received. While some of the messages received were consistent, other aspects of Sonic's remuneration approach were seen as appropriate by some investors and proxy advisers but not others.

The Board values stakeholder feedback and insights, and consequently, undertook an extensive review of Sonic Healthcare's executive remuneration framework. Engagement with shareholders and proxy advisor groups was significantly increased to understand the detail of the concerns, and in addition external experts in remuneration structures and reporting were consulted.

In summary, the key themes were:

- Executive remuneration opportunity: Investors wanted a clearer understanding of our approach to setting the remuneration quantum for Sonic Healthcare's Executive Directors relative to market peers.
- Pay for performance alignment and performance targets: Remuneration outcomes should be more strongly linked to Company performance, in particular:
  - Payment of stretch outcomes on the non-financial component of the STI.
  - Consistency in the treatment of acquisitions in both the STI and LTI.
  - The degree of challenge in STI and LTI performance targets, in particular the EBITDA STI target setting approach and EPS LTI target.
- Transparency: The Remuneration Report should provide shareholders with a clearer explanation of decisions regarding remuneration structures and quantum.

In light of stakeholder feedback and the review conducted, the Board decided to make changes to the remuneration framework, with the focus on enhancing the pay for performance alignment, while also recognising the importance of acquisitions in Sonic's business strategy and creation of wealth for shareholders.

### 2020 changes

The table below outlines the changes made effective for 2020.

| Element | Action taken |
|---|---|
| STI deferral | As an interim step, thirty per cent (30%) of Dr C.S. Goldschmidt's and C.D. Wilks' 2020 STI earned will be delivered as rights to Sonic Healthcare shares, deferred for two years. No further performance hurdles will apply. The Board considers that this may assist in assuring shareholders of the alignment of performance with shareholders' longer term interests. The Board also reflects that both Dr Goldschmidt and Mr Wilks retain substantial shareholdings in the Company. |
| Transparency of disclosures | The Remuneration Report for 2020 has been restructured and enhanced to provide greater transparency and articulation of rationale for remuneration quantum, decisions and outcomes. One of the key pieces of feedback was the approach to setting remuneration levels for Dr C.S. Goldschmidt and C.D. Wilks, which is outlined in section d(ii). |

## REMUNERATION REPORT

### 2021 changes

The following changes will be implemented effective for 2021.

| Element | | Action taken |
|---|---|---|
| Remuneration mix | | The target remuneration mix for Dr C.S. Goldschmidt has been revised, reducing the target STI opportunity with a corresponding increase in the LTI opportunity. This shift has resulted in the following remuneration mix:<br>Fixed Remuneration 31% (unchanged); STI 29%; LTI 40%. |
| STI | EBITDA performance targets | The annual EBITDA performance target is to be set based on the upper quartile of the market earnings guidance range rather than the mid-point.<br>The 1% cap on the contributions from 'unknown' acquisitions arising during the financial year has been retained, recognising the importance of acquisitions to the business strategy. The Board considers it important to retain an incentive to reward the executives for the effective identification and completion of appropriate acquisitions in the shorter term as well as the longer term. However, acknowledging the feedback received in 2019, 80% of the target EBITDA must be achieved without any contributions from 'unknown' acquisitions. |
| | Weighting of financial and non-financial performance | The strategic qualitative component of the STI will be reduced from 25% of the total STI opportunity to 20%, with 80% of the award subject to the EBITDA hurdle. The Board considers that the qualitative factors nominated are fundamental to the success of the Company but also represent the way business is consistently carried out at Sonic Healthcare, led by the executives. Consequently the Board has chosen to place greater emphasis on the quantitative factors for 2021.<br>The 150% upside opportunity on the strategic qualitative component of the STI has been removed i.e. now capped at 100%.<br>The potential upside will continue to apply to the EBITDA component of the STI award, in the defined circumstances where there has been significant outperformance. |
| | Deferral | 50% of the EBITDA component of the STI will be deferred into rights to Sonic Healthcare shares. The rights/shares must be held for a total of at least two years.<br>There will be no deferral on any payments made under the strategic qualitative component of the STI. |
| | Discretion | The Board will consider the approach to cessation of employment for the deferred STI and any implications for malus as applicable for 2021 and beyond. |
| LTI | EPS target and vesting schedule | The threshold EPS CAGR growth target has been raised from 4% per annum to 5%.<br>The vesting schedule under the EPS performance measure has been revised as follows:<br>■ The proportion to vest on the achievement of threshold EPS performance (i.e. at 5% EPS CAGR) will be reduced from 40% to 30%.<br>■ Correspondingly, participants will have the opportunity to earn up to 150% for maximum performance (i.e. for performance above 10% CAGR).<br>There are no changes proposed to the vesting schedules for the relative TSR and ROIC performance measures. |

## REMUNERATION REPORT

### c) 2020 performance and remuneration outcomes

#### i) STI outcomes

2020 performance assessment

As a result of the impact of the COVID-19 pandemic on Sonic's 2020 underlying EBITDA growth, the EBITDA performance condition which relates to 75% of the target STI amount was not met and that proportion of the potential award was forfeited.

The remaining 25% of the target STI award was subject to the qualitative strategic performance conditions and was met in full. Detailed information was sought from a range of sources both within and outside of the Company and an assessment of the performance of the executives was made by the Board with reference to the following factors.

- Promotion of, and adherence to, Sonic Healthcare's Core Values and Foundation Principles
- The exercise and promulgation of Sonic's Medical Leadership culture
- The Federation model employed at Sonic Healthcare, and its effective management
- Risk management within the Company
- The external standing and reputation of the Company
- Financial leadership and innovation (C.D. Wilks only)

These are 'qualitative' factors and are not able to be measured in the same way as the EBITDA target. However the Board believes it is these factors, and the behaviours and actions which are linked to them, that are the basis of Sonic Healthcare's success as a healthcare provider and as a business. The current COVID-19 environment has strongly tested the quality of all these factors. The Board believes that the Company is driven by the ideal of Medical Leadership, which means putting the patient and their treating clinician at the centre of all Sonic does. Sonic's Values and Principles derive from Medical Leadership, and the Company's standing and reputation have been built from it. Throughout the pandemic, the executives have called on Sonic's Medical Leadership culture to motivate and drive the Company's staff to achieve outcomes during the most challenging period in Sonic's history. Sonic Healthcare's long established culture has brought out the best in its people. It has served to inspire them into action, not only to provide service and to make a contribution to community and their country, but also to make enormous personal sacrifices to help Sonic Healthcare navigate the financial challenge presented by the pandemic.

Sonic's culture supported its leaders as they managed the demands of the pandemic within our Australian and overseas operations, went to exceptional lengths to ensure safety of staff, patients and colleague healthcare workers, and developed innovative methods for effective and timely specimen collection and testing. The leadership teams found ways of reducing costs and securing supply of essential materials in order for the Company to continue to provide its essential healthcare services despite global shortages. Throughout the pandemic to date, Sonic has seamlessly maintained its provision of non-COVID-19 related business despite significant uncertainty and challenge.

The table below summaries the 2020 STI outcomes.

| | STI target as a % of fixed remuneration | Target STI $ | % of Target STI actually awarded | % of Target STI forfeited | Actual STI award $ |
|---|---|---|---|---|---|
| **Dr C.S. Goldschmidt** | | | | | |
| 2020 | 110% | 2,637,397 | 25% | 75% | 659,349 |
| 2019 | 110% | 2,637,397 | 119.1% | 0% | 3,140,907 |
| **C.D. Wilks** | | | | | |
| 2020 | 105% | 1,147,138 | 25% | 75% | 286,785 |
| 2019 | 105% | 1,147,138 | 119.1% | 0% | 1,366,140 |

# Directors' Report

## REMUNERATION REPORT

### ii) LTI outcomes

The options and performance rights issued as LTI for the executives are subject to challenging vesting conditions. Of the options and performance rights with a performance measurement period for three years to 30 June 2020, 70.9% (2019: 35.4%) satisfied the vesting conditions, as follows:

| LTI outcomes (1 July 2017 to 30 June 2020) | | | |
|---|---|---|---|
| Performance measure | Overall weighting | Performance achieved | % eligible to vest |
| Relative TSR | 50% | 77th percentile | 100% |
| Aggregate EPS[1] | 25% | 331.9 cents | 41.3% |
| Target average ROIC[2] | 25% | 100.4% of target ROIC | 42.4% |
| **Total** | **100%** | **N/A** | **70.9%** |

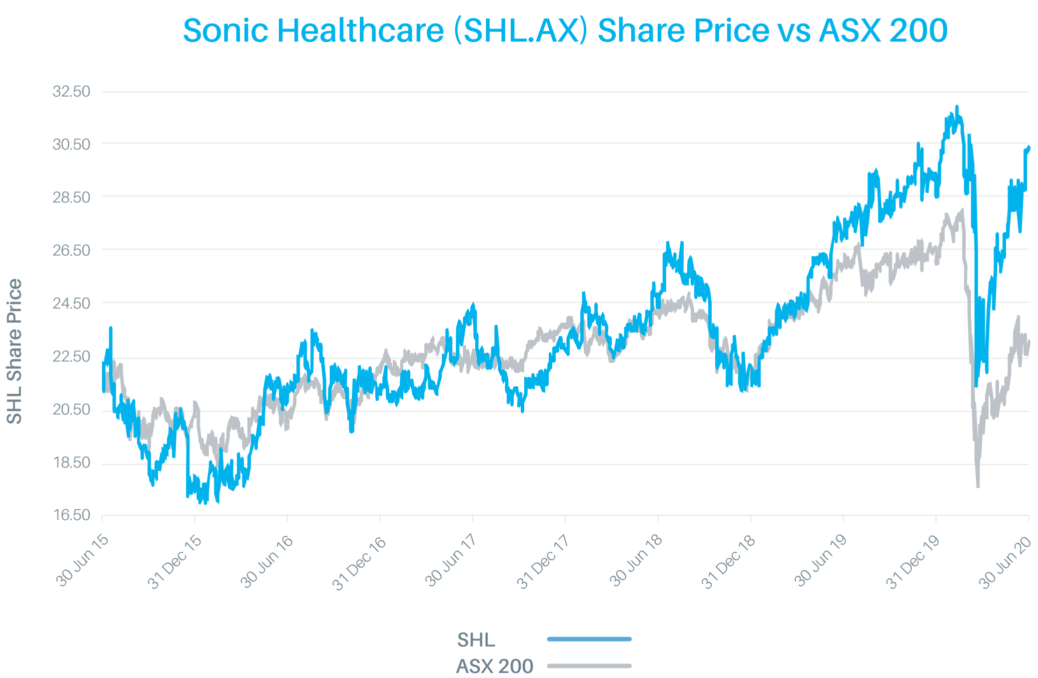
1 For the Aggregate EPS component of the LTI issue made in FY2018, the performance was as follows: FY2018 EPS: 110.2, FY2019 EPS: 115.7, FY2020 EPS: 106.0, for a total aggregate EPS of 331.9 cents over the three-year performance period. EPS is calculated on a Constant Currency basis.

2 For the ROIC component of the LTI issue made in FY2018, the performance was as follows: FY2018 (target: 8.3%, achieved: 8.6%), FY2019 (target: 8.6%, achieved: 8.7%) and FY2020 (target: 8.5%, achieved: 8.2% excluding the impacts of the new accounting standard AASB 16). This resulted in 100.39% of the target ROIC being achieved over the three-year performance period.

### iii) Company performance

#### Share price growth

The chart below shows the Company's share price (SHL.AX) performance over the 5 years to 30 June 2020, versus the relative performance of the ASX 200. The ASX 200 increased approximately 9% over the period, whereas SHL.AX increased approximately 42%. Sonic's share price has traded at or around all-time highs post release of the 2020 results.



## REMUNERATION REPORT

### Historical 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 performance-based or equity-based remuneration).

| | 2016 | 2017 | 2018 | 2019 | 2020 | Compound average annual growth rate[1] |
|---|---|---|---|---|---|---|
| Growth in Underlying EBITDA[2] (excluding non-recurring items and on a Constant Currency basis) | 13.8% | 5.3% | 6.4% | 6.7% | 1.6% | **6.2%** |
| Growth in EBITDA[2] (on a Constant Currency basis) | 20.5% | 2.5% | 7.3% | 9.5% | 0.1% | **7.4%** |
| Net profit attributable to members ($'000) | 451,374 | 427,773 | 475,606 | 549,725 | 527,749 | **8.7%** |
| Diluted earnings per share (cps) | 109.3 | 102.1 | 112.2 | 122.1 | 110.6 | **5.2%** |
| Dividends paid per share (cps) | 71 | 75 | 78 | 82 | 85 | **4.3%** |
| Enterprise value[3] ($'000) | 11,229,432 | 12,588,332 | 12,900,794 | 15,143,172 | 16,481,770 | **9.3%** |
| Total shareholder return[4] | 63.0% | 56.1% | 23.1% | 40.7% | 40.7% | **n/a** |
| Change in total fixed remuneration plus STI of executives[5] | 44.3% | 10.6% | (0.1)% | 7.9% | (44.0)% | **(0.7)%** |
| Change in total remuneration of executives[6] | 34.4% | 21.2% | 13.1% | (6.3)% | (26.8)% | **4.8%** |

1 The compound average annual growth rate is calculated over the five year period shown with 2015 as the base year.
2 EBITDA excludes the impacts of the new lease accounting standard AASB 16.
3 Enterprise value is the Company's market capitalisation (number of issued shares times closing share price) plus net interest-bearing debt (excluding lease liabilities under AASB 16) at 30 June.
4 Total shareholder return is calculated over a rolling three-year performance period and assumes dividend reinvestment.
5 Change in total fixed remuneration plus STI of executives is the percentage increase/(decrease) over the prior year of total fixed remuneration plus STI of all key management personnel in place for all five years (but excluding Non-executive Directors).
6 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. Remuneration has fluctuated from year to year largely dependent on the extent to which the STI performance hurdle related to EBITDA growth was met. 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 earnings growth and strong Total Shareholder Returns.

# Directors' Report

## REMUNERATION REPORT

### d) 2020 Executive Director remuneration framework

#### i) Remuneration strategy

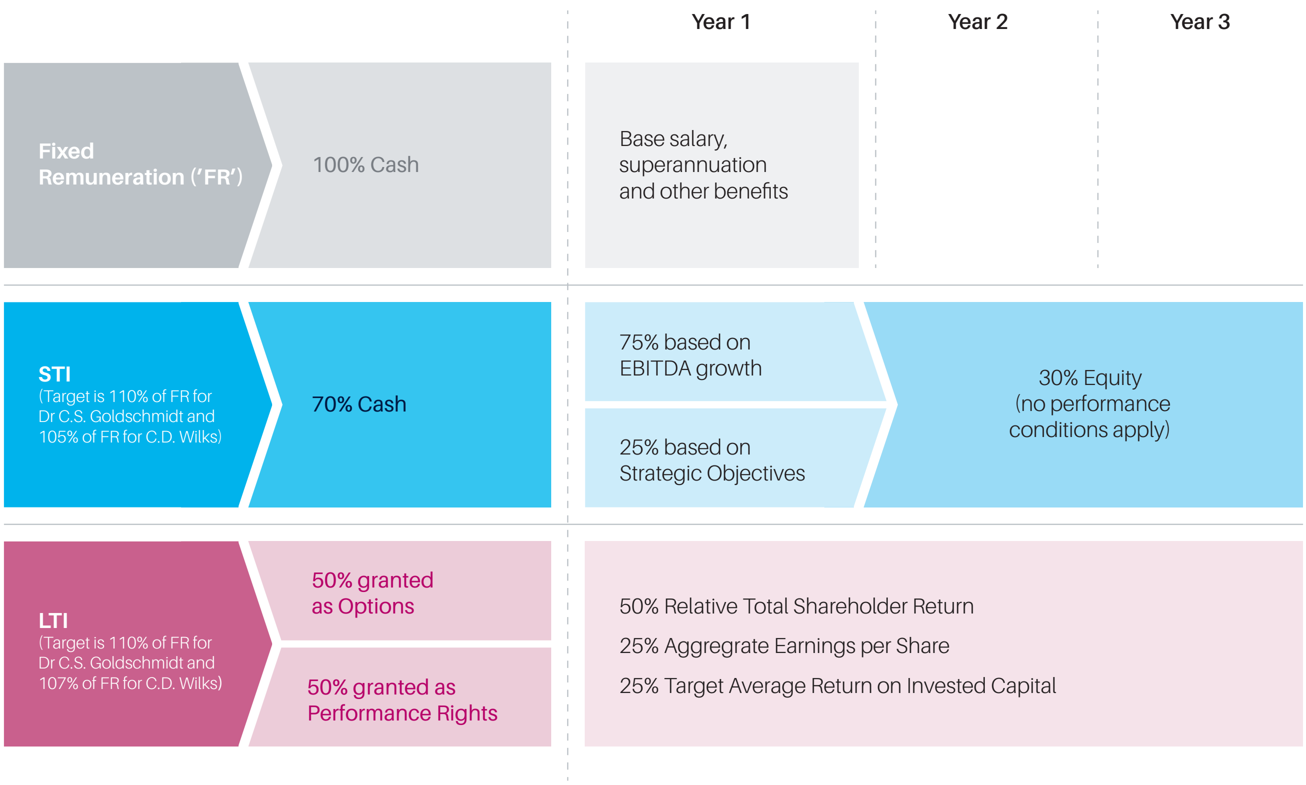
Sonic Healthcare's remuneration opportunities are structured and set at levels that are intended to attract, motivate and retain executives capable of leading and managing the Group's operations, and to align remuneration with the creation of value for shareholders.

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 align reward with the creation of value for shareholders.

The remuneration strategy is designed to support Sonic's business strategy. In particular, the approaches support the unique nature of the decentralised federated structure, complexity of the global organisation and the acquisitive nature of the business.

#### Summary of remuneration components

The graphic below summarises the remuneration components and timing of delivery.



## REMUNERATION REPORT

The table below outlines the purpose, performance link and value to shareholders of each remuneration component.

| | Fixed Remuneration | Short-term incentive (STI) | Long-term incentive (LTI) |
|---|---|---|---|
| **Purpose** | Baseline level of remuneration to attract and retain individuals with the skills, experience and capability to deliver the business strategy. Executive Directors may take part of their base salary as other benefits, such as motor vehicles, including any associated fringe benefits tax. | Motivate and reward for contributing to the achievement of annual financial and strategic objectives. | Align participants with long-term business strategy and the creation of shareholder value and returns over the long-term. |
| **Performance link** | Reviewed annually, taking into account market benchmarks, performance and experience of Executive Directors and Company performance. | Performance is assessed against EBITDA growth targets and strategic objectives. | Performance is assessed against Relative Total Shareholder Return (TSR), Earnings per Share (EPS) and Return on Invested Capital (ROIC). |
| **Value delivered to shareholders** | The remuneration of current Executive Directors reflects the individual's significant commitment to the success of Sonic Healthcare. These individuals have led the delivery of strategic outcomes and shareholder returns over an extended period of time, well in excess of the average market tenure for similar roles. | Aligned to earnings growth and delivery of annual strategic objectives that support the longer-term strategy.<br>Deferred portion delivered in equity. | The LTI is fully delivered as equity and performance measures are aligned to long-term shareholder returns and value creation. |

### ii) Market positioning of fixed and total remuneration opportunities

Remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks are reviewed annually by the Remuneration and Nomination Committee, referencing market benchmarking.

Consideration is given to companies of similar size and complexity based on market capitalisation, global complexity (determined by offshore portion of revenue) and industry. Companies in the Financials and Metals and Mining sectors are excluded from market comparisons.

Fixed remuneration and Total Target Remuneration (being fixed remuneration, STI and LTI) are targeted at the 75th percentile for the Managing Director and at the 80th percentile for the Finance Director. This market positioning reflects the value of the specific individuals to Sonic Healthcare taking into consideration the following factors:

- The positioning of Sonic Healthcare, by market capitalisation, relative to other companies in the comparator groups. As Sonic's size placed it toward the top of the comparator groups considered, the positioning of the Managing Director and the Finance Director's remuneration towards the top of like roles within these groups is, in the Board's view, appropriate.
- The current Managing Director and Finance Director have led the Company in driving sustained share price growth, demonstrating medical leadership and delivering significant shareholder value over 27 years. Both are among the longest tenured and successful incumbents in their respective roles within the ASX 200, having served in their roles since 1993. The Board considers it appropriate to recognise the value of the knowledge, skills and experience the individuals bring to Sonic Healthcare, as well as the sustained performance they have delivered.
- Reflecting their sustained performance, both the Managing Director and Finance Director have built and retained large shareholdings with Sonic Healthcare over their significant tenure, resulting in a high level of alignment between the Executives and shareholders.
- The role and strategic responsibilities of C.D. Wilks, Finance Director are considered broader than those of a typical CFO role.

# Directors' Report

## REMUNERATION REPORT

### iii) Remuneration opportunity and mix

The table below provides a summary of target remuneration mix for Dr C.S. Goldschmidt and C.D. Wilks:

| | Fixed Remuneration (% of total remuneration) | Target STI (% of total remuneration) | LTI opportunity (% of total remuneration) |
|---|---|---|---|
| Dr C.S. Goldschmidt and C.D. Wilks | ~32% | ~34% | ~34% |

Neither fixed nor total target remuneration has increased since 2017.

### iv) Detailed overview of STI and LTI arrangements

Additional information for the STI and LTI awards for the year ended 30 June 2020 are detailed below for the Managing Director and Finance Director:

#### STI Plan

Additional information for the STI award for the year ended 30 June 2020 is detailed below.

| Key question | Sonic Healthcare approach |
|---|---|
| **Who is eligible to participate in the STI plan?** | The Managing Director and Finance Director are eligible to participate in the STI plan. |
| **What are Executive Directors able to earn under the STI plan?** | ▪ **Target opportunity:** 110% of fixed remuneration for the Managing Director and 105% for the Finance Director.<br>▪ **Maximum opportunity:** Both can earn up to 150% of target for the achievement of stretch performance. |
| **How is the STI delivered?** | For the 2020 STI, 70% of the award is delivered as cash, with the remaining 30% deferred as rights to Sonic Healthcare shares. The rights/shares must be held for a period of at least two years. |
| **What is the mix of performance conditions?** | The STI is determined based on the extent to which the following conditions are met:<br>▪ 75% based on EBITDA growth<br>▪ 25% based on Strategic Objectives |
| **How does the EBITDA performance condition work?** | Year-on-year growth (using Constant Currency exchange rates to translate offshore earnings) in underlying EBITDA.<br>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 law, interest rates, or exchange rates.<br>Due to the COVID-19 pandemic, the threshold earnings growth was not achieved and therefore none of the STI component subject to the underlying EBITDA target will be paid for 2020. |
| **What are the Strategic Objective measures?** | The Strategic Objectives applicable to the STI are as follows:<br>▪ Promotion of, and adherence to, Sonic Healthcare's Core Values and Foundation Principles<br>▪ The exercise and promulgation of Sonic's Medical Leadership culture<br>▪ The Federation model employed at Sonic Healthcare, and its effective management<br>▪ Risk management within the Company<br>▪ External standing and reputation (including stakeholder management, brand and quality)<br>▪ Financial leadership and innovation (for C.D. Wilks) |

## REMUNERATION REPORT

LTI Plan

The award features for the grant made during the 2020 financial year are as follows:

| Key question | Sonic Healthcare approach |
|---|---|
| Who is eligible for awards under the LTI plan? | The Managing Director and Finance Director are eligible to participate in the LTI plan. |
| Are awards made on an annual basis under the LTI plan? | Yes, LTI grants are made on an annual basis, subject to shareholder approval at the Company's Annual General Meeting. This allows the Board to review the performance conditions on an annual basis and/or adjust the mix between types of instruments for changes in circumstances. |
| What form do the awards take? | The LTI is delivered half in options and half in performance rights. |
| Are dividends paid on unvested LTI awards? | No, unvested options and performance rights are not eligible for dividends. Executive Directors are only rewarded to the extent performance conditions have been achieved at the end of the performance period and awards are exercised. |
| How is the number of awards to grant determined? | The number of options issued was determined based on a Black Scholes methodology valuation at the time of grant. The valuation does not allow for any discounts relating to performance conditions. The exercise price of the options is determined using the Volume Weighted five-day Average market Price ('five-day VWAP') for Sonic Healthcare shares preceding the date of grant.<br>The number of performance rights issued was determined by dividing 50% of the maximum value of LTI (i.e. the proportion granted as performance rights) by the five-day VWAP for Sonic Healthcare shares preceding the date of grant. |
| What is the mix of performance conditions? | Awards will vest under the LTI plan based on the extent to which the following conditions are achieved over the three year performance measurement period:<br>▪ Relative TSR (50% weighting)<br>▪ Aggregate EPS (25% weighting)<br>▪ Average Return on Invested Capital ('ROIC') (25% weighting) |
| How does the Relative TSR performance condition work? | Relative Total Shareholder Return ('TSR') provides a direct link between executive remuneration and shareholder return relative to the Company's peers.<br>Sonic Healthcare's TSR is measured against the S&P ASX 100 Accumulation Index, excluding Banks and Resource companies over the three-year performance period. Sonic Healthcare's TSR performance is ranked relative to the TSRs of the other constituents of this reference group.<br>2020 awards under the Relative TSR condition vest as follows: |

| TSR Ranking achieved | Percentage of options and rights that vest |
|---|---|
| Below the 51st percentile | 0% vesting of Relative TSR component |
| 51st percentile | 50% vesting of Relative TSR component |
| Greater than 51st and less than 75th percentile | Pro rata between 50% and 100% vesting of Relative TSR component |
| 75th percentile and above | 100% vesting of Relative TSR component |

# Directors' Report

## REMUNERATION REPORT

| Key question | Sonic Healthcare approach |
|---|---|
| How does the Aggregate EPS performance condition work? | Sonic Healthcare's Aggregate EPS over three years is measured against an Aggregate EPS target.<br>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 (to AUD using average currency exchange rates for the base financial year). Using a Constant Currency measure of EPS removes volatility from exchange rate movements that are out of the control or influence of the Executive Directors.<br>Growth in EPS has been chosen as a condition as it is a direct measure of Company performance and maintains a strong correlation with long-term shareholder return.<br>2020 awards under the aggregate EPS condition vest as follows: |

| Aggregate EPS (cents) for 3 years ending 2022 | Percentage of options and rights that vest |
|---|---|
| Less than 361 | 0% vesting of aggregate EPS condition |
| Equal to 361 | 40% vesting of aggregate EPS condition |
| Between 361 and 405 | Pro rata between 40% and 100% vesting of aggregate EPS measure |
| Equal to or greater than 405 | 100% of aggregate EPS measure |

361 cents and 405 cents equate to compound annual growth of 4% and 10% respectively, over the EPS for 2019 adjusted to remove the impact of the one-off $50 million gain on the sale of GLP Systems.

| Key question | Sonic Healthcare approach |
|---|---|
| How does the Target Average ROIC performance condition work? | ROIC is calculated as follows (excluding the impact of AASB 16):<br>*ROIC = (EBIT less minority interests less cash taxes paid in year) / Average invested capital.*<br>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 of the performance period (2020) was 8.5%. 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').<br>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.<br>ROIC has been chosen as a performance condition 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. |

| Average ROIC over 3 years | Percentage of options and rights that vest |
|---|---|
| Less than Target Average ROIC | 0% vesting of Average ROIC component |
| Equal to Target Average ROIC | 40% vesting of Average ROIC component |
| Greater than Target Average ROIC and less than 110% of Target Average ROIC | Pro rata between 40% and 100% vesting of average ROIC component |
| 110% of Target Average ROIC or greater | 100% vesting of average ROIC component |

| Key question | Sonic Healthcare approach |
|---|---|
| Does the LTI have re-testing? | No, there is no re-testing. Options and performance rights for which the performance conditions are not satisfied lapse immediately after the performance measurement is finalised. |
| How are the awards delivered under the LTI? | Vesting of LTI grants is dependent upon the achievement of the performance conditions outlined above over the three-year performance period.<br>Options can only be exercised when the market price of Sonic Healthcare shares is higher than the exercise price.<br>The performance rights will automatically exercise if and when the Board determines the performance conditions have been achieved. Entitlements are satisfied either through an allotment of new Sonic Healthcare ordinary shares to participants or the purchase of existing shares on-market. |

## REMUNERATION REPORT

### e) Remuneration governance

#### i) Service agreements

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

Other than contributions to superannuation funds during employment periods and notice periods under applicable employment laws, the Group does not contract to provide retirement benefits to Executive or Non-executive Directors.

Remuneration and other terms of employment for Executive Directors other than the Managing Director and Finance Director 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.

Key remuneration-related terms for the Executive Directors are outlined below:

#### Cessation of employment

The Board has the discretion to determine the treatment of unvested awards where the participant is judged to be a 'good leaver'. The Board may choose to enable the participant to retain the portion of the LTI which vests (subject to the performance conditions) for a specified period of time following the cessation of employment or to apply another treatment depending on the circumstances surrounding the departure.

To be judged a 'good leaver' the Executive Director 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 Executive Directors 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, unless the Board determines otherwise.

The Board will consider the approach to cessation of employment for the deferred STI and any implications for malus as applicable for 2021 and beyond.

#### Change of control

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

# Directors' Report

## REMUNERATION REPORT

ii) Remuneration policy and governance oversight

The following diagram illustrates Sonic Healthcare's remuneration governance framework and the key roles of the Remuneration and Nomination Committee, which consists of four Non-executive independent Directors.

### SONIC BOARD

- Oversees Non-executive Director and Executive Director remuneration and remuneration policies.
- With the support of the Remuneration and Nomination Committee, the Board is responsible for monitoring the performance of Executive Directors and the alignment of remuneration policies with Sonic's purpose, values, strategic objectives and shareholders.
- Reviews and approves recommendations from the Remuneration and Nomination Committee.

### REMUNERATION AND NOMINATION COMMITTEE

- Makes specific recommendations to the Board on remuneration packages and other terms of employment for the Executive and Non-executive Directors.
- Advises the Board in relation to equity-based incentive schemes for all other employees.
- Seeks advice from the Risk Management Committee on risk related matters.
- Seeks advice from independent consultants where appropriate.

### REMUNERATION ADVISORS

- Provide independent advice to the Remuneration and Nomination Committee or management on remuneration market data, market practice or other remuneration related matters.
- In 2020, Sonic's Remuneration and Nomination Committee employed the services of Ernst & Young to provide information in respect of remuneration market data, support to the Board in responding to the first strike and supporting the drafting of the 2020 Remuneration Report.
- No remuneration recommendations were made by Ernst & Young in 2020.

### MANAGEMENT

- Makes recommendations to the Remuneration Committee on the Group's remuneration strategy and framework.
- Provides relevant performance, financial and risk information to support decision-making.

## REMUNERATION REPORT

### f) Non-executive Director remuneration

The base fees payable to the Chairman and all other Non-executive Directors were reduced by 50% for a period of approximately eight weeks during the financial year ended 30 June 2020. This was done to show support for Sonic's shareholders and staff given the challenges they have been facing with COVID-19 conditions.

Remuneration of Non-executive Directors is determined by the Board within the maximum amount approved by the shareholders. At the Annual General Meeting on 22 November 2017, shareholders approved a maximum annual amount of $2,000,000 for remuneration of Non-executive Directors, of which $1,306,274 was paid in 2020. In 2020 the Chairman's annual fee 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 |

Non-executive Director fees have not increased since 1 July 2017. Options and performance rights are not issued and performance based remuneration is not payable to Non-executive Directors.

### g) Statutory remuneration disclosures for key management personnel

The following tables show the total remuneration for Sonic Healthcare's KMP for 2019 and 2020. These disclosures have been calculated in accordance with the accounting standards.

| Non-executive Directors | Year | Short-term employee benefits | | Post-employment benefits | Total |
|---|---|---|---|---|---|
| | | Salary & fees | Other benefits[1] | Superannuation | |
| Name | | $ | $ | $ | $ |
| **Prof. M.R. Compton** *Chairman* | FY2020 | 373,382 | – | 20,789 | 394,171 |
| | FY2019 | 404,469 | – | 20,531 | 425,000 |
| **Prof. S. Crowe** *Commenced on 6 April 2020* | FY2020 | 27,806 | – | 2,641 | 30,447 |
| | FY2019 | – | – | – | – |
| **N. Mitchell** | FY2020 | 198,630 | – | 18,870 | 217,500 |
| | FY2019 | 200,913 | – | 19,087 | 220,000 |
| **L.J. Panaccio** | FY2020 | 206,415 | – | 19,231 | 225,646 |
| | FY2019 | 237,469 | – | 20,531 | 258,000 |
| **K.D. Spargo** | FY2020 | 203,196 | – | 19,304 | 222,500 |
| | FY2019 | 219,469 | – | 20,531 | 240,000 |
| **Dr E.J. Wilson** | FY2020 | 197,269 | – | 18,741 | 216,010 |
| | FY2019 | 212,785 | – | 20,215 | 233,000 |

[1] Other benefits include fringe benefits tax where applicable

# Directors' Report

## REMUNERATION REPORT

| Executive Directors | Year | Short-term employee benefits: Salary & fees | Short-term employee benefits: Other benefit[1] | Short-term employee benefits: STI (cash) | Post-employment benefits: Superannuation | Equity-based remuneration[2]: Value of deferred STI rights | Equity-based remuneration[2]: Value of shares | Equity-based remuneration[2]: Value of options and rights | Other long-term benefits: Long-service leave accrued[3] | Total | Performance related % of total remuneration |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | | $ | $ | $ | $ | $ | $ | $ | $ | $ | % |
| Dr C.S. Goldschmidt *Managing Director* | FY2020 | 2,201,420 | – | 461,544 | 21,003 | 197,805 | – | 1,572,734 | 39,339 | 4,493,845 | 50 |
| | FY2019 | 2,377,103 | – | 3,140,907 | 20,531 | – | – | 703,246 | 39,028 | 6,280,815 | 61 |
| C.D. Wilks *Finance Director* | FY2020 | 989,654 | – | 200,749 | 21,003 | 86,036 | – | 698,711 | (17,151) | 1,979,002 | 50 |
| | FY2019 | 1,069,209 | – | 1,366,140 | 20,531 | – | – | 306,067 | 17,626 | 2,779,573 | 60 |
| Dr P.J. Dubois *Director* | FY2020 | 709,512 | 24,000 | – | 21,003 | – | – | – | – | 754,515 | - |
| | FY2019 | 787,808 | 2,317 | – | 23,875 | – | – | – | – | 814,000 | - |

[1] Other benefits include fringe benefits tax where applicable.

[2] The equity-based remuneration amounts disclosed for 2020 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.

[3] Long-service leave accrued is calculated using the net movement in accrued leave balances during the year.

## REMUNERATION REPORT

### h) Other statutory disclosures

#### i) Options and rights that were exercised during the financial year

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 |
|---|---|---|
| **2020** | | |
| Options issued in November 2014 with a performance measurement period to 30 June 2017 (having vested after satisfying performance conditions which caused 64.6% of the total options issued to be forfeited) with a $17.32 exercise price | 178,806 | 71,263 |
| Performance rights issued in November 2016 with a performance measurement period to 30 June 2019 (having vested after satisfying performance conditions which caused 64.6% of the total rights issued to be forfeited) with a nil exercise price | 21,540 | 9,570 |
| **2020 Total intrinsic value of options and rights at the date of exercise** | **$2,789,998** | **$1,141,342** |
| **2019** | | |
| Options issued in November 2011 with a performance measurement period to 30 June 2016 (having vested after satisfying 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 with a performance measurement period to 30 June 2018 (having vested after satisfying 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** |

#### ii) Equity disclosures relating to key management personnel

Options and performance rights held during the financial year

After approval by shareholders at the 2016, 2017, 2018 and 2019 Annual General Meetings, the Executive Directors were issued the following LTI (the 'FY2017 Issue', 'FY2018 Issue', 'FY2019 Issue' and 'FY2020 Issue'):

| | FY2017 Issue | | FY2018 Issue | | FY2019 Issue | | FY2020 Issue | |
|---|---|---|---|---|---|---|---|---|
| | Dr C.S. Goldschmidt | C.D. Wilks | Dr C.S. Goldschmidt | C.D. Wilks | Dr C.S. Goldschmidt | C.D. Wilks | Dr C.S. Goldschmidt | C.D. Wilks |
| **Options over shares in Sonic Healthcare Limited** | 464,659 | 206,430 | 467,467 | 207,678 | 462,372 | 205,415 | 407,747 | 181,147 |
| **Performance rights over shares in Sonic Healthcare Limited** | 60,822 | 27,021 | 60,766 | 26,996 | 60,626 | 26,934 | 44,941 | 19,966 |

# Directors' Report

## REMUNERATION REPORT

| | FY2017 Issue | FY2018 Issue | FY2019 Issue | FY2020 Issue |
|---|---|---|---|---|
| Options exercise price | $21.62 | $21.64 | $21.69 | $29.26 |
| Performance condition measurement period | 3 years to 30 June 2019 | 3 years to 30 June 2020 | 3 years to 30 June 2021 | 3 years to 30 June 2022 |
| Earliest vesting date, if performance conditions are met | 17 November 2019 | 22 November 2020 | 21 November 2021 | 19 November 2022 |
| Expiry date | 17 November 2021 | 22 November 2022 | 21 November 2023 | 19 November 2024 |
| Fair value of each option at grant date | $2.31 | $1.89 | $1.96 | $2.03 |
| Fair value of each right at grant date | $14.73 | $12.97 | $13.09 | $18.70 |
| Percentage that satisfied vesting conditions | 35.4% | 70.9% | tbd | tbd |

The total value for remuneration purposes (to be allocated over the three-year vesting period) of the options and performance rights that were issued in 2020 as part of remuneration was $1,666,492 for Dr C.S. Goldschmidt and $740,373 for C.D. Wilks.

### 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 2019 | Issued during the 2020 year | (Forfeited) during the 2020 year | (Exercised) during the 2020 year | Balance at 30 June 2020 | (Forfeited) since year end | Vested and exercisable at 30 June 2020 |
|---|---|---|---|---|---|---|---|
| Dr C.S. Goldschmidt | 1,828,312 | 407,747 | (300,100) | (178,806) | 1,757,153 | (135,916) | 419,567 |
| C.D. Wilks | 792,419 | 181,147 | (133,323) | (71,263) | 768,980 | (60,383) | 174,740 |

### 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 2019 | Issued during the 2020 year | (Forfeited) during the 2020 year | (Exercised) during the 2020 year | Balance at 30 June 2020 | (Forfeited) since year end | Vested and exercisable at 30 June 2020 |
|---|---|---|---|---|---|---|---|
| Dr C.S. Goldschmidt | 182,214 | 44,941 | (39,282) | (21,540) | 166,333 | (17,669) | – |
| C.D. Wilks | 80,951 | 19,966 | (17,451) | (9,570) | 73,896 | (7,849) | – |

## REMUNERATION REPORT

Share holdings

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

| Director's name | Balance at 1 July 2019 | Issued during the 2020 year on the exercise of options or rights | Shares provided as remuneration during the 2020 year | Other changes during the 2020 year | Balance at 30 June 2020 |
|---|---|---|---|---|---|
| Dr C.S. Goldschmidt | 790,884 | 200,346 | – | (250,000) | 741,230 |
| C.D. Wilks | 699,662 | 80,833 | – | (120,000) | 660,495 |
| Prof. M.R. Compton | 7,511 | – | – | 1,000 | 8,511 |
| Prof. S. Crowe | – | – | – | – | – |
| Dr P.J. Dubois | 8,770 | – | – | – | 8,770 |
| N. Mitchell | 9,770 | – | – | – | 9,770 |
| L.J. Panaccio | 6,026 | – | – | 1,000 | 7,026 |
| K.D. Spargo | 19,000 | – | – | 2,000 | 21,000 |
| Dr E.J. Wilson | 3,770 | – | – | 4,000 | 7,770 |

### iii) Transactions with key management personnel

There were no other transactions with key management personnel during 2020 or 2019.

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

There were no amounts receivable from/payable to other key management personnel at 30 June 2020 (2019: $nil).

### v) 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.

### vi) Securities trading policy

Under the Sonic Healthcare 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 Executive Directors (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 Healthcare'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 Healthcare 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 Healthcare'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 Healthcare.

## REMUNERATION REPORT

In addition, the Managing Director and Finance Director are required to obtain approval from the Chair of the Sonic Healthcare 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 Healthcare 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 Healthcare 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 Healthcare's Continuous Disclosure obligations.

# Directors' Report

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

**Dr C.S. Goldschmidt**
Director

**C.D. Wilks**
Director

Sydney
23 September 2020

# *Auditor's Independence Declaration*

As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2020, 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.

Brett Entwistle
Partner
PricewaterhouseCoopers

Sydney
23 September 2020

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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 23 September 2020, and has been approved by the Board.

Sonic's Board and management are committed to governance that 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 fourth edition during the 2020 financial year. Sonic's website (www.sonichealthcare.com) includes a Corporate Governance section that 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 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 2020 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 culture, values and corporate governance practices of the Group. The Board's principal objective is to increase shareholder value in an enduring manner while ensuring that the Group's activities are properly managed, including in accordance with it's culture and values.

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 the Company's Core Values, Code of Conduct, medical ethics and law.

The Board's overall responsibilities include:

- demonstrating leadership at strategic and cultural levels
- defining the Group's purpose and setting its strategic objectives
- approving the Group's Core Values and Code of Conduct to underpin the desired culture within the Group
- overseeing management in its implementation of the Group's strategic objectives, instilling of the Group's values and performance generally
- monitoring financial performance and reporting
- appointing the Chair and Managing Director, and assessing the performance of Directors
- setting the Group's risk appetite and 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.

## 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** | 59 | 6 | Chairman, Non-executive, independent Director | Healthcare industry and company management | Member of Audit Committee and Remuneration and Nomination Committee |
| **Dr Colin Goldschmidt** | 66 | 27 | Managing Director, Chief Executive Officer | Healthcare industry and company management. Pathologist | Member of Risk Management Committee |
| **Mr Chris Wilks** | 62 | 30 | Finance Director, Chief Financial Officer | Finance, strategy, accounting, banking, secretarial and company management | |
| **Prof. Suzanne Crowe** | 69 | 0.5 | Non-executive, independent Director | Medicine, medical research, governance and company oversight | |
| **Dr Philip Dubois** | 74 | 19 | Non-executive Director+ | Diagnostic imaging industry and company management. Radiologist | |
| **Mr Neville Mitchell** | 61 | 3 | Non-executive, independent Director | Finance, tax, international healthcare and company management | Chair of Audit Committee and member of Risk Management Committee |
| **Mr Lou Panaccio** | 63 | 15 | Non-executive, independent Director | Finance, healthcare industry and company management | Member of Audit Committee, Remuneration and Nomination Committee and Risk Management Committee |
| **Ms Kate Spargo** | 68 | 10 | Non-executive, independent Director | Law, governance and company oversight | Chair of Remuneration and Nomination Committee and member of Audit Committee |
| **Dr Jane Wilson** | 62 | 10 | Non-executive, independent Director | Medicine, finance, governance and company oversight. General Practitioner | Chair of Risk Management Committee and member of Remuneration and Nomination Committee |

+ Prior to 1 July 2020 Dr Dubois was an Executive Director and Chief Executive Officer of Sonic Imaging

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, a general practitioner and a medical specialist, ensuring that it has the capacity to understand complex medical issues and be in close touch with the medical marketplace. The presence of medical practitioners on Sonic's Board also gives comfort both to referring doctors (Sonic's customers) and to owners of diagnostic practices that Sonic seeks to acquire.

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. Dr Dubois retired from his executive role with the Company on 30 June 2020 and is therefore not considered an independent Director. He has advised that he will retire from the Board by November 2022.

The Board currently comprises seven Non-executive Directors, six of whom are considered independent and two Executive Directors. The independent Directors perform major roles in the Board Committees. All Board members speak English, the language in which Board and shareholder meetings are held and key corporate documents are prepared.

# Corporate Governance Statement

## 1. BOARD OF DIRECTORS

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.

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 (other than Dr Dubois) 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:

- 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
- Risk management
- Corporate governance
- Legal
- International experience
- People management and remuneration
- Acquisitions and mergers
- Gender diversity
- Tenure diversity

Before appointing a Director or senior executive, 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 culture, 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.

## 1. BOARD OF DIRECTORS

### e) Independent professional advice and access to information

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

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

### f) Conflicts of interest of Directors

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

### g) Securities trading

Under Sonic's Securities Trading Policy, 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 that 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 2020 financial year was $1,306,274. This amount was reduced as the Non-executive Directors took a voluntary 50% reduction in fees for approximately eight weeks as part of the response to the COVID-19 pandemic. This is discussed further in the 2020 Remuneration Report. Non-executive Directors are not entitled to any performance based or equity based remuneration. 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 N. Mitchell | *Chair (from 1 October 2019)*
Prof. M.R. Compton
Mr L.J. Panaccio | (*Chair until 30 September 2019)*
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. These reports include:

- any material breaches of the Company's Code of Conduct
- any material incidents reported under the Company's Global Whistleblower Policy
- any material breaches of the Company's Anti-bribery and Corruption Policy

The Committee 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.

## 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 2020 was:

| | 2020 | 2019 |
|---|---|---|
| Non-executive Directors of Sonic Healthcare Limited | 50% | 40% |
| Directors of Sonic Healthcare Limited | 33% | 25% |
| Executive staff of the Group+ | 38% | 36% |
| Other senior leadership positions | 56% | 57% |
| Total senior leadership positions* | 53% | 53% |
| All employees | 74% | 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% and at least 50% in the workforce generally. These objectives were achieved in 2020. In addition, the Company has the objective to have not less than 30% of its Directors of each gender. This objective has been achieved since 6 April 2020.

## 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 risk appetite for the Company 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 Company is operating within due regard to the risk appetite set by the Board

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
- Sonic's Code of Conduct and Global Whistleblower Policy
- 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

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 2020 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

## 5. ETHICAL STANDARDS

The Company has a 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 Conduct 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
- 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 and provided to the Directors. 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.

The Company discloses within the relevant report its process to verify the integrity of the contents of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.

## 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. Shareholders are able to register on the website to receive email alerts of all announcements made to the ASX
- 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 (for example, holding statements) by email.

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 (the 2020 AGM will be held virtually due to the ongoing COVID-19 pandemic) 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.

# Corporate Governance Statement

## 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 review also identifies any need for Directors to undertake further professional development.

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.

## 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 2020 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) Senior executives

The Managing Director evaluates senior executives at least annually (including during the 2020 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.

Senior executives receive letters of appointment with terms of employment governed by applicable employment laws.

# Financial Report



SONIC HEALTHCARE LIMITED
ABN 24 004 196 909

30 JUNE 2020

# Consolidated Income Statement

FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | $'000 | $'000 |
| Revenue from operations | 3 | **6,831,843** | 6,133,671 |
| Other income | 3 | **–** | 50,385 |
| **Total** | | **6,831,843** | 6,184,056 |
| Labour and related costs | | **(3,173,784)** | (2,848,122) |
| Consumables used | | **(1,117,373)** | (995,288) |
| Lease expense | 4 | **(51,344)** | (351,909) |
| Depreciation | 4 | **(540,658)** | (209,856) |
| Repairs and maintenance | | **(193,058)** | (169,130) |
| Transportation | | **(177,248)** | (158,562) |
| Utilities | | **(148,907)** | (139,017) |
| Borrowing costs | 4 | **(112,851)** | (86,063) |
| Amortisation of intangibles | 4 | **(65,210)** | (63,288) |
| Other expenses from ordinary activities | | **(552,347)** | (440,564) |
| **Profit from ordinary activities before income tax expense** | | **699,063** | 722,257 |
| Income tax expense | 6 | **(157,160)** | (163,188) |
| **Profit from ordinary activities after income tax expense** | | **541,903** | 559,069 |
| Net (profit) attributable to minority interests | | **(14,154)** | (9,344) |
| **Profit attributable to members of Sonic Healthcare Limited** | 28(b) | **527,749** | 549,725 |

| | | | |
|---|---|---|---|
| | | Cents | Cents |
| **Basic earnings per share** | 37 | **111.1** | 122.5 |
| **Diluted earnings per share** | 37 | **110.6** | 122.1 |

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

# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | $'000 | $'000 |
| Profit from ordinary activities after income tax expense | | **541,903** | 559,069 |
| **Other comprehensive income** | | | |
| **Items that may be reclassified to profit or loss** | | | |
| Exchange differences on translation of foreign operations | 28(a) | **33,175** | 109,109 |
| **Items that will not be reclassified to profit or loss** | | | |
| Actuarial (losses) on retirement benefit obligations | 25(f) | **(5,782)** | (22,203) |
| Other comprehensive income for the period, net of tax | | **27,393** | 86,906 |
| Total comprehensive income for the period | | **569,296** | 645,975 |
| **Total comprehensive income attributable to** | | | |
| Members of Sonic Healthcare Limited | | **555,809** | 634,016 |
| Minority interests | | **13,487** | 11,959 |
| | | **569,296** | 645,975 |

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

# Consolidated Balance Sheet

AS AT 30 JUNE 2020

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | $'000 | $'000 |
| **Current assets** | | | |
| Cash and cash equivalents | 38(a) | 1,230,149 | 736,646 |
| Receivables | 7 | 986,770 | 827,932 |
| Inventories | 8 | 163,425 | 119,673 |
| Other | 9 | 74,761 | 68,933 |
| **Total current assets** | | 2,455,105 | 1,753,184 |
| **Non-current assets** | | | |
| Receivables | 10 | 50,429 | 40,201 |
| Investments | 11 | 91,754 | 88,135 |
| Property, plant and equipment | 12 | 1,230,498 | 1,268,319 |
| Right-of-use assets | 13 | 1,267,582 | - |
| Intangible assets | 14 | 6,954,904 | 6,764,738 |
| Deferred tax assets | 15 | 70,759 | 39,166 |
| Other | 16 | 6,099 | 6,091 |
| **Total non-current assets** | | 9,672,025 | 8,206,650 |
| **Total assets** | | 12,127,130 | 9,959,834 |
| **Current liabilities** | | | |
| Payables | 17 | 983,831 | 627,311 |
| Interest-bearing liabilities | 18 | 364,198 | 826,004 |
| Lease liabilities | 19 | 298,923 | - |
| Current tax liabilities | 20 | 145,163 | 125,455 |
| Provisions | 21 | 259,826 | 222,321 |
| Other | 22 | 18,192 | 48,293 |
| **Total current liabilities** | | 2,070,133 | 1,849,384 |
| **Non-current liabilities** | | | |
| Interest-bearing liabilities | 23 | 2,872,429 | 2,209,595 |
| Lease liabilities | 19 | 1,080,331 | - |
| Deferred tax liabilities | 24 | 173,335 | 151,116 |
| Provisions | 25 | 163,538 | 139,550 |
| Other | 26 | 102,966 | 118,323 |
| **Total non-current liabilities** | | 4,392,599 | 2,618,584 |
| **Total liabilities** | | 6,462,732 | 4,467,968 |
| **Net assets** | | 5,664,398 | 5,491,866 |
| **Equity** | | | |
| **Parent entity interest** | | | |
| Contributed equity | 27 | 4,000,910 | 3,966,892 |
| Reserves | 28(a) | 175,426 | 146,275 |
| Retained earnings | 28(b) | 1,397,417 | 1,299,163 |
| **Total parent entity interest** | | 5,573,753 | 5,412,330 |
| **Minority interests** | | 90,645 | 79,536 |
| **Total equity** | | 5,664,398 | 5,491,866 |

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

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2020

| | Share capital | Reserves | Retained earnings | Total | Minority interests | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 July 2018** | 3,005,875 | 27,889 | 1,143,643 | 4,177,407 | 105,518 | 4,282,925 |
| Change in accounting standards (AASB 15) | – | – | (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 of 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 | – | – | – | – | (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** |
| Change in accounting standards (AASB 16) | – | – | (20,046) | (20,046) | – | **(20,046)** |
| **Restated balance at 1 July 2019** | 3,966,892 | 146,275 | 1,279,117 | 5,392,284 | 79,536 | **5,471,820** |
| Profit for period | – | – | 527,749 | 527,749 | 14,154 | **541,903** |
| Other comprehensive income for the period | – | 33,842 | (5,782) | 28,060 | (667) | **27,393** |
| **Total comprehensive income for the period** | – | 33,842 | 521,967 | 555,809 | 13,487 | **569,296** |
| Transactions with owners in their capacity as owners | | | | | | |
| Dividends paid | – | – | (403,667) | (403,667) | – | **(403,667)** |
| Shares issued | 31,614 | (8,617) | – | 22,997 | – | **22,997** |
| Transfers to share capital | 2,342 | (2,342) | – | – | – | **-** |
| Share-based payments | – | 6,330 | – | 6,330 | – | **6,330** |
| Allocation of treasury shares | 62 | (62) | – | – | – | **-** |
| Contributions from minority interests | – | – | – | – | 6,285 | **6,285** |
| Dividends paid to minority interests in controlled entities | – | – | – | – | (8,663) | **(8,663)** |
| **Balance at 30 June 2020** | **4,000,910** | **175,426** | **1,397,417** | **5,573,753** | **90,645** | **5,664,398** |

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

# Consolidated Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | $'000 | $'000 |
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **6,801,349** | 6,258,438 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(5,209,415)** | (5,207,533) |
| **Gross operating cash flow** | | **1,591,934** | 1,050,905 |
| Interest received | | **5,947** | 6,636 |
| Borrowing costs | | **(101,170)** | (83,930) |
| Income taxes paid | | **(136,413)** | (126,303) |
| **Net cash inflow from operating activities** | 38(b) | **1,360,298** | 847,308 |
| **Cash flows from investing activities** | | | |
| Payment for purchase of controlled entities, net of cash acquired | | **(97,783)** | (863,405) |
| Payments for property, plant and equipment | | **(234,900)** | (281,578) |
| Proceeds from sale of subsidiaries and non-current assets | | **73,673** | 141,433 |
| Payments for intangibles | | **(98,192)** | (105,070) |
| Repayment of loans by other entities | | **32,470** | 13,142 |
| Loans to other entities | | **(10,185)** | (3,851) |
| **Net cash (outflow) from investing activities** | | **(334,917)** | (1,099,329) |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of shares and other equity securities (net of transaction costs and related taxes) | | **22,997** | 943,975 |
| Proceeds from borrowings | | **1,468,184** | 1,363,839 |
| Repayment of borrowings | | **(1,315,512)** | (1,246,425) |
| Principal elements of lease payments | | **(300,075)** | - |
| Dividends paid to Company's shareholders | | **(403,667)** | (365,112) |
| Dividends paid to minority interests in subsidiaries | | **(8,663)** | (8,611) |
| **Net cash (outflow)/inflow from financing activities** | | **(536,736)** | 687,666 |
| **Net increase in cash and cash equivalents** | | **488,645** | 435,645 |
| Cash and cash equivalents at the beginning of the financial year | | **736,646** | 313,268 |
| Effects of exchange rate changes on cash and cash equivalents | | **4,858** | (12,267) |
| **Cash and cash equivalents at the end of the financial year** | 38(a) | **1,230,149** | 736,646 |
| **Financing arrangements** | 18,23 | | |
| **Non-cash financing and investing activities** | 38(c) | | |

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

# Notes to the Financial Statements

# Notes to the Financial Statements

30 JUNE 2020

## NOTE 1 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the Financial Report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The financial Report includes financial statements for the Consolidated Group ('the Group') consisting of Sonic Healthcare Limited ('Parent Company' or 'Company') and its subsidiaries. The financial statements were authorised for issue by the Directors on 23 September 2020.

### a) Basis of preparation

This general purpose Financial Report has been prepared in accordance with Australian Accounting Standards, Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing the financial statements.

*Compliance with IFRS*

The consolidated financial statements of the Group also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board. The Parent Company financial information included in Note 40 also complies with IFRS.

*Historical cost convention*

These financial statements have been prepared under the historical cost convention, except for the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss and plan assets of retirement benefit obligations measured at fair value.

Comparatives may be restated to enhance comparability with the current year.

### b) Principles of consolidation and equity accounting

The Consolidated Group financial statements incorporate the assets and liabilities of all subsidiaries controlled by Sonic Healthcare Limited as at 30 June 2020 and the results of all subsidiaries for the year then ended. Sonic Healthcare Limited and its controlled entities together are referred to in this Financial Report as the Group or the Consolidated Group.

Subsidiaries are all those entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of controlled entities are shown separately in the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Balance Sheet respectively.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(e)).

#### i) Sonic Healthcare Limited Employee Share Trust ('SHEST')

The Group has formed a trust to obtain and hold shares for the purpose of providing shares under selected Group equity plans. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group. Shares held by SHEST are disclosed as treasury shares and deducted from contributed equity.

### ii) Changes in ownership interests

The Group treats transactions with minority interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and minority interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to minority interests and any consideration paid or received is recognised in a separate reserve within equity.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### iii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

### c) Income tax

The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income based on the income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Sonic Healthcare Limited and its wholly-owned Australian controlled entities have implemented the Australian tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are offset in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (e.g. the Research and Development Tax Incentive regime in Australia or other investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

## d) Foreign currency translation

### i) Functional and presentation currency

Items included in the financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Group's financial statements are presented in Australian dollars, which is Sonic Healthcare Limited's functional and presentation currency.

### ii) Transactions

Foreign currency transactions are initially translated into the functional currency using the rates of exchange prevailing at the date of the transaction. At the balance sheet date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting foreign exchange differences are recognised in the Income Statement except where they are deferred in equity as cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

### iii) Foreign controlled entities

The assets and liabilities of foreign controlled entities are translated into Australian currency at rates of exchange current at the balance sheet date, while their income and expenses are translated at the average of rates prevailing during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve. Differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, a proportionate share of such exchange difference is reclassified to the Income Statement, as part of the gain or loss on sale where applicable.

## e) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. On an acquisition-by-acquisition basis, the Group recognises any minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net identifiable assets.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in an acquisition are measured initially at their fair values at the acquisition dates, irrespective of the extent of any minority interest. Goodwill is brought to account on the basis described in Note 1(m)(i).

The excess of the consideration transferred, the amount of any minority interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

## f) Revenue recognition

Revenue is recognised when 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 services by applying the five step model set out in AASB 15. Revenue is recognised for the major business activities as follows:

### i) Laboratory medicine and imaging services

Laboratory medicine and imaging services revenue is recognised at a point in time when the test or service is completed.

### ii) Other medical services

Revenue from other medical services is recognised over time as the performance obligation is satisfied. Revenue is recognised based on the services provided at period end date. Payments to doctors in medical centre and occupational health businesses in exchange for contracting the Group's services for a period of time are capitalised as a contract asset and amortised on a straight-line basis against revenue over the life of the contract.

### iii) Interest income

Interest income is recognised using the effective interest method.

### iv) Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

## g) Receivables

All trade debtors are initially recognised at their fair value being the amounts receivable and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade debtors are generally required to be settled within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the period in which they are identified. A provision for impairment loss is recognised using the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped on shared credit risk characteristics and days past due.

## h) Inventories

Inventories, comprising consumable stores stock, are valued at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the first in, first out ('FIFO') basis.

## i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each financial year end.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## j) Investments and other financial assets

### i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments only when its business model for managing those assets changes.

### ii) Recognition and derecognition

Purchases and sales of financial assets settled through the regular settlement for that particular investment are recognised on trade date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

### iii) Measurement

At initial recognition, the Group measures a financial asset at its 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 profit or loss.

### iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses on its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology depends on whether there has been a significant increase in credit risk.

## k) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment in value.

Depreciation is calculated using the straight-line method to allocate the net cost of each item of property, plant and equipment (excluding land), net of their residual values over their estimated useful lives to the Group. Land is not depreciated. Estimates of remaining useful lives and residual values are made on a regular basis for all assets, with annual reassessments for major items. The estimated useful lives are as follows:

| | |
|---|---|
| Buildings and improvements | 40 years |
| Plant and equipment | 3–15 years |

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is the shorter.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value of the asset is greater than its estimated recoverable amount (Note 1(i)). An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Income Statement in the period the item is derecognised.

## l) Leases

The Group leases properties, equipment and vehicles under rental contracts which are typically made for fixed periods of between 1 month and 23 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

A single recognition and measurement approach is applied to all leases that the Group is the lessee for, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

### i) Lease liabilities

At the commencement date of the lease the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement, if the interest rate implicit in the lease is not readily determinable. To determine the incremental borrowing rate the Group uses a build-up approach that starts with appropriate swap and corporate bond rates with adjustments specific to the lease based on term and currency.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, such as a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Contracts may contain both lease and non-lease components. For leases where the non-lease component is not separately identified the Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

### ii) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The costs of right-of-use assets includes the amount of lease liabilities recognised less any lease incentives received. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. If the Group is reasonably certain to exercise a purchase option the right-of-use asset is depreciated over the underlying asset's useful life. Right-of-use assets are subject to annual impairment assessment.

### iii) Short-term leases and leases of low-value assets

The Group applies the short-term recognition criteria exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption, which applies to miscellaneous low-value assets (e.g. IT equipment and small items of office furniture) that do not have quantitative or qualitative significance. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term within the lease expense line item.

### iv) Variable lease payments

Variable lease payments reflect the lease component of consumables expenditure in situations where supplier contracts include the placement of equipment which the Group does not own. Such arrangements are used where it is commercially advantageous to the Group. Variable lease payments are not significant in comparison to fixed lease payments and vary based on a number of factors including the value and quantity of equipment placed and the length of the supplier contract.

The Group has adopted the practical expedient to not apply lease modification accounting for rent concessions occurring as a direct consequence of COVID-19. The derecognition of any part of the lease liability forgiven is recognised as a negative variable lease payment in the Income Statement.

### v) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not the respective lessor. As at 30 June 2020 approximately 56% of the Group's leases have extension options of which 11% have been assessed as being reasonably certain to be exercised (these options have therefore been included in the calculation of the lease liability at the period end). The value of payments (undiscounted) for all optional periods represent approximately 424% of the 2020 year's lease payments.

### vi) Sale and leaseback

The Group may periodically sell land and buildings and lease them back where it is commercially advantageous to do so. These types of transactions are not prevalent given the relatively small proportion of properties that the Group owns compared to leased. If the transfer of an asset satisfies the requirements of AASB 15 to be accounted for as a sale, the right-of-use asset arising from the leaseback is measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Accordingly, only the amount of any gain or loss that relates to the rights transferred are recognised in the Income Statement. During 2020 a laboratory building in the US was sold for US$45M to be leased back over a period of 23 years with 4 option periods.

### vii) Lessor accounting

The Group enters into lease agreements as lessor in respect of some property leases (largely related to the medical centre operations). Where the Group is an intermediate lessor it accounts for the head lease and the sub-lease as two separate contracts.

The sub-lease is a finance lease where it transfers substantially all the risks and rewards of ownership to the lessee. All other subleases are operating leases. The determination of whether a sub-lease is classified as a finance lease or operating lease is made by reference to the right-of-use asset arising from the head lease. The majority of sub-leases have lease terms substantially shorter than the head lease and accordingly are classified as operating leases. Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

The Group recognises on the Balance Sheet a net investment in a lease as the sum of the lease payments receivable plus any unguaranteed residual value, discounted at the interest rate implicit in the lease.

## m) Intangible assets

### i) Goodwill

Goodwill represents the excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets and liabilities acquired at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Any goodwill acquired is allocated to each of the cash-generating units ('CGUs') expected to benefit from the combination's synergies. The goodwill allocated to the CGUs for the purpose of assessing impairment is identified according to business segment (laboratory and imaging) and country of operation (Australia, New Zealand, UK, USA, Germany, Switzerland, Belgium and Ireland). Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to that entity.

### ii) Intangible assets acquired from a business combination

Intangible assets acquired from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the Income Statement.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles annually, either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Included in intangibles is the value of certain brand names acquired as part of the purchase of certain laboratory businesses and controlled entities.

The brand names have been assessed as having an indefinite useful life after consideration of the following factors:

- the length of time during which the brand name has been in use,
- the stability of the healthcare industry,
- the market perception and recognition of the brands which have consistently facilitated the retention and growth of revenue in both the local and national market places,
- active promotion of the brands in the marketplace,
- brand names are a registered legal trademark of the business. The registration of brands is renewable at minimal cost and minimal difficulty.

### iii) Software development

Expenditure on software development is capitalised when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and the costs can be measured reliably. The expenditure capitalised comprises all attributable costs. Capitalised software development costs are recorded as finite life intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its estimated useful life of 10 years. Capitalised development expenditure is stated at cost less accumulated amortisation. The carrying value is reviewed for impairment annually, or more frequently, if an indicator of impairment arises.

The costs of acquiring computer software for internal use are capitalised as intangible non-current assets where the software is used to support significant business systems and the expenditure leads to the creation of an asset. The expected useful life is generally 3-10 years.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

Intangible assets (other than software development costs) created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

## n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## o) Interest-bearing liabilities

All loans and borrowings are initially recognised at fair value plus transaction costs, thereafter interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Interest is accrued over the period it becomes due and is recorded as part of other creditors. Fees paid on the establishment of loan facilities measured at amortised cost are capitalised and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the Balance Sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## p) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Changes in fair value are either taken to the Income Statement or an equity reserve (refer below). The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or;
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 39. Movements in the hedging reserve in shareholders' equity are shown in Note 28.

### i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the Income Statement within borrowing costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in the Income Statement within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

#### ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement within other income or other expenses.

Amounts accumulated in equity are recycled to the Income Statement in the periods when the hedged item will affect profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the Income Statement within borrowing costs.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement.

The fair value of the Group's cash flow hedges are determined by external advisors using the present value of estimated future cash flows.

#### iii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the Income Statement within other income or other expenses.

Gains and losses accumulated in equity are included in the Income Statement when the foreign operation is partially disposed of or sold.

#### iv) Derivatives that do not qualify for hedge accounting

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Income Statement and are included in other income or other expenses.

### q) Employee benefits

#### i) Wages and salaries, annual leave

Liabilities for wages and salaries and annual leave are recognised and are measured at the amounts expected to be paid when the liabilities are settled.

#### ii) Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the current provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the non-current provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### iii) Retirement benefit obligations

Certain employees of the Group are entitled to benefits from defined contribution superannuation plans on retirement, disability or death. The defined contribution plans receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

Contributions to the defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group also has defined benefit superannuation plans in relation to certain non-Australian employees, which provide defined lump sum benefits based on years of service and final average salary.

A liability or asset in respect of defined benefit plans is recognised in the Balance Sheet, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method.

Consideration is given to expected future wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. In countries where there is a deep market in high quality corporate bonds, the market rates on those bonds are used rather than government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, outside profit or loss, directly in the Statement of Comprehensive Income. Past service costs are recognised immediately in the Income Statement.

### iv) Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit, or
- the amounts to be paid are determined before the time of completion of the Financial Report, or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

### v) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

### vi) Equity-based compensation benefits

Equity-based compensation benefits are provided to employees under various plans. Information relating to these plans is set out in Note 35.

The fair value of equity remuneration granted under the various employee plans is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares and options ('the vesting period'). The fair value at grant date is determined using a pricing model consistent with the Black Scholes methodology that takes into account the exercise price, the term of the option, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the arrangement.

The fair value of the options and shares granted is adjusted to reflect market vesting conditions (using a Monte Carlo simulation) but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares and options that are expected to vest. At each balance sheet date, the entity revises its estimate of the number of shares and options that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate.

No expense is recognised for shares and options that do not ultimately vest due to a failure to meet a non-market vesting condition.

Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital.

The dilutive effect, if any, of outstanding shares and options is reflected as additional share dilution in the calculation of diluted earnings per share.

The Parent Company issues options to employees of subsidiary companies as part of the Group's remuneration strategy. When options are exercised, the subsidiary company reimburses the Parent Company for the excess of the market price at the time of exercise over the exercise price. These amounts are credited to contributed equity in the Parent Company's accounts, and eliminated on consolidation.

#### vii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

### r) Borrowing costs

Borrowing costs include:

- interest on bank overdrafts, short-term and long-term borrowings, including amounts paid or received on interest rate swaps,
- amortisation of discounts or premiums relating to borrowings,
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings, and
- lease charges

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use. In these circumstances, borrowing costs are capitalised to the cost of the assets using the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

### s) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### t) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and in hand, and deposits at call with financial institutions which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### u) Earnings per share

#### i) Basic earnings per share

Basic earnings per share is calculated by dividing net profit after income tax attributable to members of the Parent Company by the weighted average number of ordinary shares on issue during the financial year excluding treasury shares.

#### ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### v) Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision makers who are responsible for allocating resources and assessing performance of the operating segments have been identified as the Chief Executive Officer and the Board of Directors.

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an 'arm's-length' basis and are eliminated on consolidation.

### w) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the Directors on or before the end of a financial year but not distributed at balance date.

### x) Repairs and maintenance

Plant and equipment and premises occupied require repairs and maintenance from time to time in the course of operations. The costs associated with repairs and maintenance are charged as expenses as incurred, except where they relate to an improvement in the useful life of an asset, in which case the costs are capitalised and depreciated in accordance with Note 1(k).

### y) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group) but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

### z) Provisions

Provisions are recognised when the Group has a present legal, equitable or constructive obligation as a result of past transactions or other past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. Any increase in the provision due to the passage of time is recognised as borrowing costs expense.

Restructuring provisions are recognised where the Group has completed a business combination where there is a detailed formal plan for the restructure, and a present obligation immediately prior to the business combination and its execution was not conditional upon it being acquired by the Group.

## aa) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included within sundry debtors or sundry creditors in the Balance Sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

## ab) Rounding of amounts

The Company is of a kind referred to in ASIC Legislation Instrument 2016/191 issued by the Australian Securities & Investments Commission, relating to the 'rounding off' of amounts in the Financial Report. Amounts in the Financial Report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## ac) Significant accounting estimates and assumptions

The preparation of financial statements requires the use of estimates and assumptions of future events to determine the carrying amounts of certain assets and liabilities. The ongoing COVID-19 pandemic has not significantly increased the estimation uncertainty in the preparation of the consolidated financial statements.

Key estimates and assumptions used in the preparation of the Financial Report are:

### i) Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 14.

### ii) Share based payment transactions

The Group measures the cost of equity-settled share based payments at fair value at the grant date using a pricing model consistent with the Black Scholes methodology, taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 35.

### iii) Provisional accounting of business combinations

The Group provisionally accounts for certain business combinations where the Group is in the process of ascertaining the fair values of the identifiable assets, liabilities and contingent liabilities acquired. In doing so, the Group has relied on the best estimate of the identifiable assets, liabilities and contingent liabilities as disclosed in Note 30, until the quantification and treatment of items under review is complete.

### iv) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Market yields on government bonds are used in countries where there is no deep market in corporate bonds.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 25.

v) Income tax

The Group is subject to income taxes in eight jurisdictions around the world. Significant judgement is required in determining the provision for income taxes on a worldwide basis. Where the final tax outcome is different from amounts provided, such differences will impact the current or deferred tax provisions in the period in which such outcome is obtained.

vi) Trade debtors

Accounts receivable assessments require significant judgement in the USA due to contractual allowances, being discounts provided to certain payers against the Company's patient fee schedules. Revenue is billed at the fee schedule rate, but is recognised net of estimated contractual discounts. Adjustments are then made to revenue based on final payments received. Management diligently reviews allowances to ensure that the recoverable amount of debtors is materially accurate.

vii) Determination of the lease term as the non-cancellable term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal including penalties to terminate, the value of leasehold improvements remaining plus current and future expected economic performance from use of the asset. After the commencement date, the Group generally can only make a reasonable certainty assessment within six to twelve months of the exercise of an option or at other times if there is a significant event or change in circumstances that is within its control and affects the ability to exercise (or not to exercise) the option to renew.

viii) Calculation of the incremental borrowing rates

Where the Group cannot readily determine the interest rate implicit in lease contracts the present value of the Group's lease liabilities are estimated using the incremental borrowing rate as if leasing over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group uses observable inputs such as market interest rates as applicable.

## ad) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not applicable to the Group for the financial year ended 30 June 2020. The Group has elected not to early adopt these new standards and interpretations. These standards are not expected to have a material impact on the entity in the current or future reporting periods or on foreseeable future transactions.

## ae) Changes in accounting policies

The Group has applied AASB 16 for the first time in the reporting period to 30 June 2020 with AASB 117 applying to the comparative period only.

### Accounting policy under AASB 117

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged to the Income Statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which substantially all the risks and rewards of ownership of the asset are not transferred to the Group as lessee are classified as operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term (net of any incentives received from the lessor).

### Lessee accounting

AASB 16 supersedes the provisions of AASB 117 and 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, have been 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 Group has adopted AASB 16 from 1 July 2019 and applied the modified retrospective provision from the standard which allowed adjustments to be made to the amounts recognised in the Balance Sheet and retained earnings as at the date of initial application without restating comparatives for the FY2019 reporting period. The Group recognised on transition, lease liabilities which had been previously classified as 'operating leases'. The liability was measured by applying the weighted average incremental borrowing rate to the remaining lease payments. The associated right-of-use assets were measured at either an amount equal to the lease liability or on a retrospective basis as if the new rules had applied since lease commencement.

The effect of adopting AASB 16 was as follows:

| Impact on the Balance Sheet increase/(decrease) as at 1 July 2019 | |
|---|---|
| | A$M |
| **Current assets** | |
| Receivables | 6 |
| Other | (3) |
| **Total current assets** | **3** |
| **Non-current assets** | |
| Receivables | 13 |
| Property, plant and equipment | (4) |
| Right-of-use assets | 1,097 |
| Deferred tax assets | 7 |
| **Total non-current assets** | **1,113** |
| **Total assets** | **1,116** |
| **Current liabilities** | |
| Payables | 1 |
| Interest-bearing liabilities | (1) |
| Lease liabilities | 274 |
| Provisions | (1) |
| **Total current liabilities** | **273** |
| **Non-current liabilities** | |
| Interest-bearing liabilities | (2) |
| Lease liabilities | 893 |
| Provisions | (2) |
| Other | (26) |
| **Total non-current liabilities** | **863** |
| **Total liabilities** | **1,136** |
| **Net assets** | **(20)** |
| **Equity** | |
| Retained earnings | (20) |
| **Total equity** | **(20)** |

Depreciation of right-of-use assets of $309M and interest expense of $29M are included in the Income Statement for the year ended 30 June 2020. Expense for these leases would have been recorded under operating lease rental expense prior to the adoption of AASB 16.

The lease liabilities as at 1 July 2019 are reconciled to the operating lease commitments as at 30 June 2019 as follows:

| | $'000 |
|---|---|
| Operating lease commitments as at 30 June 2019 | 1,354,432 |
| Short-term, low-value and other leases not recognised as a liability | (92,702) |
| Extension options reasonably certain to be exercised | 33,746 |
| Non-lease components not included as a lease payment | (16,929) |
| Discounting of operating lease commitments+ | (117,166) |
| Finance lease liabilities recognised as at 30 June 2019 | 2,831 |
| **Lease liabilities as at 1 July 2019** | **1,164,212** |

+ Using weighted average incremental borrowing rate of 2.3%

Cash payments for the principal portion of the lease liability are classified in the Cash Flow Statement within financing activities and cash payments for the interest portion of the lease liability classified within interest paid. Operating lease payments were previously included within net cash flow from operating activities.

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has reassessed its contract portfolios at the date of initial application to ascertain whether a contract is, or contains a lease, and not to rely on assessments made by applying AASB 117 and Interpretation 4.

### Lessor accounting

Lessor accounting is fundamentally unchanged under AASB 16 however where the Group has an intermediate lessor relationship a reassessment is required on transition as to whether a sublease should be classified as an operating lease or a finance lease. A key indicator of being a finance lease is that the lease term is a major part of the economic life of the underlying right-of-use asset. The Group has reassessed its intermediate leases on transition and has recognised on the Balance Sheet a net investment in lease receivable. The net investment in a lease is the sum of the lease payments receivable by the lessor plus any unguaranteed residual value, discounted at the interest rate implicit in the lease.

### af) Parent Company financial information

The financial information for the Parent Company, Sonic Healthcare Limited, disclosed in Note 40 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Sonic Healthcare Limited.

#### ii) Tax consolidation legislation

Sonic Healthcare Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation with effect from 30 June 2004, and have notified the Australian Taxation Office of this event. The head entity, Sonic Healthcare Limited, and the controlled entities in the tax consolidated group account for their own deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone tax payer in its own right. In addition to its own current and deferred tax amounts Sonic Healthcare Limited, as the head entity in the tax consolidated group, also recognises the current tax liabilities (or assets) assumed from the controlled entities in the tax consolidated group. Under tax sharing and funding agreements amounts receivable or payable between the tax consolidated entities are recognised within current amounts receivable/payable to controlled entities.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Sonic Healthcare Limited for any current tax payable assumed and are compensated by Sonic Healthcare Limited for any current tax receivable transferred under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

#### iii) Share based payments

The grant by the Parent Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

# Notes to the Financial Statements

30 JUNE 2020

## 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 FY2019. 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.

| 2020 | Laboratory $'000 | Imaging $'000 | Other $'000 | Eliminations $'000 | Total $'000 |
|---|---|---|---|---|---|
| Revenue (Constant Currency) | | | | | |
| External sales | 5,673,613 | 519,568 | 441,116 | – | 6,634,297 |
| Inter-segment sales | – | 215 | 13,409 | (13,624) | – |
| **Total segment revenue (Constant Currency)** | 5,673,613 | 519,783 | 454,525 | (13,624) | 6,634,297 |
| Currency exchange rate movements | 219,990 | – | – | – | 219,990 |
| **Total segment revenue (Statutory)** | 5,893,603 | 519,783 | 454,525 | (13,624) | 6,854,287 |
| AASB 16 revenue impact | | | | | (27,976) |
| Interest income excluding impact of AASB 16 | | | | | 5,532 |
| **Total revenue** | | | | | **6,831,843** |
| Result | | | | | |
| **Segment result (Constant Currency)** | 822,001 | 59,965 | (33,155) | – | 848,811 |
| Currency exchange rate movements | 34,661 | – | – | – | 34,661 |
| **Segment result (Statutory)** | 856,662 | 59,965 | (33,155) | – | 883,472 |
| AASB 16 EBITA impact | | | | | (12,296) |
| Amortisation of intangibles | | | | | (65,210) |
| Unallocated net interest expense | | | | | (106,903) |
| **Profit before tax** | | | | | **699,063** |
| Income tax expense | | | | | (157,160) |
| **Profit after income tax expense** | | | | | **541,903** |
| **Depreciation** | 394,637 | 60,753 | 85,268 | – | **540,658** |
| **Depreciation expense excluding AASB 16 impact** | 168,930 | 33,896 | 30,378 | – | **233,204** |
| **Other non-cash items** | 31,743 | 8,547 | 12,698 | – | **52,988** |

| 2019 | Laboratory $'000 | Imaging $'000 | Other $'000 | Eliminations $'000 | Total $'000 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| External sales | 5,188,773 | 499,553 | 438,709 | – | 6,127,035 |
| Inter-segment sales | – | 221 | 12,969 | (13,190) | – |
| Other income | – | – | 50,385 | – | 50,385 |
| **Total segment revenue** | 5,188,773 | 499,774 | 502,063 | (13,190) | 6,177,420 |
| Interest income | | | | | 6,636 |
| **Total revenue** | | | | | 6,184,056 |
| Result | | | | | |
| **Segment result** | 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) |

# Notes to the Financial Statements

30 JUNE 2020

### Geographical information

| | Revenues from sales to external customers+ | | Non-current assets+^ | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $'000 | $'000 | $'000 | $'000 |
| Australia | **2,476,974** | 2,389,473 | **3,053,429** | 2,327,746 |
| United States of America | **1,857,523** | 1,440,987 | **2,873,029** | 2,742,287 |
| Germany | **1,353,358** | 1,249,723 | **1,785,416** | 1,587,061 |
| Other | **1,138,040** | 1,046,852 | **1,797,638** | 1,510,390 |
| **Total** | **6,825,895** | 6,127,035 | **9,509,512** | 8,167,484 |

+ 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

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| **Services revenue** | | |
| Medical services revenue | **6,782,580** | 6,075,618 |
| **Other** | | |
| Interest received or due and receivable | **5,532** | 6,636 |
| Finance income on net investment in lease | **416** | – |
| Income from sub-leasing right-of-use assets | **6,128** | 13,112 |
| Other revenue | **37,187** | 38,305 |
| | **49,263** | 58,053 |
| **Total** | **6,831,843** | 6,133,671 |
| **Other income** | | |
| Gain on GLP Systems sale | – | 50,385 |
| **Disaggregated revenue** | | |
| Laboratory | | |
| Australia | **1,541,284** | 1,469,028 |
| Germany | **1,353,686** | 1,231,507 |
| USA | **1,856,953** | 1,440,378 |
| Switzerland | **491,563** | 430,644 |
| UK & Ireland | **463,658** | 434,042 |
| Belgium | **148,322** | 146,378 |
| New Zealand | **31,597** | 33,797 |
| Non-laboratory | | |
| Imaging | **520,904** | 499,249 |
| Other (medical centres, occupational health services etc.) | **411,800** | 428,900 |
| | **6,819,767** | 6,113,923 |

Contract asset balances of $9,263,000 (2019: $11,147,000) and $10,949,000 (2019: $13,719,000) have been recognised in current receivables and non-current receivables as at 30 June 2020 relating to upfront doctor payments in the medical centre and occupational health businesses.

## NOTE 4 | EXPENSES

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Profit before income tax includes the following specific expenses | | |
| **Finance costs** | | |
| Finance charges on capitalised leases | 28,884 | 25 |
| Other borrowing costs | 83,967 | 86,038 |
| **Total borrowing costs** | 112,851 | 86,063 |
| **Amortisation of** | | |
| Intangibles | 65,210 | 63,288 |
| Leased plant and equipment | – | 1,809 |
| **Total amortisation** | 65,210 | 65,097 |
| **Depreciation of** | | |
| Plant and equipment | 221,309 | 199,221 |
| Buildings | 10,025 | 8,826 |
| **Total depreciation** | 231,334 | 208,047 |
| **Depreciation charge of right-of-use assets** | | |
| Buildings | 303,271 | – |
| Equipment | 6,053 | – |
| **Total right-of-use asset depreciation** | 309,324 | – |
| **Lease expense** | | |
| Short-term leases | 30,525 | – |
| Low-value leases | 8,173 | – |
| Variable leases - COVID-19 rent concession | (4,315) | – |
| Variable leases - Other | 16,961 | – |
| **Total lease expense** | 51,344 | – |
| **Rental expense relating to operating lease payments** | | |
| Minimum lease payments | – | 351,909 |
| **Defined contribution superannuation expense** | 134,043 | 110,991 |
| **Bad and doubtful trade debtors** | 170,453 | 149,096 |

# Notes to the Financial Statements

30 JUNE 2020

## NOTE 5 | DIVIDENDS

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| **Total dividends paid on ordinary shares during the year** | | |
| Final dividend for the year ended 30 June 2019 of 51 cents (2018: 49 cents) per share paid on 25 September 2019 (2018: 27 September 2018), franked to 30% (2018: 30%) | **242,148** | 208,746 |
| Interim dividend for the year ended 30 June 2020 of 34 cents (2019: 33 cents) per share paid on 25 March 2020 (2019: 26 March 2019), franked to 30% (2019: 20%) | **161,519** | 156,366 |
| | **403,667** | 365,112 |
| **Dividends not recognised at year end** | | |
| In addition to the above dividends, since year end the Directors declared a final dividend of 51 cents (2019: 51 cents) per ordinary share, franked to 30% (2019: 30%) based on tax paid at 30%. The aggregate amount of the final dividend paid on 22 September 2020 out of retained earnings at the end of the year, but not recognised as a liability is: | **243,488** | 242,148 |
| **Franked dividends** | | |
| The 2020 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 2021. | | |
| Franking credits available at the year end for subsequent financial years based on a tax rate of 30% | **4,956** | 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 remained suspended for the 2020 final dividend, as it was through the 2020 and 2019 financial years.

## NOTE 6 | INCOME TAX

### a) Income tax expense

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Current tax | 151,544 | 147,732 |
| Deferred tax | (509) | 11,981 |
| Under/(over) provision in prior years | 6,125 | 3,475 |
| **Income tax expense** | 157,160 | 163,188 |
| Deferred income tax expense included in income tax expense comprises | | |
| (Increase)/decrease in deferred tax assets (Note 15) | (29,430) | (12,623) |
| Increase/(decrease) in deferred tax liabilities (Note 24) | 28,921 | 24,604 |
| | (509) | 11,981 |

### b) Income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

| | 2020 | 2019 |
|---|---|---|
| Profit before income tax expense | 699,063 | 722,257 |
| Tax at the Australian tax rate of 30% (2019: 30%) | 209,719 | 216,677 |
| Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income | | |
| Non-assessable amount of GLP Systems gain | – | (16,880) |
| Difference in overseas tax rates | (20,714) | (9,797) |
| Other deductible/non-taxable items (net) | (31,845) | (26,812) |
| **Income tax expense** | 157,160 | 163,188 |

### c) Tax expense/(income) relating to items of others comprehensive income

| | 2020 | 2019 |
|---|---|---|
| Actuarial (losses) on retirement benefit obligations | (356) | (2,221) |

### d) Amounts recognised directly in equity

| | 2020 | 2019 |
|---|---|---|
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but credited directly to equity | | |
| Capital raising costs | – | (2,728) |

## e) Tax losses

Deferred tax assets of $36,921,000 (2019: $69,325,000) on the Group's Balance Sheet at 30 June 2020 relate to income tax losses (Note 15) across the Group. Income tax losses for which no deferred tax asset has been recognised (which relate to offshore operations) total $4,117,000 (2019: $4,481,000).

The benefit of tax losses will only be obtained if:

i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
ii) the losses are transferred to an eligible entity in the Group, and
iii) the Group continues to comply with the conditions for deductibility imposed by tax legislation, and
iv) no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

## f) Unrecognised temporary differences

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| **Temporary differences relating to investments in subsidiaries for which deferred tax assets and liabilities have not been recognised:** | | |
| Foreign currency translation | **75,389** | 65,105 |
| Undistributed earnings | **2,580** | 2,604 |
| | **77,969** | 67,709 |

A deferred tax asset has not been recognised in respect of temporary differences arising as a result of the translation of the financial statements of the Group's overseas subsidiaries. The deferred tax asset will only arise in the event of disposal of the subsidiaries, and no such disposals are expected in the foreseeable future.

Certain subsidiaries of Sonic Healthcare Limited have undistributed earnings which, if paid out as dividends, would be unfranked and therefore subject to tax in the hands of the recipient. A taxable temporary difference exists, however no deferred tax liability has been recognised as the Parent Company is able to control the timing of distributions from these subsidiaries and is not expected to distribute these profits in the foreseeable future.

## g) Tax consolidation legislation

Sonic Healthcare Limited and its wholly-owned Australian subsidiaries implemented the Australian tax consolidation legislation at 30 June 2004. The accounting policy in relation to this legislation is set out in Note 1(c).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement. In the opinion of the Directors, the tax sharing agreement is a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entities in the case of a default by Sonic Healthcare Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Sonic Healthcare Limited for any current tax payable assumed and are compensated by Sonic Healthcare Limited for any current tax receivable and deferred tax assets related to unused tax losses or unused tax credits that are transferred to Sonic Healthcare Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

## NOTE 7 | RECEIVABLES – CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Trade debtors | **859,231** | 770,636 |
| Less: provision for impairment (a) | **(145,488)** | (160,070) |
| | **713,743** | 610,566 |
| Accrued revenue | **154,883** | 114,820 |
| Amounts owing from other entities and contract assets | **12,607** | 13,039 |
| Net investment in finance lease receivables | **6,936** | – |
| Sundry debtors | **98,601** | 89,507 |
| | **986,770** | 827,932 |

Significant terms and conditions

Trade debtors are generally required to be settled within 30 days.

Sundry debtors generally arise from transactions outside the usual trading activities of the Group. Collateral is not normally obtained.

Transactions outside the usual operating activities of the Group have given rise to amounts owing from other entities. Repayments are specified by agreements.

### a) Impaired trade debtors

A provision for impairment loss is recognised using the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and adjusts for any known forward-looking issues specific to the debtors and the economic environment. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. As at 30 June 2020 current trade debtors of the Group with a nominal value of $145,488,000 (2019: $160,070,000) were impaired.

Movements in the provision for impairment of receivables were as follows:

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Opening balance at 1 July | **160,070** | 146,473 |
| Provisions on acquisition of controlled entities | – | 31,262 |
| Provision for impairment expensed+ | **162,637** | 137,455 |
| Foreign exchange movements | **3,016** | 7,315 |
| Receivables written off | **(180,235)** | (162,435) |
| **Closing balance at 30 June** | **145,488** | 160,070 |

+ Excludes amounts written off directly to the Income Statement

Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash in excess of the cost of recovery.

### b) Ageing analysis

At 30 June 2020, the ageing analysis and expected credit losses of trade debtors are as follows:

| | Gross value | | Expected credit losses | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $'000 | $'000 | $'000 | $'000 |
| Not past due | **510,061** | 446,854 | **22,231** | 32,978 |
| 30-60 days past due | **108,045** | 105,855 | **20,692** | 18,641 |
| 60-90 days past due | **62,825** | 60,670 | **17,177** | 21,897 |
| 90-120 days past due | **45,319** | 43,239 | **21,753** | 22,273 |
| 120 days+ past due | **132,981** | 114,018 | **63,635** | 64,281 |
| **Closing balance at 30 June** | **859,231** | 770,636 | **145,488** | 160,070 |

All other trade debtors and classes within 'Receivables – current' do not contain impaired assets and are not past due. Based on the credit history of these receivables, it is expected that these amounts will be received when due. The Group does not hold collateral in relation to these receivables.

### c) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 39. No material carrying amounts of the Group's trade debtors are denominated in a non-functional currency.

### d) Fair value and credit risk

Due to the short-term nature of these receivables, the carrying value is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.

## NOTE 8 | INVENTORIES – CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Consumable stores at cost | **163,425** | 119,673 |

## NOTE 9 | OTHER ASSETS – CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Prepayments | **74,761** | 68,933 |

## NOTE 10 | RECEIVABLES – NON-CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Amounts owing from other entities and contract assets | **39,167** | 40,201 |
| Net investment in finance lease receivables | **11,262** | – |
| | **50,429** | 40,201 |

| Undiscounted lease payments receivable | 1 year or less | Over 1 and less than 2 years | Over 2 and less than 3 years | Over 3 and less than 4 years | Over 4 and less than 5 years | Over 5 years | Total | Unearned finance income | Carrying value |
|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Finance leases | 7,261 | 4,591 | 2,762 | 1,841 | 876 | 1,756 | 19,087 | (889) | 18,198 |
| Operating leases | 578 | 53 | 23 | – | – | – | 654 | – | – |
| | 7,839 | 4,644 | 2,785 | 1,841 | 876 | 1,756 | 19,741 | | |

### Amounts owing from other entities

Transactions outside the usual operating activities of the Group give rise to these amounts receivable. Interest is charged at commercial rates and repayments are specified by agreements.

### Fair values

The carrying value of non-current receivables approximates their fair value.

### Credit risk exposures

The credit risk on financial assets of the Group which have been recognised on the Balance Sheet, other than investments in shares, is generally the carrying amount, net of any provisions for impairment. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been reflected in the financial statements in accordance with accounting standards.

None of the non-current receivables are past due or impaired.

## NOTE 11 | INVESTMENTS – NON-CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Investments accounted for using the equity method | **79,604** | 73,995 |
| Other financial assets | **12,150** | 14,140 |
| | **91,754** | 88,135 |

The Group has interests in a number of associates and joint ventures that are accounted for using the equity method. The contribution of these investments is not material to the Group.

# Notes to the Financial Statements

30 JUNE 2020

## NOTE 12 | PROPERTY, PLANT AND EQUIPMENT – NON-CURRENT

| | Freehold land & buildings | Plant & equipment | Leased plant & equipment | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **At 1 July 2018** | | | | |
| Cost | 362,407 | 2,245,821 | 23,757 | 2,631,985 |
| Accumulated depreciation | (60,388) | (1,395,592) | (20,524) | (1,476,504) |
| **Net book amount** | 302,019 | 850,229 | 3,233 | 1,155,481 |
| **Year ended 30 June 2019** | | | | |
| Opening net book amount at 1 July 2018 | 302,019 | 850,229 | 3,233 | 1,155,481 |
| Additions | 6,816 | 287,017 | 330 | 294,163 |
| Additions through business combinations | – | 14,606 | 2,697 | 17,303 |
| Disposals | – | (9,344) | (69) | (9,413) |
| Transfers | 186 | 807 | (993) | – |
| Depreciation/amortisation expense (Note 4) | (8,826) | (199,221) | (1,809) | (209,856) |
| Foreign exchange movements | 5,427 | 15,042 | 172 | 20,641 |
| **Closing net book amount** | 305,622 | 959,136 | 3,561 | 1,268,319 |
| **At 30 June 2019** | | | | |
| Cost | 376,946 | 2,532,591 | 30,900 | 2,940,437 |
| Accumulated depreciation | (71,324) | (1,573,455) | (27,339) | (1,672,118) |
| **Net book amount** | 305,622 | 959,136 | 3,561 | 1,268,319 |
| **Year ended 30 June 2020** | | | | |
| Opening net book amount at 1 July 2019 | 305,622 | 959,136 | 3,561 | 1,268,319 |
| Change in accounting standards (AASB 16) | – | – | (3,561) | (3,561) |
| Additions | 8,093 | 230,017 | – | 238,110 |
| Additions through business combinations (Note 30) | – | 3,122 | – | 3,122 |
| Disposals | (39,297) | (13,228) | – | (52,525) |
| Depreciation/amortisation expense (Note 4) | (10,025) | (221,309) | – | (231,334) |
| Foreign exchange movements | 2,813 | 5,554 | – | 8,367 |
| **Closing net book amount** | **267,206** | **963,292** | – | **1,230,498** |
| **At 30 June 2020** | | | | |
| Cost | 345,179 | 2,647,401 | – | 2,992,580 |
| Accumulated depreciation | (77,973) | (1,684,109) | – | (1,762,082) |
| **Net book amount** | **267,206** | **963,292** | – | **1,230,498** |

### Non-current assets pledged as security

Refer to Note 33 for information on non-current assets pledged as security by the Group.

## NOTE 13 | RIGHT-OF-USE ASSETS

| | 2020 | 2019+ |
|---|---|---|
| | $'000 | $'000 |
| Buildings | 1,246,254 | – |
| Equipment | 21,328 | – |
| | 1,267,582 | – |

+ In the previous year, the Group only recognised lease assets in relation to leases that were classified as finance leases under AASB 117. The assets were presented in property, plant and equipment.

Additions to the right-of-use assets during the 2020 financial year comprised $245,918,000 of new leases and $259,021,000 of remeasured leases (including recognition of option periods).

# Notes to the Financial Statements

30 JUNE 2020

## NOTE 14 | INTANGIBLE ASSETS – NON-CURRENT

| | Brand names | Goodwill | Software+ | Other | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **At 1 July 2018** | | | | | |
| Cost | 188,282 | 5,337,656 | 600,251 | 132,795 | 6,258,984 |
| Accumulated amortisation and impairment | (54,332) | (97,657) | (315,077) | (69,730) | (536,796) |
| **Net book amount** | 133,950 | 5,239,999 | 285,174 | 63,065 | 5,722,188 |
| **Year ended 30 June 2019** | | | | | |
| Opening net book amount | 133,950 | 5,239,999 | 285,174 | 63,065 | 5,722,188 |
| Change in accounting standards (AASB 15) | – | – | – | (31,598) | (31,598) |
| Acquisition of businesses | – | 925,459 | 770 | – | 926,229 |
| Additions – externally acquired | – | – | 28,406 | – | 28,406 |
| Additions – internally generated | – | – | 57,345 | – | 57,345 |
| Disposals | – | (37,364) | (16,297) | (19,534) | (73,195) |
| Foreign exchange movements | – | 192,636 | 4,182 | 1,833 | 198,651 |
| Amortisation charge (Note 4) | – | – | (59,815) | (3,473) | (63,288) |
| **Closing net book amount** | 133,950 | 6,320,730 | 299,765 | 10,293 | 6,764,738 |
| **At 30 June 2019** | | | | | |
| Cost | 190,148 | 6,422,865 | 671,689 | 16,858 | 7,301,560 |
| Accumulated amortisation and impairment | (56,198) | (102,135) | (371,924) | (6,565) | (536,822) |
| **Net book amount** | 133,950 | 6,320,730 | 299,765 | 10,293 | 6,764,738 |
| **Year ended 30 June 2020** | | | | | |
| Opening net book amount | 133,950 | 6,320,730 | 299,765 | 10,293 | 6,764,738 |
| Acquisition of businesses (Note 30) | – | 93,409 | 10 | – | 93,419 |
| Additions – externally acquired | – | – | 23,875 | 4,470 | 28,345 |
| Additions – internally generated | – | – | 60,741 | – | 60,741 |
| Disposals | (10) | – | (16) | – | (26) |
| Foreign exchange movements | – | 72,195 | 779 | (77) | 72,897 |
| Amortisation charge (Note 4) | – | – | (64,129) | (1,081) | (65,210) |
| **Closing net book amount** | **133,940** | **6,486,334** | **321,025** | **13,605** | **6,954,904** |
| **At 30 June 2020** | | | | | |
| Cost | 189,136 | 6,586,063 | 743,519 | 21,250 | 7,539,968 |
| Accumulated amortisation and impairment | (55,196) | (99,729) | (422,494) | (7,645) | (585,064) |
| **Net book amount** | **133,940** | **6,486,334** | **321,025** | **13,605** | **6,954,904** |

+ Software includes both externally acquired software and capitalised development costs, being an internally generated intangible asset

## a) Impairment testing of goodwill and intangibles with indefinite useful lives

Goodwill is allocated to the Group's cash-generating units (CGUs) for the purposes of assessing impairment according to business segment and geographic location. A summary of the goodwill allocation is presented below.

| 2020<br>Australia Laboratory | UK Laboratory | USA Laboratory | Germany Laboratory | Switzerland Laboratory | Belgium Laboratory | Imaging | Total |
|---|---|---|---|---|---|---|---|
| $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| 986,245 | 126,279 | 2,459,524 | 1,385,786 | 622,001 | 535,618 | 370,881 | 6,486,334 |

| 2019<br>Australia Laboratory | UK Laboratory | USA Laboratory | Germany Laboratory | Switzerland Laboratory | Belgium Laboratory | Imaging | Total |
|---|---|---|---|---|---|---|---|
| $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| 976,249 | 127,436 | 2,397,328 | 1,320,492 | 597,814 | 532,663 | 368,748 | 6,320,730 |

The carrying value of brand names of $133,940,000 at 30 June 2020 relates solely to the Australia Laboratory CGU and the recoverable amounts are assessed as part of the recoverable amount of the CGU.

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use cash projections based on financial budgets/forecasts approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using the terminal growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

## b) Key assumptions used for value in use calculations

The recoverable amount of each cash-generating unit is the net present value of the future cash flows of the cash-generating unit. Recoverable amounts have been assessed using management's best estimates of:

- 2020/2021 Board reviewed profit and loss and cash flow forecasts for each cash-generating unit;
- cash flow growth factors consistent with historical growth rates and current performance: Australia Laboratory ~6% (2019: ~7%), UK ~7% (2019: ~11%), USA ~6% (2019: ~6%), Germany ~4% (2019: ~4%), Switzerland ~5% (2019: ~5%), Belgium ~2% (2019: ~2%), Imaging ~3% (2019: ~7%);
- prevailing market based pre-tax discount rates of 5-10%, taking into account the interest rate environment of different geographies (2019: 4-8%); and
- terminal growth rates: 1-3% (2019: 2-4%)

After performing sensitivity analysis, management believes that any reasonably possible change in the key assumptions on which the recoverable amount has been assessed would not cause the carrying amount to exceed the recoverable amount in any of the cash-generating units.

# Notes to the Financial Statements

30 JUNE 2020

## NOTE 15 | DEFERRED TAX ASSETS – NON-CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Deferred tax assets | 70,759 | 39,166 |
| The balance comprises temporary differences attributable to | | |
| **Amounts recognised in profit or loss** | | |
| Doubtful debts | 45,956 | 39,779 |
| Employee benefits | 72,036 | 60,488 |
| Sundry accruals | 71,722 | 47,298 |
| Unrealised foreign exchange movements | 229 | 1,030 |
| Lease liability | 346,268 | 72 |
| Tax losses | 36,921 | 69,325 |
| | 573,132 | 217,992 |
| **Amounts recognised directly in equity/other comprehensive income** | | |
| Share issue costs | 1,651 | 2,217 |
| **Deferred tax assets** | 574,783 | 220,209 |
| Less: amounts offset against deferred tax liabilities (Note 24) | (504,024) | (181,043) |
| **Net deferred tax assets** | 70,759 | 39,166 |
| Movements | | |
| Opening balance at 1 July | 39,166 | 25,755 |
| Credited/(charged) to the Income Statement (Note 6) | 29,430 | 12,623 |
| Foreign exchange movements | 618 | 788 |
| Acquisition/disposal of subsidiaries | 1,545 | – |
| **Closing balance at 30 June** | 70,759 | 39,166 |

## NOTE 16 | OTHER ASSETS – NON-CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Prepayments | 6,099 | 6,091 |

## NOTE 17 | PAYABLES – CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Trade creditors | 362,027 | 229,670 |
| Sundry creditors and accruals | 621,804 | 397,641 |
| | 983,831 | 627,311 |

### Fair value and risk exposure

Due to the short-term nature of these payables, the carrying value is assumed to approximate their fair value. Information about the Group's exposure to foreign currency exchange rate risk is provided in Note 39.

## NOTE 18 | INTEREST-BEARING LIABILITIES – CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| **Secured** | | |
| Lease liabilities (Note 31(b)) | – | 1,120 |
| **Unsecured** | | |
| Bank loans | – | 603,834 |
| USPP notes (Note 23(b)) | 363,161 | 221,050 |
| Amounts owing to vendors (a) | 1,037 | – |
| | 364,198 | 826,004 |

Details of the security, fair values and interest rate risk exposure relating to each of the secured and unsecured liabilities are set out in Note 33 and Note 39.

### a) Amounts owing to vendors

The amounts owing to vendors comprise deferred consideration for business acquisitions. These amounts are interest bearing. The carrying value of these amounts approximates their fair value.

## NOTE 19 | LEASE LIABILITIES

| | 2020 | 2019+ |
|---|---|---|
| | $'000 | $'000 |
| Current | 298,923 | – |
| Non-current | 1,080,331 | – |
| | 1,379,254 | – |

+ In the previous year, the Group only recognised lease liabilities in relation to leases that were classified as finance leases under AASB 117. The liabilities were presented in interest-bearing liabilities.

# Notes to the Financial Statements

30 JUNE 2020

## NOTE 20 | TAX LIABILITIES – CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Income tax | **145,163** | 125,455 |

## NOTE 21 | PROVISIONS – CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Employee benefits | **259,826** | 221,068 |
| Lease exit costs | – | 1,253 |
| | **259,826** | 222,321 |

The lease exit costs represent future payments for leased premises under non-cancellable operating leases. Movements in lease exit costs during the financial year are set out below:

| | Total |
|---|---|
| | $'000 |
| Carrying amount at 1 July 2019 | 9,720 |
| Change in accounting standards (AASB 16) | (2,967) |
| Amounts used during year | (874) |
| Additional provisions recognised | 14,739 |
| Foreign exchange movements | (677) |
| **Carrying amount at 30 June 2020** | 19,941 |
| Representing lease exit costs: | |
| Current | – |
| Non-current (Note 25) | 19,941 |
| | 19,941 |

## NOTE 22 | OTHER LIABILITIES – CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| **Unsecured** | | |
| Amounts owing to vendors | **17,051** | 45,024 |
| Other | **1,141** | 3,269 |
| | **18,192** | 48,293 |

The amounts owing to vendors comprise deferred consideration for business acquisitions made in the current and prior periods (refer Note 30). Amounts owing to vendors and other loans are non-interest bearing. The carrying value of these amounts approximates their fair value.

## NOTE 23 | INTEREST-BEARING LIABILITIES – NON-CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| **Secured** | | |
| Lease liabilities (Note 31(b)) | – | 1,711 |
| **Unsecured** | | |
| Amounts owing to vendors (a) | – | 1,021 |
| Bank loans | **1,233,344** | 1,014,645 |
| USPP notes (b) | **1,639,085** | 1,192,028 |
| Other | – | 190 |
| | **2,872,429** | 2,209,595 |

Details of the security, fair values and interest rate risk exposure relating to each of the secured and unsecured liabilities is set out in Note 33 and Note 39.

### a) Amounts owing to vendors

The amounts owing to vendors comprised deferred consideration for business acquisitions. These amounts were interest bearing. The carrying value of these amounts approximated their fair value.

### b) USPP notes

In January 2010 and January 2011 Sonic issued notes to investors in the United States Private Placement market, raising US$405M of long-term (10 year) debt. In November 2014 Sonic issued €110M of notes with a tenor of 10 years. In June 2016 and November 2016 Sonic issued €45M and €200M of notes with tenors of 10 years. In October 2017 Sonic issued €75M and €85M of notes with tenors of 7 and 15 years respectively. In January 2020 Sonic issued a further US$300M, US$150M and US$100M of notes with tenors of 10,12 and 15 years respectively.

# Notes to the Financial Statements

30 JUNE 2020

### c) Financing facilities available

At 30 June 2020, the following financing facilities were available:

| 2020 | Total facilities at 30 June 2020 | Facilities used at 30 June 2020 | Facilities unused at 30 June 2020 |
|---|---|---|---|
| | 000's | 000's | 000's |
| Bank overdraft | A$4,317 | A$0 | A$4,317 |
| Bank loans | | | |
| Syndicated facilities multi-currency USD limits | US$75,000 | US$75,000 | US$0 |
| Syndicated facilities multi-currency Euro limits | €390,000 | €377,241^ | €12,759 |
| Syndicated facilities multi-currency CHF limits | CHF306,500 | CHF258,187+ | CHF48,313 |
| Club revolving facility AUD limits | A$48,000 | A$48,000 | A$0 |
| Club revolving facility USD limits | US$100,000 | US$45,000 | US$55,000 |
| Notes held by USA investors – USD | US$800,000 | US$800,000 | US$0 |
| Notes held by USA investors – Euro | €515,000 | €515,000 | €0 |
| Leasing and hire purchase facilities | A$20,490 | A$15,490 | A$5,000 |

^ Includes debt drawn in AUD ($113.3M)
+ Includes debt drawn in GBP (£65.5M)

| 2019 | Total facilities at 30 June 2019 | Facilities used at 30 June 2019 | Facilities unused at 30 June 2019 |
|---|---|---|---|
| | 000's | 000's | 000's |
| Bank overdraft | A$4,477 | A$0 | A$4,477 |
| Bank loans | | | |
| Syndicated facilities multi-currency USD limits | US$186,000 | US$85,795 | US$100,205 |
| Syndicated facilities multi-currency Euro limits | €425,000 | €267,100 | €157,900 |
| Syndicated facilities multi-currency CHF limits | CHF316,500 | CHF264,642+ | CHF51,858 |
| Bilateral facility USD limits | US$313,064 | US$313,064 | US$0 |
| Club revolving facility AUD limits | A$48,000 | A$0 | A$48,000 |
| Club revolving facility USD limits | US$161,000 | US$161,000 | US$0 |
| Notes held by USA investors – USD | US$405,000 | US$405,000 | US$0 |
| Notes held by USA investors – Euro | €515,000 | €515,000 | €0 |
| Leasing and hire purchase facilities | A$7,831 | A$2,831 | A$5,000 |

+ Includes debt drawn in GBP (£59M)

### d) Fair values

The carrying amount of borrowings approximates their fair value.

### e) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in Note 39.

### f) Security

Details of the security relating to each of the secured liabilities are set out in Note 33.

## NOTE 24 | DEFERRED TAX LIABILITIES – NON-CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Deferred tax liabilities | 173,335 | 151,116 |
| **The balance comprises temporary differences attributable to** | | |
| **Amounts recognised in profit or loss** | | |
| Prepayments & sundry debtors | 3,212 | 4,415 |
| Inventories | 15,955 | 10,293 |
| Accrued revenue | 17,515 | 18,700 |
| Right-of-use assets | 334,736 | 2,174 |
| Intangibles | 230,300 | 210,177 |
| Property, plant & equipment | 70,697 | 81,193 |
| Capitalised costs | 4,944 | 5,207 |
| | 677,359 | 332,159 |
| Less: amounts offset against deferred tax assets (Note 15) | (504,024) | (181,043) |
| **Net deferred tax liabilities** | 173,335 | 151,116 |
| **Movements** | | |
| Opening balance at 1 July | 151,116 | 120,795 |
| Charged/(credited) to the Income Statement (Note 6) | 28,921 | 24,604 |
| (Credited) to other comprehensive income | (348) | (2,278) |
| (Credited) to equity | – | (2,728) |
| Change in accounting standard | (7,476) | (1,011) |
| Acquisition/disposal of subsidiaries | – | 7,079 |
| Foreign exchange movements | 1,122 | 4,655 |
| **Closing balance at 30 June** | 173,335 | 151,116 |

## NOTE 25 | PROVISIONS – NON-CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Employee benefits | **31,808** | 28,801 |
| Retirement benefit obligations | **111,789** | 102,282 |
| Lease exit costs | **19,941** | 8,467 |
| | **163,538** | 139,550 |

### a) Retirement benefit obligations

Certain employees of the Group are entitled to benefits from superannuation plans on retirement, disability or death. The Group contributes to defined contribution plans for the majority of employees. The defined contribution plans receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions. The Group has defined benefit plans in relation to certain non-Australian employees. The defined benefit plans provide lump sum benefits based on years of service and final average salary.

The following sets out details in respect of defined benefit plans only.

### b) Balance Sheet amounts

The amounts recognised in the Balance Sheet are determined as follows:

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Present value of the defined benefit plan obligations | **382,535** | 343,057 |
| Fair value of defined benefit plan assets | **(270,746)** | (240,775) |
| **Net liability in the Balance Sheet** | **111,789** | 102,282 |

The Group has no legal obligation to settle this liability with an immediate contribution or additional one off contributions. The Group intends to continue to contribute to the Medisupport Group and Medica Laboratory Group defined benefit plans at a percentage of insured salaries (2.3% to 9.7% dependent on the employee's age bracket) in line with the actuary's latest recommendations and Swiss laws. No contributions are required to be made by the Group to the Bioscientia Healthcare Group defined benefit plan as future benefits are paid directly by Bioscientia and not from a separate plan asset pool.

## c) Categories of plan assets

The major categories of plan assets as a percentage of total plan assets are as follows:

| | 2020 | 2019 |
|---|---|---|
| | % | % |
| Cash – quoted | 1.1 | 1.9 |
| Mortgages – quoted | 1.3 | 1.3 |
| Real estate – quoted | 14.9 | 13.7 |
| Bonds – quoted | 37.7 | 34.0 |
| Equities – quoted | 39.4 | 42.8 |
| Alternative investments – quoted | 5.6 | 6.3 |
| | 100.0 | 100.0 |

## d) Reconciliations

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| **Reconciliation of the present value of the defined benefit obligation, which is partly funded** | | |
| Balance at the beginning of the year | 343,057 | 279,344 |
| Current service cost | 10,340 | 9,464 |
| Past service cost (due to plan amendment) | – | (4,520) |
| Interest cost | 2,184 | 3,077 |
| Actuarial losses | 3,928 | 31,058 |
| Benefits paid | (7,121) | (5,242) |
| Member contributions | 7,760 | 6,685 |
| Other | 8,353 | 3,776 |
| Foreign exchange movements | 14,034 | 19,415 |
| **Balance at the end of the year** | 382,535 | 343,057 |
| **Reconciliation of the fair value of plan assets** | | |
| Balance at the beginning of the year | 240,775 | 201,743 |
| Interest income | 1,950 | 2,327 |
| Actuarial (losses)/gains | (2,210) | 6,634 |
| Contributions by Group companies | 10,000 | 9,766 |
| Benefits paid | (6,046) | (4,223) |
| Member contributions | 7,760 | 6,685 |
| Other | 8,353 | 3,776 |
| Foreign exchange movements | 10,164 | 14,067 |
| **Balance at the end of the year** | 270,746 | 240,775 |

## e) Amounts recognised in Income Statement

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Current service cost | 10,340 | 9,464 |
| Past service cost | – | (4,520) |
| Net interest expense | 234 | 750 |
| **Total included in the employee benefit expense** | 10,574 | 5,694 |

## f) Amounts recognised in Statement of Comprehensive Income

| | | |
|---|---|---|
| Actuarial (losses) recognised in the year | (5,782) | (22,203) |
| Cumulative actuarial (losses) recognised in the Statement of Comprehensive Income | (49,707) | (43,925) |

## g) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

| | 2020 | 2019 |
|---|---|---|
| | % | % |
| Discount rate | 0.64 | 0.49 |
| Future salary increases | 1.22 | 1.48 |

If the discount rate had increased/decreased by 25 basis points (2019: 25 basis points), the impact on the net defined benefit obligation would have been a decrease by 11.2%/increase by 12.4% (2019: decrease by 11.3%/increase by 11.8%). The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the Balance Sheet.

## h) Employer contributions

### Medisupport Group and Medica Laboratory Group defined benefit plans

Employer contributions to the defined benefit plans are based on recommendations by the plan's actuary. Actuarial assessments are made on a yearly basis.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding which seeks to have benefits funded by means of a total contribution which is expected to be a percentage of members' insured salaries over their working lifetimes.

Using the funding method described above and actuarial assumptions, the actuary recommended in the latest actuarial review the payment of employer contributions varying from 2.3% to 9.7% (2019: 2.3% to 10.3%) of the insured salaries of employees based on the employee age bracket and in accordance with Swiss laws.

Total employer contributions expected to be paid by Group companies for the year ending 30 June 2021 are based on the 2020 rates and are estimated at $9,232,000 (2019: $9,039,000).

The weighted average duration of the defined benefit obligation is 16.5 years (2019: 16.1 years).

### i) Experience adjustments

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Experience adjustments arising on plan liabilities | **(6,477)** | (8,726) |
| Experience adjustments arising on plan assets | **(2,210)** | 6,634 |

## NOTE 26 | OTHER LIABILITIES – NON-CURRENT

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Unsecured | | |
| Amounts owing to vendors | **93,928** | 86,265 |
| Other | **9,038** | 32,058 |
| | **102,966** | 118,323 |

The amounts owing to vendors comprises deferred consideration for business acquisitions made in current and prior periods (refer Note 30). These amounts are non-interest bearing. The carrying amount approximates their fair value.

## NOTE 27 | CONTRIBUTED EQUITY

### a) Share capital

| | 2020 | 2019 | 2020 | 2019 |
|---|---|---|---|---|
| | Shares | Shares | $'000 | $'000 |
| Fully paid ordinary shares | **475,182,416** | 473,956,404 | **4,001,057** | 3,967,101 |
| **Other equity securities** | | | | |
| Treasury shares | **(6,035)** | (8,835) | **(147)** | (209) |
| | **475,176,381** | 473,947,569 | **4,000,910** | 3,966,892 |

### b) Movements in ordinary share capital

| Date | Details | Number of shares | Issue price | Total |
|---|---|---|---|---|
| 2019 | | | | $'000 |
| 1/7/18 | Opening balance of the Group | 424,704,991 | | 3,006,555 |
| 18/12/18 | Shares issued under an Institutional Placement | 30,769,231 | $19.50 | 600,000 |
| 12/2/19 | Shares issued under a Shareholder Purchase Plan | 16,830,066 | $19.50 | 327,839 |
| Various | Shares issued following exercise of employee options/rights | 1,652,116 | Various | 36,660 |
| Various | Transfers from equity remuneration reserve | – | | 2,413 |
| Various | Costs associated with shares issued net of future income tax benefits | – | | (6,366) |
| **30/6/19** | **Balance of the Group** | **473,956,404** | | **3,967,101** |
| 2020 | | | | $'000 |
| 1/7/19 | Opening balance of the Group | 473,956,404 | | 3,967,101 |
| Various | Shares issued following exercise of employee options/rights | 1,226,012 | Various | 31,614 |
| Various | Transfers from equity remuneration reserve | – | | 2,342 |
| **30/6/20** | **Balance of the Group** | **475,182,416** | | **4,001,057** |

### c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote.

### d) Options and performance rights

Details of options and performance rights issued, exercised and forfeited during the financial year and options and performance rights outstanding at the end of the financial year are set out in Note 35.

### e) Dividend reinvestment plan

The Company's DRP remained suspended for the 30 June 2020 final dividend, as it was through the 2020 and 2019 financial years.

## f) Treasury shares

Treasury shares are shares in Sonic Healthcare Limited that are held by the Sonic Healthcare Limited Employee Share Trust ('SHEST') for the purpose of providing shares under selected Group equity plans.

| Date | Details | Number of shares | Total |
|---|---|---|---|
| 2019 | | | $'000 |
| 1/7/18 | Opening balance | 28,083 | 680 |
| Various | Subscription for unissued shares by SHEST | 945,616 | 24,151 |
| Various | Transfer of shares to employees to satisfy exercise of options/rights | (964,864) | (24,622) |
| **30/6/19** | **Balance of the Group** | **8,835** | **209** |
| 2020 | | | $'000 |
| 1/7/19 | Opening balance | 8,835 | 209 |
| Various | Subscription for unissued shares by SHEST | 798,179 | 23,279 |
| Various | Transfer of shares to employees to satisfy exercise of options/rights | (800,979) | (23,341) |
| **30/6/20** | **Balance of the Group** | **6,035** | **147** |

# Notes to the Financial Statements

30 JUNE 2020

## NOTE 28 | RESERVES AND RETAINED EARNINGS

### a) Reserves

| | | 2020 | 2019 |
|---|---|---|---|
| | | $'000 | $'000 |
| Equity remuneration reserve | (i) | **(83,265)** | (78,574) |
| Foreign currency translation reserve | (ii) | **251,294** | 217,016 |
| Share option reserve | (iii) | **16,427** | 16,427 |
| Revaluation reserve | (iv) | **3,272** | 3,272 |
| Transactions with minority interests | (v) | **(12,302)** | (11,866) |
| | | **175,426** | 146,275 |

| Movements | | |
|---|---|---|
| **Equity remuneration reserve** | | |
| Balance 1 July | **(78,574)** | (68,138) |
| Share based payments | **6,330** | 3,878 |
| Employee share scheme issue | **(8,679)** | (11,901) |
| Transfer to share capital (options exercised) | **(2,342)** | (2,413) |
| **Balance 30 June** | **(83,265)** | (78,574) |
| **Foreign currency translation reserve** | | |
| Balance 1 July | **217,016** | 109,291 |
| Net exchange movement on translation of foreign subsidiaries | **34,278** | 107,725 |
| **Balance 30 June** | **251,294** | 217,016 |
| **Share option reserve** | | |
| Balance 1 July | **16,427** | 16,427 |
| Movement | **–** | – |
| **Balance 30 June** | **16,427** | 16,427 |
| **Revaluation reserve** | | |
| Balance 1 July | **3,272** | 3,272 |
| Movement | **–** | – |
| **Balance 30 June** | **3,272** | 3,272 |
| **Transactions with minority interests** | | |
| Balance 1 July | **(11,866)** | (32,963) |
| Net exchange movement | **(436)** | (1,231) |
| Sale of minority interests | **–** | 1,505 |
| Acquisition of minority interests | **–** | 20,823 |
| **Balance 30 June** | **(12,302)** | (11,866) |

i) Equity remuneration reserve

The equity remuneration reserve reflects the fair value of equity-settled share based payments. Fair values are determined using a pricing model consistent with the Black Scholes methodology and recognised over the service period up to the vesting date. When shares are issued or options are exercised the associated fair values are transferred to share capital.

ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign subsidiaries are taken to the foreign currency translation reserve as described in accounting policy Note 1(d)(iii).

iii) Share option reserve

The share option reserve reflects the value of options issued as part of consideration for business combinations. The value of the options represents the assessed fair value at the date they were granted and has been determined using a pricing model consistent with the Black Scholes methodology that takes into account the exercise price, the term of the option, the impact of dilution, the non-tradeable nature of the option, the current price and expected volatility of the underlying share, the expected dividend yield, and the risk-free interest rate for the term of the option.

iv) Revaluation reserve

The revaluation reserve is used to record increments and decrements on the initial revaluation of non-current assets.

v) Transactions with minority interests

This reserve is used to record the differences described in Note 1(b) which may arise as a result of transactions with minority interests that do not result in a loss of control in addition to transfers from the minority interests account on disposal of a subsidiary.

### b) Retained earnings

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Retained earnings at the beginning of the financial year | **1,299,163** | 1,143,643 |
| Net profit attributable to members of Sonic Healthcare Limited | **527,749** | 549,725 |
| Dividends paid in the year (Note 5) | **(403,667)** | (365,112) |
| Change in accounting standards | **(20,046)** | (6,890) |
| Actuarial (losses) on retirement benefit obligations (Note 25) | **(5,782)** | (22,203) |
| **Retained earnings at the end of the financial year** | **1,397,417** | 1,299,163 |

## NOTE 29 | DEED OF CROSS GUARANTEE

The 'Closed Group' (refer Note 30) are parties to a Deed of Cross Guarantee dated 28 June 2007 under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities which are large proprietary companies have been relieved from the requirements of the *Corporations Act 2001* to prepare and lodge a financial report, directors' report and auditor's report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

The companies represent a 'Closed Group' for the purposes of the Instrument, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Sonic Healthcare Limited, they also represent the 'Extended Closed Group'.

# Notes to the Financial Statements

30 JUNE 2020

## a) Consolidated Income Statement of the Extended Closed Group

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| **Revenue** | **2,922,474** | 2,721,085 |
| Labour and related costs | **(1,333,385)** | (1,257,751) |
| Consumables used | **(270,101)** | (269,915) |
| Lease expense | **(21,176)** | (240,786) |
| Depreciation | **(314,326)** | (95,233) |
| Utilities | **(70,990)** | (68,145) |
| Repairs and maintenance | **(68,260)** | (63,896) |
| Borrowing costs | **(89,348)** | (34,850) |
| Transportation | **(17,271)** | (17,300) |
| Amortisation of intangibles | **(26,598)** | (24,787) |
| Other expenses from ordinary activities | **(156,469)** | (156,515) |
| **Profit before income tax expense** | **554,550** | 491,907 |
| Income tax expense | **(67,604)** | (81,121) |
| **Net profit attributable to members of the Extended Closed Group** | **486,946** | 410,786 |

## b) Consolidated Statement of Comprehensive Income of the Extended Closed Group

| | | |
|---|---|---|
| Profit from ordinary activities after income tax expense | **486,946** | 410,786 |
| Other comprehensive income | | |
| **Items that may be reclassified to profit or loss** | | |
| Exchange differences on translation of foreign operations | **3,299** | 5,461 |
| **Other comprehensive income for the period, net of tax** | **3,299** | 5,461 |
| **Total comprehensive income for the period** | **490,245** | 416,247 |

## c) Reconciliation of retained earnings

| | | |
|---|---|---|
| Retained earnings at the beginning of the financial year | **428,221** | 384,450 |
| Change in accounting standards | **(11,582)** | (1,903) |
| Profit from ordinary activities after income tax expense | **486,946** | 410,786 |
| Dividends paid during the year | **(403,667)** | (365,112) |
| **Retained earnings at the end of the financial year** | **499,918** | 428,221 |

## d) Consolidated Balance Sheet of the Extended Closed Group

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| **Current assets** | | |
| Cash and cash equivalents | 441,929 | 349,074 |
| Receivables | 442,499 | 424,394 |
| Inventories | 40,262 | 34,356 |
| Other | 20,193 | 17,375 |
| **Total current assets** | 944,883 | 825,199 |
| **Non-current assets** | | |
| Receivables | 40,233 | 33,186 |
| Investments | 2,962,846 | 3,706,510 |
| Property, plant and equipment | 625,646 | 621,472 |
| Right-of-use assets | 683,262 | – |
| Intangible assets | 1,635,974 | 1,610,392 |
| Deferred tax assets | 29,362 | 19,804 |
| Other | 53 | 72 |
| **Total non-current assets** | 5,977,376 | 5,991,436 |
| **Total assets** | 6,922,259 | 6,816,635 |
| **Current liabilities** | | |
| Payables | 446,507 | 334,891 |
| Interest-bearing liabilities | – | 446,469 |
| Lease liabilities | 205,740 | – |
| Current tax liabilities | 59,474 | 69,377 |
| Provisions | 198,366 | 168,842 |
| Other | 664 | 1,346 |
| **Total current liabilities** | 910,751 | 1,020,925 |
| **Non-current liabilities** | | |
| Interest-bearing liabilities | 960,234 | 1,362,831 |
| Lease liabilities | 519,014 | – |
| Provisions | 23,456 | 21,968 |
| Deferred tax liabilities | 24,654 | 27,917 |
| Other | 509 | 3,080 |
| **Total non-current liabilities** | 1,527,867 | 1,415,796 |
| **Total liabilities** | 2,438,618 | 2,436,721 |
| **Net assets** | 4,483,641 | 4,379,914 |
| **Equity** | | |
| **Parent Company interest** | | |
| Contributed equity | 4,024,196 | 3,990,775 |
| Reserves | (40,473) | (39,082) |
| Retained earnings | 499,918 | 428,221 |
| **Total equity** | 4,483,641 | 4,379,914 |

# Notes to the Financial Statements

30 JUNE 2020

## NOTE 30 | INVESTMENTS IN SUBSIDIARIES

| Details of subsidiaries | Country of incorporation | Class of share | Beneficial interest 2020 % | Beneficial interest 2019 % |
|---|---|---|---|---|
| **Subsidiaries of Sonic Healthcare Limited** | | | | |
| Clinpath Laboratories Pty Limited (i) | Australia | Ord | 100 | 100 |
| Douglass Hanly Moir Pathology Pty Limited (i) | Australia | Ord | 100 | 100 |
| Lifescreen Australia Pty Limited (i) | Australia | Ord | 100 | 100 |
| Redlands X-Ray Services Pty Limited | Australia | Ord | 100 | 100 |
| Sonic Healthcare Genetics Pty Limited | Australia | Ord | 100 | 100 |
| Sonic Clinical Trials Pty Limited | Australia | Ord | 100 | 100 |
| Sonic Healthcare Services Pty Limited (i) | Australia | Ord | 100 | 100 |
| Sonic Imaging Pty Limited (i) | Australia | Ord | 100 | 100 |
| Southern Pathology Services Pty Limited (i) | Australia | Ord | 100 | 100 |
| Sonic Clinical Services Pty Limited (i) | Australia | Ord | 100 | 100 |
| Sonic Healthcare (UK) Pty Limited | Australia | Ord | 100 | 100 |
| Sonic Healthcare (Ireland) Limited | Ireland | Ord | 100 | 100 |
| Sonic Healthcare Holding Company | United Kingdom | Ord | 100 | 100 |
| Sonic Healthcare Europe GmbH | Germany | Ord | 100 | 100 |
| Sonic Healthcare Germany GmbH & Co. KG | Germany | | 100 | 100 |
| **Other subsidiaries in the Group** | | | | |
| Capital Pathology Pty Limited (i) | Australia | Ord | 100 | 100 |
| Castlereagh Co Pty Limited (i) | Australia | Ord | 100 | 100 |
| Castlereagh Services Pty Limited (i) | Australia | Ord | 100 | 100 |
| Consultant Pathology Services Pty Limited (i) | Australia | Ord | 100 | 100 |
| Diagnostic Services Pty Limited (i) | Australia | Ord | 100 | 100 |
| Hanly Moir Pathology Pty Limited (i) | Australia | Ord | 100 | 100 |
| San Pathology Pty Limited (i) | Australia | Ord | 100 | 100 |
| Hunter Imaging Group Pty Limited (i) | Australia | Ord | 100 | 100 |
| Hunter Valley X-Ray Pty Limited | Australia | Ord | 100 | 100 |
| Sonic Pathology Australia Pty Limited (i) | Australia | Ord | 100 | 100 |
| IRG Co Pty Limited (i) | Australia | Ord | 100 | 100 |
| L & A Services Pty Limited (i) | Australia | Ord | 100 | 100 |
| Melbourne Pathology Pty Limited (i) | Australia | Ord | 100 | 100 |
| Melbourne Pathology Services Pty Limited | Australia | Ord | 100 | 100 |
| Melbourne Pathology Cabrini Pty Limited | Australia | Ord | 50.1 | – |
| Epworth Pathology | Australia | | 50.1 | 50.1 |
| Northern Pathology Pty Limited (i) | Australia | Ord | 100 | 100 |
| Pacific Medical Imaging Pty Limited (i) | Australia | Ord | 100 | 100 |
| Paedu Pty Limited (i) | Australia | Ord | 100 | 100 |
| Queensland X-Ray Pty Limited (i) | Australia | Ord | 100 | 100 |

| Details of subsidiaries | Country of incorporation | Class of share | Beneficial interest | Beneficial interest |
|---|---|---|---|---|
| | | | 2020 | 2019 |
| | | | % | % |
| Ultrarad No 2 Trust | Australia | Units | 99.9 | 99.9 |
| SKG Radiology Pty Limited (i) | Australia | Ord | 100 | 100 |
| Sonic Healthcare International Pty Limited (i) | Australia | Ord | 100 | 100 |
| Sonic Healthcare Pathology Pty Limited | Australia | Ord | 100 | 100 |
| A.C.N. 094 980 944 Pty Limited (i) | Australia | Ord | 100 | 100 |
| Sonic Medlab Holdings Australia Pty Limited (i) | Australia | Ord | 100 | 100 |
| Sonic Pathology (Queensland) Pty Limited (i) | Australia | Ord | 100 | 100 |
| Sonic Pathology (Victoria) Pty Limited (i) | Australia | Ord | 100 | 100 |
| A.C.N. 002 889 545 Pty Limited (i) | Australia | Ord | 100 | 100 |
| Clinipath Pathology Pty Limited (i) | Australia | Ord | 100 | 100 |
| Sullivan Nicolaides Pty Limited (i) | Australia | Ord | 100 | 100 |
| Sunton Pty Limited (i) | Australia | Ord | 100 | 100 |
| IPN Healthcare Pty Limited (i) | Australia | Ord | 100 | 100 |
| IPN Medical Centres Pty Limited (i) | Australia | Ord | 100 | 100 |
| IPN Medical Centres (QLD) Pty Limited (i) | Australia | Ord | 100 | 100 |
| IPN Medical Centres (NSW) Pty Limited (i) | Australia | Ord | 100 | 100 |
| IPN Medical Centres (VIC) Pty Limited (i) | Australia | Ord | 100 | 100 |
| Medihelp Services Pty Limited (i) | Australia | Ord | 100 | 100 |
| Sonic HealthPlus Pty Limited (i) | Australia | Ord | 100 | 100 |
| Gemini Medical Services Pty Limited (i) | Australia | Ord | 100 | 100 |
| Prime Health Group Pty Limited (i) | Australia | Ord | 100 | 100 |
| IPN Clinics Victoria Pty Limited (i) | Australia | Ord | 100 | 100 |
| IPN Medical Victoria Pty Limited (i) | Australia | Ord | 100 | 100 |
| Matrix Skin Cancer Clinics Pty Limited (i) | Australia | Ord | 100 | 100 |
| DoctorDoctor Pty Limited | Australia | Ord | 100 | 100 |
| Sonic Nurse Connect Pty Limited | Australia | Ord | 100 | 100 |
| LabKom Biochemische Dienstleistungen GmbH | Germany | Ord | 100 | 100 |
| Bioscientia Institut für medizinische Diagnostik GmbH | Germany | Ord | 100 | 100 |
| Labor Augsburg MVZ GmbH | Germany | Ord | 100 | 100 |
| Labor 28 GmbH | Germany | Ord | 100 | 100 |
| GLP medical GmbH | Germany | Ord | 100 | 100 |
| Dr. Von Froreich – Bioscientia GmbH | Germany | Ord | 100 | 100 |
| Labor Lademannbogen MVZ GmbH | Germany | Ord | 100 | 100 |
| MVZ Labor für Cytopathologie Dr. Steinberg GmbH | Germany | Ord | 100 | 100 |
| MVZ Medizinisches Labor Oldenburg Dr. Müller GmbH | Germany | Ord | 100 | 100 |
| MVZ Pathologie Berlin Berger Fietze Linke Nadjari GmbH | Germany | Ord | 100 | 100 |
| Labor Deutscher Platz Leipzig MVZ GmbH | Germany | Ord | 100 | 100 |
| MVZ für Histologie, Zytologie und molekulare Diagnostik Trier GmbH | Germany | Ord | 100 | 100 |
| MVZ für Histologie, Zytologie und molekulare Diagnostik Düren GmbH | Germany | Ord | 100 | 100 |

# Notes to the Financial Statements

30 JUNE 2020

| Details of subsidiaries | Country of incorporation | Class of share | Beneficial interest | Beneficial interest |
|---|---|---|---|---|
| | | | 2020 | 2019 |
| | | | % | % |
| MVZ Medizinisches Labor Nord GmbH | Germany | Ord | 100 | 100 |
| Bioscientia MVZ Labor Duisberg GmbH | Germany | Ord | 100 | 100 |
| Biovis Diagnostik MVZ GmbH | Germany | Ord | 100 | 100 |
| Dr. Staber & Kollegen GmbH | Germany | Ord | 100 | 100 |
| Med-Lab Med. Dienstleistungs GmbH | Germany | Ord | 100 | 100 |
| Med-Lab GmbH Kassel | Germany | Ord | 100 | 100 |
| MVZ Medizinisches Labor Bremen GmbH | Germany | Ord | 100 | 100 |
| MVZ Medizinisches Labor Celle GmbH | Germany | Ord | 100 | 100 |
| Medlab Central Limited (i) | New Zealand | Ord | 100 | 100 |
| Medica Ärztebedarf AG | Switzerland | Ord | 100 | 100 |
| Medica Medizinische Laboratorien Dr F Käppeli AG | Switzerland | Ord | 100 | 100 |
| Medisupport SA | Switzerland | Ord | 100 | 100 |
| Dianalabs SA | Switzerland | Ord | 99.8 | 99.8 |
| Dianapath SA | Switzerland | Ord | 100 | 100 |
| MCL Medizinische Laboratorien AG | Switzerland | Ord | 100 | 100 |
| Ortho-Analytic AG | Switzerland | Ord | 100 | 100 |
| Polyanalytic S.A. | Switzerland | Ord | 90 | 90 |
| Proxilab analyses médicales SA | Switzerland | Ord | 100 | 100 |
| Aurigen SA | Switzerland | Ord | 100 | 100 |
| Laboratories BBV S.A. | Switzerland | Ord | 100 | 100 |
| Bioexam AG | Switzerland | Ord | 100 | 100 |
| Medizinische Laboratorien Dr. Toggweiler AG | Switzerland | Ord | 100 | 100 |
| Bioanalytica AG | Switzerland | Ord | 100 | 100 |
| Ecobion SA | Switzerland | Ord | 100 | 100 |
| The Doctors Laboratory Limited | United Kingdom | Ord | 100 | 100 |
| TDL Genetics Limited | United Kingdom | Ord | 100 | 100 |
| NWLHT Analytical LLP | United Kingdom | | 100 | 100 |
| NWLHT Facilities LLP | United Kingdom | | 100 | 100 |
| Health Services Laboratories LLP | United Kingdom | | 51 | 51 |
| HSL (Nominee) Ltd | United Kingdom | Ord | 51 | 51 |
| HSL (Analytics) LLP | United Kingdom | | 51 | 51 |
| HSL (FM) LLP | United Kingdom | | 51 | 51 |
| HSL Pathology LLP | United Kingdom | | 51 | 51 |
| LABex Analytics LLP | United Kingdom | | 100 | – |
| LABex Facilities LLP | United Kingdom | | 100 | – |
| SH Euro Finance PLC | United Kingdom | Ord | 100 | 100 |
| Medlab Pathology Limited | Ireland | Ord | 100 | 100 |
| Sonic Healthcare Investments GP | United States | | 100 | 100 |
| Clinical Pathology Laboratories, Inc. | United States | Ord | 100 | 100 |

| Details of subsidiaries | Country of incorporation | Class of share | Beneficial interest | Beneficial interest |
|---|---|---|---|---|
| | | | 2020 | 2019 |
| | | | % | % |
| Pathology Laboratories, Inc. | United States | Ord | 100 | 100 |
| American Esoteric Laboratories, Inc. | United States | Ord | 100 | 100 |
| Clinical Pathology Laboratories Southeast, Inc. | United States | Ord | 100 | 100 |
| Memphis Pathology Laboratory | United States | | 100 | 100 |
| Sonic Healthcare USA, Inc. | United States | Ord | 100 | 100 |
| Sunrise Medical Laboratories, Inc. | United States | Ord | 100 | 100 |
| Clinical Laboratories of Hawaii, LLP | United States | | 100 | 100 |
| Pan Pacific Pathologists, LLC | United States | | 100 | 100 |
| BMHSI/AEL Microbiology Laboratory GP | United States | | 74.6 | 74.6 |
| East Side Clinical Laboratory, Inc. | United States | Ord | 100 | 100 |
| Connecticut Laboratory Partnership, LLC | United States | | 51 | 51 |
| CBLPath, Inc. | United States | Ord | 100 | 100 |
| WestPac Labs, Inc. | United States | Ord | 100 | 100 |
| Aurora Diagnostics, LLC | United States | | 100 | 100 |
| Aurora Research Institute, LLC | United States | | 100 | 100 |
| Bernhardt Laboratories, Inc. | United States | Ord | 100 | 100 |
| Cleveland Skin Pathology Laboratory, Inc. | United States | Ord | 100 | 100 |
| Consultants in Laboratory Medicine of Greater Toledo, Inc. | United States | Ord | 100 | 100 |
| Cytopath, Inc. | United States | Ord | 100 | 100 |
| Dermpath New England, LLC | United States | | 100 | 100 |
| Greensboro Pathology, LLC | United States | | 100 | 100 |
| Pathology Solutions, LLC | United States | | 100 | 100 |
| Richard Bernert, LLC | United States | | 100 | 100 |
| Seacoast Pathology, Inc. | United States | Ord | 100 | 100 |
| Twin Cities Dermatopathology, LLC | United States | | 100 | 100 |
| Sonic Healthcare Benelux NV | Belgium | Ord | 100 | 100 |
| Medvet BV | Belgium | Ord | 100 | 100 |
| A.M.L. BV | Belgium | Ord | 100 | 100 |
| Medisch Labo. D. Van Waes - D. Declerck BV CVBA | Belgium | Ord | 100 | 100 |
| Klinisch Labo Rigo BV | Belgium | Ord | 100 | 100 |
| Laboratoires J. Woestyn SRL | Belgium | Ord | 100 | 100 |

(i) These subsidiaries comprise the 'Closed Group' under the Deed of Cross Guarantee. By entering into the deed wholly-owned entities which are large proprietary companies have been granted relief from the necessity to prepare a financial report, directors' report and auditor's report in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. For further information see Note 29.

### Business combinations

#### a) Acquisition of subsidiaries/business assets

Acquisitions of subsidiaries/business assets in the period included:

- German anatomical pathology business, Pathologie Hamburg, on 1 April 2020.
- A number of small healthcare businesses.

The initial accounting for these business combinations has only been determined provisionally at the date of this report, as the Group is still in the process of reviewing acquisition balance sheets and identifying assets and liabilities not previously recorded so as to determine the fair values of the identifiable assets, liabilities and contingent liabilities acquired. The contribution these acquisitions made to the Group's profit during the period was immaterial individually and in aggregate.

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

| | Total |
|---|---|
| | $'000 |
| Consideration – cash paid | 62,180 |
| Less: cash of entities acquired | (413) |
| | 61,767 |
| Deferred consideration | 27,254 |
| **Total consideration** | 89,021 |
| **Fair value of identifiable net assets of businesses acquired** | |
| Debtors & other receivables | 334 |
| Prepayments | 2 |
| Inventory | 327 |
| Property, plant & equipment | 3,122 |
| Identifiable intangibles | 10 |
| Deferred tax assets | 76 |
| Trade creditors | (7) |
| Sundry creditors & accruals | (236) |
| Current tax liabilities | (62) |
| Provisions | (254) |
| | 3,312 |
| **Goodwill** | 85,709 |

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. $4,846,000 of the purchased goodwill recognised is expected to be deductible for income tax purposes, over a 15 year period.

Acquisition related costs of $2,134,000 are included in other expenses in the Income Statement.

The fair value of acquired debtors and other receivables is $334,000. The gross contractual amount due is $334,000, of which $nil is expected to be uncollectible.

### b) Reconciliation of cash paid to Cash Flow Statement

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Cash consideration for acquisitions in the financial year | 62,180 | 844,391 |
| Cash consideration for Steinberg minority interest acquisition in the financial year | 22,825 | – |
| Acquisition costs | 2,134 | 7,867 |
| Cash consideration paid to vendors for acquisitions in previous financial years | 11,057 | 14,122 |
| Less: cash of entities acquired | (413) | (2,975) |
| **Payment for purchase of controlled entities, net of cash acquired** | **97,783** | 863,405 |

### c) Acquisition of Aurora Diagnostics, LLC (prior year)

The acquisition accounting for Aurora Diagnostics, LLC, acquired on 30 January 2019, was finalised in the current reporting period. The aggregate cost of the acquisition, the value of the identifiable assets and liabilities, and the goodwill arising on acquisition are detailed below:

| | Total |
|---|---|
| | $'000 |
| Consideration – cash paid | 726,017 |
| Less: cash of entities acquired | (1,606) |
| **Total consideration** | 724,411 |
| **Fair value of identifiable net assets of businesses acquired** | |
| Debtors & other receivables | 53,375 |
| Prepayments | 5,903 |
| Inventory | 868 |
| Property, plant & equipment | 11,757 |
| Identifiable intangibles | 532 |
| Trade creditors | (16,362) |
| Sundry creditors & accruals | (39,063) |
| Current tax liabilities | (57) |
| Deferred tax liabilities | (7,763) |
| Lease liabilities | (2,787) |
| Lease exit costs | (68) |
| Provisions | (2,156) |
| Other liabilities | (36,921) |
| | (32,742) |
| **Goodwill** | 757,153 |

The total adjustment to goodwill during the reporting period as a result of finalising this business combination was an increase of A$7,356,000.

## NOTE 31 | COMMITMENTS FOR EXPENDITURE

### a) Capital commitments

| | 2020 | 2019 |
|---|---|---|
| Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as liabilities, payable | $'000 | $'000 |
| Within one year | **22,353** | 12,804 |

### b) Lease commitments

| | 2020 | 2019 |
|---|---|---|
| Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable | $'000 | $'000 |
| Within one year | - | 320,703 |
| Later than one year but not later than 5 years | - | 655,300 |
| Later than 5 years | - | 378,461 |
| | - | 1,354,464 |
| Representing | | |
| Cancellable operating leases | - | 1,847 |
| Non-cancellable operating leases | - | 1,352,585 |
| Future finance charges on finance leases | - | 32 |
| | - | 1,354,464 |

#### i) Operating leases

As at 30 June 2019 the Group leased various premises under non-cancellable operating leases expiring within one month to twenty four years. The leases had varying terms and renewal rights. On renewal, the terms of the leases were renegotiated.

| | 2020 | 2019 |
|---|---|---|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows | $'000 | $'000 |
| Within one year | - | 319,309 |
| Later than one year but not later than 5 years | - | 654,885 |
| Later than 5 years | - | 378,391 |
| **Commitments not recognised in the financial statements** | - | 1,352,585 |
| **Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases not recognised in the financial statements** | - | 26,557 |

The Group also leased various plant and machinery under cancellable operating leases. The Group was generally required to give six months' notice for termination of these leases.

| | 2020 | 2019 |
|---|---|---|
| Commitments for minimum lease payments in relation to cancellable operating leases are payable as follows | $'000 | $'000 |
| Within one year | – | 1,378 |
| Later than one year but not later than 5 years | – | 399 |
| Later than 5 years | – | 70 |
| **Commitments not recognised in the financial statements** | – | 1,847 |

From 1 July 2019, the Group has recognised right-of-use assets for operating leases, except for short-term and low-value leases. See Note 1 for further information.

ii) Finance leases

The Group finance leased various plant and equipment with a carrying amount in the prior year of $3,561,000 under contracts which expired within eleven months to five years.

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Within one year | – | 1,136 |
| Later than one year but not later than 5 years | – | 1,727 |
| Later than 5 years | – | 2,863 |
| Less: future finance charges | – | (32) |
| **Total lease liabilities** | – | 2,831 |
| Representing lease liabilities | | |
| Current (Note 18) | – | 1,120 |
| Non-current (Note 23) | – | 1,711 |
| | – | 2,831 |
| The present value of finance lease liabilities is as follows | | |
| Within one year | – | 1,120 |
| Later than one year but not later than 5 years | – | 1,711 |
| **Minimum lease payments** | – | 2,831 |

From 1 July 2019 finance lease liabilities were reclassified from interest-bearing liabilities to lease liabilities on adoption of the new lease accounting standard. See Note 1 for further information.

The weighted average interest rate implicit in the contracts in the prior year was 0.58%.

## NOTE 32 | CONTINGENT LIABILITIES

Sonic Healthcare Limited and certain subsidiaries, as disclosed in Note 30, are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

The Group has provided guarantees in respect of workers compensation insurance of $7,315,000 (2019: $10,124,000) and for the performance of certain contracts by subsidiary entities. It is not expected that these guarantees will be called upon.

The Group presently has tax matters, litigation and other claims, for which the timing of resolution and potential economic outflow are uncertain. Obligations assessed as having probable future economic outflows capable of reliable measurement are provided at reporting date. Individually significant matters, including narrative on potential future exposures incapable of reliable measurement have not been disclosed so as to not prejudice the Group.

## NOTE 33 | SECURED BORROWINGS

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of a default. The recognition of lease liabilities is a significant change in the current reporting period. Refer to Note 1 for a summary of the impact of AASB 16 on the financial statements and to Notes 13 and 19 for details of the carrying value of leased assets and liabilities.

## NOTE 34 | REMUNERATION OF AUDITORS

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| **PricewaterhouseCoopers – Australian firm** | | |
| Audit and review of financial reports of Group entities | **1,490,839** | 1,395,256 |
| Other assurance services | **198,400** | – |
| Taxation and other services | **86,650** | 33,833 |
| **Total audit, taxation and other services** | **1,775,889** | 1,429,089 |
| **Related practices of PricewaterhouseCoopers Australian firm (including overseas PricewaterhouseCoopers firms)** | | |
| Audit and review of financial reports of Group entities | **791,117** | 749,526 |
| Other assurance services | **113,805** | 157,484 |
| Taxation and other services | **4,342** | 72,258 |
| **Total audit, taxation and other services** | **909,264** | 979,268 |
| **Non-PricewaterhouseCoopers audit firms** | | |
| **Audit and review of financial reports of Group entities** | **339,228** | 281,121 |

The non-audit services provided are not considered to be of a nature which could give rise to a conflict of interest or loss of independence for the external auditors.

## NOTE 35 | SHARE BASED PAYMENTS

The Group has several equity-settled share based compensation plans for executives and employees. The fair value of equity remuneration granted under the various plans is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to shares and options ('the vesting period'). Details of the pricing model and the measurement inputs utilised to determine the fair value of shares and options granted are disclosed in Note 1(q) to the financial statements.

### a) Sonic Healthcare Limited Employee Option Plan

Options are granted under the Sonic Healthcare Limited Employee Option Plan for no consideration. 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 11 December 2015, 5 December 2019 and 22 May 2020 are subject to different vesting and expiry periods. For the options granted on 11 December 2015, one third were exercisable after 11 June 2018, two thirds after 11 June 2019 and up to 100% after 11 June 2020, subject to satisfying vesting conditions. For the options granted on 5 December 2019 and 22 May 2020, 100% are exercisable three years after grant date until expiry one year later, subject to vesting conditions.

The following options and performance rights+ were granted under executive Long-Term Incentive ('LTI') arrangements and are also subject to different vesting and expiry periods. Vesting is subject to challenging performance conditions, details of which are set out in the relevant annual Remuneration Report. The percentage of the options and rights which met the vesting conditions is shown in the table below.

| Grant date | Options | Performance rights+ | Earliest vesting date^ | Performance conditions measurement period | % vested | Expiry date |
|---|---|---|---|---|---|---|
| 18 November 2011 | 1,705,263 | 188,976 | 18 November 2016 | 5 years to 30 June 2016 | 35.0% | 18 November 2018 |
| 27 November 2014 | 706,108 | 100,085 | 27 November 2017 | 3 years to 30 June 2017 | 35.4% | 27 November 2019 |
| 20 November 2015 | 766,969 | 91,988 | 20 November 2018 | 3 years to 30 June 2018 | 46.5% | 20 November 2020 |
| 17 November 2016 | 671,089 | 87,843 | 17 November 2019 | 3 years to 30 June 2019 | 35.4% | 17 November 2021 |
| 22 November 2017 | 675,145 | 87,762 | 22 November 2020 | 3 years to 30 June 2020 | 70.9% | 22 November 2022 |
| 21 November 2018 | 667,787 | 87,560 | 21 November 2021 | 3 years to 30 June 2021 | tbd | 21 November 2023 |
| 19 November 2019 | 588,894 | 64,907 | 19 November 2022 | 3 years to 30 June 2022 | tbd | 19 November 2024 |

+ See b) below for details of the Performance Rights Plan
^ Options can only vest when the market price of Sonic shares is higher than the exercise price

# Notes to the Financial Statements

30 JUNE 2020

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.

Set out below are summaries of options granted under the Sonic Healthcare Limited Employee Option Plan.

| Grant date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Forfeited during the year | Exercised during the year | Expired during the year | Balance at end of the year | Exercisable at end of the year | Balance at date of this report |
|---|---|---|---|---|---|---|---|---|---|---|
| 2020 | | | Number | Number | Number | Number | Number | Number | Number | Number |
| 27/11/14 | 27/11/19 | $17.32 | 250,069 | – | – | (250,069) | – | – | – | – |
| 30/01/15 | 30/11/19 | $18.84 | 220,500 | – | – | (220,500) | – | – | – | – |
| 20/10/15 | 20/08/20 | $18.49 | 552,500 | – | – | (137,500) | – | 415,000 | 415,000 | – |
| 20/11/15 | 20/11/20 | $19.41 | 356,641 | – | – | – | – | 356,641 | 356,641 | – |
| 11/12/15 | 11/10/20 | $19.78 | 1,661,333 | – | – | (427,833) | – | 1,233,500 | 1,233,500 | 150,000 |
| 17/11/16 | 17/09/21 | $21.62 | 800,000 | – | – | (84,000) | – | 716,000 | 516,000 | 454,000 |
| 17/11/16 | 17/09/21 | $22.02 | 200,000 | – | – | (45,000) | – | 155,000 | 105,000 | 117,500 |
| 17/11/16 | 17/11/21 | $21.62 | 671,089 | – | (433,423) | – | – | 237,666 | 237,666 | 237,666 |
| 05/07/17 | 05/05/22 | $23.34 | 970,000 | – | (55,000) | (30,000) | – | 885,000 | 432,500 | 795,000 |
| 22/11/17 | 22/11/22 | $21.64 | 675,145 | – | – | – | – | 675,145 | – | 478,846 |
| 21/11/18 | 21/11/23 | $21.69 | 667,787 | – | – | – | – | 667,787 | – | 667,787 |
| 14/12/18 | 14/10/23 | $21.83 | 2,000,000 | – | – | – | – | 2,000,000 | – | 2,000,000 |
| 21/02/19 | 21/12/23 | $24.30 | 1,000,000 | – | (20,000) | – | – | 980,000 | – | 980,000 |
| 19/11/19 | 19/11/24 | $29.26 | – | 588,894 | – | – | – | 588,894 | – | 588,894 |
| 05/12/19 | 05/12/23 | $28.58 | – | 4,346,199 | (10,000) | – | – | 4,336,199 | – | 4,336,199 |
| 22/05/20 | 22/05/24 | $27.28 | – | 5,170,000 | – | – | – | 5,170,000 | – | 5,170,000 |
| **Total** | | | **10,025,064** | **10,105,093** | **(518,423)** | **(1,194,902)** | **–** | **18,416,832** | **3,296,307** | **15,975,892** |
| **Weighted average exercise price** | | | **$21.39** | **$27.95** | **$22.04** | **$19.25** | **–** | **$25.11** | **$20.54** | |

| Grant date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Forfeited during the year | Exercised during the year | Expired during the year | Balance at end of the year | Exercisable at end of the year |
|---|---|---|---|---|---|---|---|---|---|
| 2019 | | | Number | Number | Number | Number | Number | Number | Number |
| 18/11/11 | 18/11/18 | $11.43 | 596,841 | – | – | (596,841) | – | – | – |
| 18/10/13 | 18/10/18 | $15.43 | 125,000 | – | – | (110,000) | (15,000) | – | – |
| 13/12/13 | 13/12/18 | $15.21 | 50,000 | – | – | (50,000) | – | – | – |
| 02/07/12 | 02/17/19 | $12.57 | 35,000 | – | – | (35,000) | – | – | – |
| 27/11/14 | 27/11/19 | $17.32 | 250,069 | – | – | – | – | 250,069 | 250,069 |
| 30/01/15 | 30/11/19 | $18.84 | 515,000 | – | – | (294,500) | – | 220,500 | 45,500 |
| 20/10/15 | 20/08/20 | $18.49 | 850,000 | – | – | (297,500) | – | 552,500 | 321,250 |
| 20/11/15 | 20/11/20 | $19.41 | 766,969 | – | (410,328) | – | – | 356,641 | 356,641 |
| 11/12/15 | 11/10/20 | $19.78 | 1,886,833 | – | – | (225,500) | – | 1,661,333 | 1,034,667 |
| 17/11/16 | 17/09/21 | $21.62 | 800,000 | – | – | – | – | 800,000 | 400,000 |
| 17/11/16 | 17/09/21 | $22.02 | 200,000 | – | – | – | – | 200,000 | 100,000 |
| 17/11/16 | 17/11/21 | $21.62 | 671,089 | – | – | – | – | 671,089 | – |
| 05/07/17 | 05/05/22 | $23.34 | 1,000,000 | – | (30,000) | – | – | 970,000 | – |
| 22/11/17 | 22/11/22 | $21.64 | 675,145 | – | – | – | – | 675,145 | – |
| 21/11/18 | 21/11/23 | $21.69 | – | 667,787 | – | – | – | 667,787 | – |
| 14/12/18 | 14/10/23 | $21.83 | – | 2,000,000 | – | – | – | 2,000,000 | – |
| 21/02/19 | 21/12/23 | $24.30 | – | 1,000,000 | – | – | – | 1,000,000 | – |
| **Total** | | | **8,421,946** | **3,667,787** | **(440,328)** | **(1,609,341)** | **(15,000)** | **10,025,064** | **2,508,127** |
| **Weighted average exercise price** | | | **$19.72** | **$22.48** | **$19.68** | **$15.68** | **$15.43** | **$21.39** | **$19.68** |

The weighted average share price at the date of exercise for options exercised in the 2020 year was $28.95 (2019: $25.62). The weighted average remaining contractual life of share options on issue at the end of the year was 3.0 years (2019: 2.8 years).

### Fair value of options granted

The average assessed fair value of options granted during the year ended 30 June 2020 was $2.60 per option (2019: $2.03). The valuation model inputs for options granted during the years ended 30 June 2020 and 30 June 2019 included:

| Grant date | Expiry date | Exercise price | Share price at time of grant | Expected life (years from date of issue) | Share price volatility (based on 3 year historic prices) | Risk free rate | Dividend yield |
|---|---|---|---|---|---|---|---|
| 21/11/18 | 21/11/23 | $21.69 | $21.69 | 4.0 | 18.5% | 2.2% | 3.5% |
| 14/12/18 | 14/10/23 | $21.83 | $21.83 | 4.0 | 17.9% | 2.1% | 4.2% |
| 21/02/19 | 21/12/23 | $24.30 | $24.30 | 4.0 | 17.2% | 1.7% | 3.7% |
| 19/11/19 | 19/11/24 | $29.26 | $29.26 | 4.0 | 15.9% | 0.7% | 3.3% |
| 05/12/19 | 05/12/23 | $28.58 | $28.58 | 3.5 | 15.9% | 0.7% | 3.3% |
| 22/05/20 | 22/05/24 | $27.28 | $27.28 | 3.5 | 22.1% | 0.3% | 3.0% |

A Monte Carlo simulation was applied to fair value the relative Total Shareholder Return ('TSR') performance condition element of options granted. The model simulated Sonic's TSR and compared it against the peer group over the vesting periods.

# Notes to the Financial Statements

30 JUNE 2020

### b) 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 | Balance at start of the year | Granted during the year | Forfeited during the year | Exercised during the year | Expired during the year | Balance at end of the year | Exercisable at end of the year | Balance at date of this report |
|---|---|---|---|---|---|---|---|---|---|---|
| 2020 | | | Number | Number | Number | Number | Number | Number | Number | Number |
| 17/11/16 | 17/11/21 | Nil | 87,843 | – | (56,733) | (31,110) | – | – | – | – |
| 22/11/17 | 22/11/22 | Nil | 87,762 | – | – | – | – | 87,762 | – | 62,244 |
| 21/11/18 | 21/11/23 | Nil | 87,560 | – | – | – | – | 87,560 | – | 87,560 |
| 19/11/19 | 19/11/24 | Nil | – | 64,907 | – | – | – | 64,907 | – | 64,907 |
| 16/12/19 | 02/10/20 | Nil | – | 2,800 | – | (2,800) | – | – | – | – |
| Total | | | 263,165 | 67,707 | (56,733) | (33,910) | – | 240,229 | – | 214,711 |

| Grant date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Forfeited during the year | Exercised during the year | Expired during the year | Balance at end of the year | Exercisable at end of the year |
|---|---|---|---|---|---|---|---|---|---|
| 2019 | | | Number | Number | Number | Number | Number | Number | Number |
| 20/11/15 | 20/11/20 | Nil | 91,988 | – | (49,213) | (42,775) | – | – | – |
| 17/11/16 | 17/11/21 | Nil | 87,843 | – | – | – | – | 87,843 | – |
| 22/11/17 | 22/11/22 | Nil | 87,762 | – | – | – | – | 87,762 | – |
| 21/11/18 | 21/11/23 | Nil | – | 87,560 | – | – | – | 87,560 | – |
| 14/12/18 | 01/10/19 | Nil | – | 2,748 | – | (2,748) | – | – | – |
| Total | | | 267,593 | 90,308 | (49,213) | (45,523) | – | 263,165 | – |

The weighted average remaining contractual life of performance rights on issue at the end of the year was 3.3 years (2019: 3.4 years).

#### Fair value of rights granted

The average assessed fair value of rights granted during the year ended 30 June 2020 was $19.12 per right (2019: $13.33). The valuation model inputs for performance rights granted during the years ended 30 June 2020 and 30 June 2019 included:

| Grant date | Expiry date | Exercise price | Share price at time of grant | Expected life (years from date of issue) | Share price volatility (based on 3 year historic prices) | Risk free rate | Dividend yield |
|---|---|---|---|---|---|---|---|
| 21/11/18 | 21/11/23 | Nil | $21.69 | 3.0 | 18.5% | 2.1% | 3.5% |
| 14/12/18 | 01/10/19 | Nil | $21.83 | 0.2 | 17.9% | 1.9% | 4.2% |
| 19/11/19 | 19/11/24 | Nil | $29.26 | 3.0 | 15.9% | 0.7% | 3.3% |
| 16/12/19 | 02/10/20 | Nil | $28.93 | 0.2 | 15.8% | 0.9% | 3.3% |

A Monte Carlo simulation was applied to fair value the TSR performance condition element of performance rights granted. The model simulated Sonic's TSR and compared it against the peer group over the vesting periods.

### c) Expenses arising from share based payment transactions

Total expenses arising from equity-settled share based payment transactions recognised during the period as part of employee benefit expense were as follows:

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Equity remuneration | **6,330** | 3,878 |

### d) 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 1,194,902 ordinary shares of Sonic were issued during the year ended 30 June 2020 under the Sonic Healthcare Limited Employee Option Plan. 2,244,641 options have been exercised since that date, but prior to the date of this report, resulting in the issue of 2,244,641 ordinary shares. The amounts paid on issue of those shares were:

| Number of options exercised | Amounts paid (per share) |
|---|---|
| 250,069 | $17.32 |
| 552,500 | $18.49 |
| 220,500 | $18.84 |
| 356,641 | $19.41 |
| 1,511,333 | $19.78 |
| 346,000 | $21.62 |
| 82,500 | $22.02 |
| 120,000 | $23.34 |
| **3,439,543** | |

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

A total of 33,910 performance rights were exercised during the year ended 30 June 2020 under the Sonic Healthcare Limited Performance Rights Plan, satisfied by the issue of 31,110 new ordinary shares and by 2,800 shares purchased on-market. Nil performance rights have been exercised since 30 June 2020 and up to the date of this report. No amounts were payable on issue of those shares.

### e) 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.

# Notes to the Financial Statements

30 JUNE 2020

## NOTE 36 | RELATED PARTIES

### a) Parent entities and subsidiaries

Sonic Healthcare Limited is the ultimate Parent Company in the Group comprising the Company and its subsidiaries as detailed in Note 30.

### b) Key management personnel compensation

Details of remuneration of key management personnel and transactions with them have been disclosed in the Remuneration Report within the Directors' Report. The aggregate remuneration of the key management personnel is shown below:

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Short-term employee benefits | 5,793,577 | 10,018,589 |
| Long-term employee benefits | 22,188 | 56,654 |
| Post-employment benefits | 162,585 | 165,832 |
| Share based payments | 2,555,286 | 1,009,313 |
| **Total compensation** | 8,533,636 | 11,250,388 |

### c) Transactions and outstanding balances with associates

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Provision of services to associates | 69,861 | 57,090 |
| Provision of services from associates | 3,953 | 4,045 |
| Interest income | 604 | 698 |
| Current payables | 17,272 | 8,746 |
| Current receivables | 12,998 | 13,214 |
| Loans receivable | 16,670 | 16,746 |

## NOTE 37 | EARNINGS PER SHARE

| | 2020 | 2019 |
|---|---|---|
| | Cents | Cents |
| Basic earnings per share | 111.1 | 122.5 |
| Diluted earnings per share | 110.6 | 122.1 |

| | 2020 | 2019 |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator | Shares | Shares |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 474,827,551 | 448,784,480 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 477,161,002 | 450,309,430 |

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 35.

| | 2020 | 2019 |
|---|---|---|
| Reconciliations of earnings used in calculating earnings per share | $'000 | $'000 |
| Net profit | 541,903 | 559,069 |
| Net (profit) attributable to minority interests | (14,154) | (9,344) |
| **Earnings used in calculating basic and diluted earnings per share** | 527,749 | 549,725 |

## NOTE 38 | STATEMENT OF CASH FLOWS

### a) Cash at bank and on hand

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Cash at bank and on hand | 1,230,149 | 736,646 |

Cash balances bear interest rates of between 0.00% – 0.88% (2019: 0.00% – 2.65%).

## b) Reconciliation of net cash inflow from operating activities to operating profit after income tax

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Operating profit after income tax | **541,903** | 559,069 |
| Add non-cash items | **597,120** | 231,335 |
| **Add/(less) changes in assets and liabilities during the financial year:** | | |
| (Increase)/decrease in sundry debtors and prepayments | **(18,154)** | (7,873) |
| (Increase)/decrease in trade debtors and accrued revenue | **(138,498)** | 12,190 |
| (Increase)/decrease in inventories | **(42,846)** | (12,878) |
| (Increase)/decrease in deferred tax assets | **(23,783)** | (8,620) |
| Increase/(decrease) in trade creditors and accrued expenses | **346,299** | 19,768 |
| Increase/(decrease) in deferred tax liabilities | **20,632** | 17,889 |
| Increase/(decrease) in current tax liabilities | **19,401** | 20,602 |
| Increase/(decrease) in other provisions | **12,767** | (2,724) |
| Increase/(decrease) in other liabilities | **385** | 6,687 |
| Increase/(decrease) in provision for employee entitlements | **45,072** | 11,863 |
| **Net cash inflow from operating activities** | **1,360,298** | 847,308 |

## c) Non-cash financing and investing activities

The following non-cash financing and investing activities occurred during the year and are not reflected in the Cash Flow Statement:

- Acquisition of right-of-use assets (Note 13)
- Options and rights issued to employees for no cash consideration (Note 35)
- In the prior year plant and equipment with an aggregate fair value of $330,000 was acquired by means of finance lease

## d) Reconciliation of liabilities arising from financing activities

| | Balance at 1 July 2019 | Change in accounting standards (AASB 16) | Cash flows | Acquisition/ (disposal) | Other non-cash movements | Foreign exchange adjustments | Balance at 30 June 2020 |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Lease liabilities | 2,831 | 1,164,212 | (300,075) | – | 508,119 | 4,167 | 1,379,254 |
| Other loans | 1,211 | – | (187) | – | – | 13 | 1,037 |
| Bank loans | 1,618,479 | – | (435,639) | – | – | 50,504 | 1,233,344 |
| USPP notes | 1,413,078 | – | 588,498 | – | – | 670 | 2,002,246 |
| **Total** | **3,035,599** | **1,164,212** | **(147,403)** | **-** | **508,119** | **55,354** | **4,615,881** |

## NOTE 39 | FINANCIAL RISK MANAGEMENT

The Group is exposed to the following categories of financial risks as part of its overall capital structure; market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's risk management program addresses the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group has adopted the following philosophies towards financial risk management:

- to take a proactive approach in identifying and managing material treasury risks;
- not to take speculative derivative positions;
- to structure hedging to reflect underlying business objectives; and
- to reduce volatility and provide more certainty of earnings.

Financial risk management is carried out by a central treasury department ('Group Treasury') which identifies, evaluates and hedges financial risks to support the Group's strategic and operational objectives. Group Treasury operates within the parameters of a Board approved Treasury Policy. The Treasury Policy provides written principles for overall financial risk management as well as policies covering specific areas, such as liquidity, funding and interest rate risk, foreign exchange risk, credit risk, and operational treasury risk. One of the key responsibilities of Group Treasury is the management of the Group's debt facilities.

### a) Capital risk management

The Group's objectives when managing capital are to safeguard the consolidated entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group is proactively managed by issuing new shares by way of institutional placements, shareholder purchase plans, rights issues, as part consideration for acquisitions, or activation from time to time of the Company's Dividend Reinvestment Plan; by utilising the SHEST to buy Sonic's shares on market; or by varying the amount of dividends paid to shareholders.

The capital structure of the Group is mainly monitored on the basis of the Net Debt to Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') Ratio, which is also a covenant under Sonic's senior debt facilities (with a maximum permitted level of 3.5 times). Other ratios considered are the Gearing Ratio and Interest Cover Ratio, which are also covenants under senior debt facilities. Each covenant is calculated excluding the impact of AASB 16. Future compliance with these debt covenants is modelled by reference to a rolling 5 year financial forecast model.

During 2019 and 2020 the Group maintained a Net Debt to EBITDA ratio of between 1.8 to 2.5 times. Short-term spikes are considered to accommodate significant business acquisitions. The Company's history demonstrates Net Debt to EBITDA being conservatively and consistently managed around the middle of a 2 to 3 times range.

The Net Debt to EBITDA ratio is calculated as Net (of cash) Interest Bearing Debt divided by EBITDA. EBITDA is normalised for acquisitions made during a period, equity remuneration expense (a non-cash item) and for acquisition-related costs which are expensed under AASB 3 Business Combinations. Net Interest Bearing Debt is adjusted for currency rate fluctuations.

The Gearing Ratio is calculated as Net Interest Bearing Debt divided by Net Interest Bearing Debt plus Equity (per the Balance Sheet), and must be maintained below 55% under most of the Company's USPP note agreements. The Gearing Ratio is not a covenant under the Company's bank debt facilities and most recent USPP note agreement.

The Group is required to maintain an Interest Cover Ratio greater than 3.25 under the debt facilities, calculated as EBITA divided by Net Interest Expense. EBITA is normalised for equity remuneration expense and acquisition-related costs.

These three ratios are the only financial undertakings under Sonic's debt facilities.

The ratios calculated using the facility definitions, which exclude the impact of AASB 16, at 30 June 2020 and 30 June 2019 were as follows:

| | 2020 | 2019 |
|---|---|---|
| Net Debt to EBITDA (times) | **1.81** | 2.06 |
| Gearing | **26.1%** | 29.5% |
| Interest Cover (times) | **11.49** | 10.52 |

## b) Market risk

### i) Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates.

Foreign currency risk arising on the translation of the net assets of the Group's foreign controlled entities, which have a different functional currency, is managed at the Group level. The Group manages this foreign exchange translation risk by 'natural' balance sheet hedges, i.e. having borrowings denominated in the same functional currencies of the foreign controlled entities. The foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve. As Sonic's foreign currency earnings grow, interest rates change and debt is repaid, the natural hedge becomes less effective, so AUD reported earnings do fluctuate. The underlying earnings in foreign currency however are not affected. Capital hedging is not undertaken given the cash flow implications of ongoing hedging and the long-term nature of investments.

The Group is not significantly exposed to transactional foreign currency risk associated with receipts and payments that are required to be settled in foreign currencies. These transactions are limited in number; therefore the exposure is typically identified and managed on a case by case basis, usually by the spot or forward purchase of foreign currencies.

The carrying amount of the Group's bank loans and USPP notes are denominated in the following currencies:

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| AUD | **161,280** | – |
| USD | **1,336,432** | 1,376,012 |
| EURO | **1,342,251** | 1,268,819 |
| CHF | **278,117** | 279,842 |
| GBP | **117,510** | 106,884 |
| | **3,235,590** | 3,031,557 |

### Hedge of net investments in foreign operations

Of the total bank loans and USPP notes of $3,235,590,000 (2019: $3,031,557,000), $798,954,000 (2019: $798,431,000) are denominated in USD and qualify as a hedge of the Group's net investment in operations in the United States and $278,117,000 (2019: $279,842,000) are denominated in CHF and qualify as a hedge of the Group's net investment in operations in Switzerland. In the prior year $1,010,870,000 were denominated in Euro and qualified as a hedge of the Group's net investment in operations in Germany and Belgium. Gains or losses on retranslation of these borrowings are transferred to equity to offset any gains or losses on translation of the net investment in these operations. The ineffectiveness recognised in the Income Statement from net investment hedges was $nil (2019: $nil).

The remaining bank loans and USPP notes of $2,158,519,000 (2019: $942,414,000) denominated in AUD, USD, EUR and GBP are in the same functional currencies as Sonic's operations in Australia, the United States, Germany, Belgium and the United Kingdom and act as a 'natural' balance sheet hedge against foreign currency earnings fluctuations.

### Sensitivity analysis

Based on the financial instruments held at 30 June 2020, had the Australian dollar weakened/strengthened by 10% (2019: 10%) against all relevant currencies, the Group's post-tax profit would have been $nil higher/$nil lower (2019: $nil higher/$nil lower), as a result of having minimal exposure to foreign currency denominated financial instruments. Other components of equity would have been $nil lower/higher (2019: $nil lower/higher).

### ii) Interest rate risk

Sonic Healthcare Limited and certain subsidiaries are party (from time to time) to derivative financial instruments such as interest rate swaps in the normal course of business in order to hedge exposure to fluctuations in interest rates. Derivatives are exclusively used for hedging purposes i.e. not as trading or speculative instruments. The Group's fixed rate borrowings are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7.

### Interest rate swap contracts – cash flow hedge

The Group's main interest rate risk arises from bank loans that are subject to variable interest rates (relevant loans totalling 2020: $1,233,344,000; 2019: $1,618,479,000). It is the Group's policy to protect against increasing interest rates by maintaining a level of fixed rate debt instruments such as USPP notes, which represented 62% of total bank loans and USPP notes in 2020 (2019: 47%), and/or by entering into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

The Group's policy is to ensure exposure to increases in floating interest rates does not impact annual net profit after tax over a 3 year period by more than a specified percentage as defined within the hedging parameters of the Group's Treasury Policy, and will not result in a breach of the Interest Cover Ratio covenant under the Group's debt facilities. Hedging is undertaken as and when required to ensure exposure to interest rate risk is managed within these parameters.

There were no fixed interest rate swaps in place during the year or at balance sheet date in the current or previous financial year. There was no ineffective portion of swaps during either the current or previous financial year.

### Interest rate swap contracts – fair value hedge

The Group's strategy is to minimise interest expense and ensure exposure to movements in market interest rates are managed in line with the Treasury Policy. The Group enters into interest rate swap contracts from time to time under which it is obliged to receive interest at fixed rates and to pay interest at variable rates. The contracts are settled on a net basis. There were no contracts of this nature in place during 2020 and 2019.

# Notes to the Financial Statements

30 JUNE 2020

Interest rate risk exposures

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

**Fixed interest rate maturities**

| | Notes | 1 year or less | Over 1 year and less than 2 years | Over 2 years and less than 3 years | Over 3 years and less than 4 years | Over 4 years and less than 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|---|
| **30 June 2020** | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | | | | | | |
| Cash and deposits | | 270,302 | – | – | – | – | – | 254,401 | 524,703 |
| Trade debtors | 7 | – | – | – | – | – | – | 859,231 | 859,231 |
| Accrued revenue | 7 | – | – | – | – | – | – | 154,883 | 154,883 |
| Sundry debtors | 7 | – | – | – | – | – | – | 98,601 | 98,601 |
| Amounts owing from other entities | 7, 10 | 1,506 | 1,163 | 790 | 711 | 567 | 607 | 22,130 | 27,474 |
| Net investment in finance leases | 7, 10 | 6,936 | 4,405 | 2,621 | 1,753 | 818 | 1,665 | – | 18,198 |
| Investments | 11 | – | – | – | – | – | – | 91,754 | 91,754 |
| **Total assets** | | 278,744 | 5,568 | 3,411 | 2,464 | 1,385 | 2,272 | 1,481,000 | 1,774,844 |
| **Liabilities** | | | | | | | | | |
| Trade and other creditors | 17 | – | – | – | – | – | – | 983,831 | 983,831 |
| Amounts owing to vendors | 22, 26 | – | – | – | – | – | – | 110,979 | 110,979 |
| Other liabilities | 22, 26 | – | – | – | – | – | – | 10,179 | 10,179 |
| Lease liabilities | 19 | 298,923 | 240,124 | 185,874 | 141,645 | 104,696 | 407,992 | – | 1,379,254 |
| USPP notes | 18, 23 | 363,161 | – | – | – | 301,794 | 1,337,291 | – | 2,002,246 |
| **Total liabilities** | | 662,084 | 240,124 | 185,874 | 141,645 | 406,490 | 1,745,283 | 1,104,989 | 4,486,489 |
| **30 June 2019** | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | | | | | | |
| Cash and deposits | | 230,147 | – | – | – | – | – | 83,984 | 314,131 |
| Trade debtors | 7 | – | – | – | – | – | – | 770,636 | 770,636 |
| Accrued revenue | 7 | – | – | – | – | – | – | 114,820 | 114,820 |
| Sundry debtors | 7 | – | – | – | – | – | – | 89,507 | 89,507 |
| Amounts owing from other entities | 7, 10 | 1,294 | 1,030 | 769 | 365 | 263 | 661 | 26,250 | 30,632 |
| Investments | 11 | – | – | – | – | – | – | 88,135 | 88,135 |
| **Total assets** | | 231,441 | 1,030 | 769 | 365 | 263 | 661 | 1,173,332 | 1,407,861 |
| **Liabilities** | | | | | | | | | |
| Trade and other creditors | 17 | – | – | – | – | – | – | 627,311 | 627,311 |
| Amounts owing to vendors | 22, 26 | – | – | – | – | – | – | 131,289 | 131,289 |
| Other liabilities | 22, 23, 26 | – | 88 | 44 | 15 | 15 | 28 | 35,327 | 35,517 |
| Lease liabilities | 18, 23 | 1,120 | 944 | 637 | 72 | 58 | – | – | 2,831 |
| USPP notes | 18, 23 | 221,050 | 356,532 | – | – | – | 835,496 | – | 1,413,078 |
| **Total liabilities** | | 222,170 | 357,564 | 681 | 87 | 73 | 835,524 | 793,927 | 2,210,026 |

**Floating interest rate maturities**

| | Notes | 1 year or less | Over 1 year and less than 2 years | Over 2 years and less than 3 years | Over 3 years and less than 4 years | Over 4 years and less than 5 years | Over 5 years | Total | Weighted average interest rate |
|---|---|---|---|---|---|---|---|---|---|
| **30 June 2020** | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | % |
| **Assets** | | | | | | | | | |
| Cash and deposits | | 705,446 | – | – | – | – | – | 705,446 | 0.12 |
| Amounts owing from other entities | 10 | – | 16,520 | 6,200 | – | – | 1,580 | 24,300 | 2.44 |
| **Total assets** | | 705,446 | 16,520 | 6,200 | – | – | 1,580 | 729,746 | |
| **Liabilities** | | | | | | | | | |
| Bank loans | 23 | – | 821,749 | 221,565 | 190,030 | – | – | 1,233,344 | 1.29 |
| Amounts owing to vendors | 18 | 1,037 | – | – | – | – | – | 1,037 | 2.00 |
| **Total liabilities** | | 1,037 | 821,749 | 221,565 | 190,030 | – | – | 1,234,381 | |
| **30 June 2019** | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | % |
| **Assets** | | | | | | | | | |
| Cash and deposits | | 422,515 | – | – | – | – | – | 422,515 | 0.52 |
| Amounts owing from other entities | 10 | – | – | 16,520 | 5,100 | – | 988 | 22,608 | 3.15 |
| **Total assets** | | 422,515 | – | 16,520 | 5,100 | – | 988 | 445,123 | |
| **Liabilities** | | | | | | | | | |
| Bank loans | 18, 23 | 603,834 | – | 678,155 | 229,606 | 106,884 | – | 1,618,479 | 2.02 |
| Amounts owing to vendors | 23 | – | 1,021 | – | – | – | – | 1,021 | 1.12 |
| **Total liabilities** | | 603,834 | 1,021 | 678,155 | 229,606 | 106,884 | – | 1,619,500 | |

### Sensitivity analysis

If interest rates in all relevant currencies applied to financial instruments held at 30 June 2020 had changed by -10/+100 basis points (2019: -50/+100 basis points) for the financial year with all other variables held constant, the Group's post-tax profit for the year would have been $201,000/$246,000 lower/lower (2019: $1,614,000/$8,627,000 higher/lower) mainly as a result of lower/higher interest expense from bank loans. Note that the impact is reduced as Euro and CHF floating interest rates are currently negative, however Sonic's bank facilities have a zero base rate floor. Other components of equity would have been $201,000/$246,000 lower/lower (2019: $1,614,000/$8,627,000 higher/lower) as a result of a decrease/increase in borrowing costs. The impacts on profit and equity of either change in rates are lower in 2020 due to the zero base rate floor on debt (whereas cash has no floor).

### iii) Other price risk

The Group does not have significant exposure to fluctuations in the fair values or future cash flows of financial instruments associated with changes in market prices.

### c) Credit risk

The credit risk on financial assets of the Group which have been recognised on the Balance Sheet, other than investment in shares, is generally the carrying amount, net of any provisions for impairment. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been reflected in the financial statements in accordance with accounting standards.

The Group does not have any material exposure to any individual customer or counterparty other than certain government or statutory funded bodies in the countries in which the Group operates. There are no other significant concentrations of credit risk within the Group.

Receivable balances and ageing analysis are monitored on an ongoing basis. In order to minimise the Group's exposure to bad debts, rigorously enforced processes are in place to send reminder notices, demands for repayments and ultimately to refer to debt collection agencies. Credit limits are imposed and monitored for commercial customers. See Note 7 for further analysis of credit risk for receivable balances.

The Group has not renegotiated any material collection/repayment terms of any financial assets in the current or previous financial year.

Credit risk in the treasury context is defined as the risk of sustaining a loss as a result of a counterparty that has accepted a deposit from the Group and/or entered into a financial transaction with the Group related to the management of treasury related risks. Group Treasury seeks to only enter into transactions with counterparties who are senior lenders to the Group.

### d) Liquidity risk

The Group is exposed to funding and liquidity risks including the risk that in refinancing its debt, the Group may be exposed to an increased credit spread (the credit spread is the margin that must be paid over the equivalent government or risk free rate or swap rate) and the risk of not being able to refinance debt obligations or meet other cash outflow obligations at a reasonable cost when required.

The Group's strong cash flows and Balance Sheet are a major mitigator of this type of risk, along with the dynamics of the medical diagnostic services market. The Group seeks to further mitigate these risks by structuring its debt with a spread of maturities, maintaining excellent relationships with a number of leading Australian and international banks, diversifying funding sources by accessing the private placement bond market in the USA and the syndicated bank loan market in Europe, and keeping sufficient committed credit lines available for short- to medium-term needs (balanced against the cost of maintaining such lines) in accordance with Sonic's Treasury Policy.

The tables below analyse the Group's financial liabilities and net-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest (other than in the 'carrying value' column). The table ignores the maturities of undrawn credit lines. For interest rate swaps the cash flows are estimated using forward interest rates applicable at the reporting date.

Contractual maturities of financial liabilities

| | Notes | 1 year or less | Over 1 year and less than 2 years | Over 2 years and less than 5 years | Over 5 years | Total contractual cash flows | Carrying value |
|---|---|---|---|---|---|---|---|
| **30 June 2020** | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Liabilities** | | | | | | | |
| Trade and other creditors | 17 | 983,831 | – | – | – | 983,831 | 983,831 |
| Amounts owing to vendors | 18, 22, 26 | 18,089 | 74,934 | 18,994 | – | 112,017 | 112,016 |
| Bank loans | 23 | 16,113 | 833,780 | 417,306 | – | 1,267,199 | 1,233,344 |
| USPP notes | 18, 23 | 423,943 | 42,261 | 425,086 | 1,532,512 | 2,423,802 | 2,002,246 |
| Other | 22, 26 | 1,141 | 4,519 | 4,519 | – | 10,179 | 10,179 |
| Lease liabilities | 19 | 329,573 | 263,538 | 478,685 | 472,643 | 1,544,439 | 1,379,254 |
| Financial guarantee contracts | | 7,315 | – | – | – | 7,315 | – |
| **Total liabilities** | | 1,780,005 | 1,219,032 | 1,344,590 | 2,005,155 | 6,348,782 | 5,720,870 |
| **30 June 2019** | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Liabilities** | | | | | | | |
| Trade and other creditors | 17 | 627,311 | – | – | – | 627,311 | 627,311 |
| Amounts owing to vendors | 22, 23, 26 | 45,035 | 7,643 | 68,739 | 10,903 | 132,320 | 132,310 |
| Bank loans | 18, 23 | 630,610 | 17,892 | 1,035,928 | – | 1,684,430 | 1,618,479 |
| USPP notes | 18, 23 | 271,187 | 392,321 | 52,819 | 883,322 | 1,599,649 | 1,413,078 |
| Other | 22, 23, 26 | 3,275 | 1,166 | 7,357 | 23,734 | 35,532 | 35,517 |
| Lease liabilities | 18, 23 | 1,136 | 953 | 774 | – | 2,863 | 2,831 |
| Financial guarantee contracts | | 10,124 | – | – | – | 10,124 | – |
| **Total liabilities** | | 1,588,678 | 419,975 | 1,165,617 | 917,959 | 4,092,229 | 3,829,526 |

The financial guarantee contracts relate to guarantees given by the Group in respect of workers compensation insurance. The guarantees are the maximum amounts allocated to the earliest period in which the guarantees could be called. The Group does not expect these payments to eventuate.

There have been no material breaches and no defaults of loans in the current or preceding reporting periods.

### e) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Group approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

For non-traded equity investments, the net fair value is determined using valuation techniques (Note 1(j)).

### f) Fair values

The carrying amounts of financial assets and liabilities on the Consolidated Group Balance Sheet approximate their fair values except for fixed rate long-term borrowings.

#### Fair value hierarchy

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

i) quoted prices (unadjusted) in active markets for identified assets or liabilities (level 1),
ii) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
iii) inputs for the asset or liability that are not based on observable market value (unobservable inputs) (level 3).

Level 3 includes amounts owing to vendors which are recognised based on the assessed fair value using the contractual nature of the terms and conditions of the deferred consideration.

There were no transfers between fair value hierarchies or changes to valuation techniques for recurring fair value measurements in the period.

## NOTE 40 | PARENT COMPANY FINANCIAL INFORMATION

### a) Summary financial information

The individual financial statements for the Parent Company show the following aggregate amounts:

| | 2020 | 2019 |
|---|---|---|
| **Balance sheet** | **$'000** | **$'000** |
| Current assets | **3,642,156** | 2,460,486 |
| Total assets | **6,997,661** | 6,734,384 |
| Current liabilities | **2,612,836** | 2,450,677 |
| Total liabilities | **2,658,750** | 2,459,386 |
| **Shareholders' equity** | | |
| Contributed equity | **4,066,750** | 4,029,225 |
| **Reserves** | | |
| Equity remuneration reserve | **(82,268)** | (77,577) |
| Share option reserve | **16,427** | 16,427 |
| Retained earnings | **338,002** | 306,923 |
| **Total equity** | **4,338,911** | 4,274,998 |
| **Profit for the year** | **435,959** | 445,560 |
| **Total comprehensive income** | **435,959** | 445,560 |

### b) Guarantees entered into by the Parent Company

The Parent Company is a party to the Deed of Cross Guarantee as disclosed in Note 29. No liabilities have been assumed by the Parent Company in relation to this guarantee as it is expected the parties to the Deed of Cross Guarantee will continue to generate positive cash flows. The Parent Company has further provided guarantees of $86,097,000 (2019: $80,655,000) in respect of property leases and workers compensation insurance for subsidiary entities. In addition the Parent Company has provided guarantees of the performance of certain contracts by subsidiary entities. No liability was recognised by the Parent Company or the Consolidated Group in relation to these guarantees, as their fair values are immaterial.

### c) Contingent liabilities of the Parent Company

The Parent Company had no contingent liabilities as at 30 June 2020 or 30 June 2019 other than as described in (b) above.

### d) Contractual commitments for the acquisition of property, plant or equipment

The Parent Company had no contractual commitments of the acquisition of property, plant or equipment as at 30 June 2020.

## NOTE 41 | 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 2020

In the Directors' opinion:

a) the financial statements and Notes set out on pages 68 to 151 are in accordance with the *Corporations Act 2001*, including:
   i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   ii) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 30 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 29.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director and Finance Director required by section 295A of the *Corporations Act 2001*.

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

**Dr C.S. Goldschmidt**
Director

**C.D. Wilks**
Director

Sydney
23 September 2020

# *Independent auditor's report*

To the members of Sonic Healthcare Limited

## *Report on the audit of the financial report*

### *Our opinion*

In our opinion:

The accompanying financial report of Sonic Healthcare Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

***What we have audited***

The Group's financial report comprises:

- the consolidated balance sheet as at 30 June 2020
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated cash flow statement for the year then ended
- the consolidated income statement for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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## *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.


### *Materiality*

- For the purpose of our audit we used overall Group materiality of $35 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

### *Audit Scope*

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group comprises entities located globally with the most financially significant operations being located in Australia, the United States of America ("USA") and Germany. Other financially significant operations are located in Switzerland. Accordingly, we structured our audit as follows:
  - The group audit was led by our team from PwC Australia ("group audit team"). The group audit team conducted an audit of the special purpose financial information of businesses operating in Australia and the USA used to prepare consolidated financial statements.

- Under instruction from and on behalf of the group audit team, component auditors in Germany and Switzerland performed an audit and review of the special purpose financial information for those locations used to prepare the consolidated financial statements.

- The group audit team had continuous involvement in the work performed by the component auditors, with each component team being provided with direct written instructions and regular dialogue with the group audit team throughout the audit. The group audit team also held meetings with local management of each financially significant operation.
- The group audit team undertook the remaining audit procedures, including over significant financial statement items controlled at the Group level, the Group consolidation, the audit of the financial report and remuneration report.

## *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 for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

| ***Key audit matter*** | ***How our audit addressed the key audit matter*** |
|---|---|
| ***Implementation of new lease accounting standard (AASB 16)***<br>*(Refer to note 1, 13, 19)*<br><br>The Group adopted a new lease accounting policy during the year due to the mandatory introduction of AASB 16 Leases.<br><br>The new policy for the recognition and measurement of leasing arrangements is disclosed within Note 1. The adoption of the new lease accounting policy was a key audit matter due to the:<br><br>• financial significance of lease liabilities and right-of-use assets to the consolidated balance sheet; and<br><br>• significant judgements required by the Group in applying the new AASB 16 requirements, such as determining the appropriate lease term and the incremental borrowing rate. | Our audit procedures included, amongst others:<br><br>• developing an understanding of the Group's implementation plan, including relevant key controls;<br><br>• assessing whether the Group's new accounting policies were in accordance with the requirements of AASB 16 through consideration of accounting papers prepared by the Group;<br><br>• assessing the Group's assumptions and judgement applied in determining the lease term;<br><br>• assessing the completeness of leasing arrangements identified with consideration to the nature of arrangements that exist across the Group;<br><br>• for a sample of lease arrangements, we agreed key inputs used in calculating the Group's lease liability and right-of-use asset, to supporting documentation; |

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| | • engaging PwC debt experts to assess the appropriateness of the incremental borrowing rate methodology employed by the Group in light of the requirements of AASB 16;<br><br>• testing the mathematical accuracy of the Group's lease calculations; and<br><br>• evaluating the related financial statement disclosures for consistency with Australian Accounting Standards requirements. |
| ***Estimated recoverable amount of Goodwill and Brand Names***<br>*(Refer to note 1, note 14)*<br><br>Goodwill and brand names of $6.6 billion are recognised on the consolidated balance sheet.<br><br>Under Australian Accounting Standards, the Group is required to test these indefinite lived intangible assets annually for impairment, irrespective of whether there are indications of impairment. This assessment is inherently complex and judgemental. It requires judgement by the Group in forecasting the operational cash flows of the cash generating units ("CGU") of the Group, and determining discount rates and terminal value growth rates used in the discounted cash flow models used to assess impairment (the models).<br><br>The recoverable amount of goodwill and brand names was considered a key audit matter given:<br><br>• the financial significance of the intangible assets on the consolidated balance sheet; and<br><br>• the judgement applied by the Group in completing the impairment assessments. | Assisted by PwC valuation experts in aspects of our work, our audit procedures included, amongst others:<br><br>• assessing that the methodology of the Group's value-in-use impairment model is consistent with the requirements of Australian Accounting Standards;<br><br>• assessing the identification of the CGU's for the purposes of impairment testing and attribution of net assets, revenues and costs to those CGU's.<br><br>• assessing the reasonableness of cash flow forecasts included in the models with reference to Board reviewed forecasts, historical performance and available market data where possible;<br><br>• testing the mathematical accuracy of calculations within the model;<br><br>• assessing the terminal value growth rates and discount rates applied in the models by comparing them to external information sources;<br><br>• performing sensitivity analyses over the key assumptions used in the models; and<br><br>• evaluating the related financial statement disclosures for consistency with Australian Accounting Standards requirements. |

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Income tax***<br>*(Refer to note 1, 6, 15, 20, 24)*<br><br>Income tax was a key audit matter because the Group is subject to taxation in multiple jurisdictions and, in many cases, the final tax treatment is not certain until resolved with the relevant tax authority. Consequently, the determination of the income tax provision requires judgement by the Group related to the determination of temporary and permanent differences. | Assisted by PwC taxation experts in aspects of our work, our audit procedures included, amongst others:<br><br>● assessing the appropriateness of the Group's income tax provision;<br><br>● assessing the likelihood of additional tax exposures occurring based on our understanding of the Group and relevant tax laws; and<br><br>● evaluating the related financial statement disclosures for consistency with Australian Accounting Standards requirements. |

## *Other information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the directors for the financial report*

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

# *Report on the remuneration report*

## *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 31 to 52 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Sonic Healthcare Limited for the year ended 30 June 2020 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

PricewaterhouseCoopers

Brett Entwistle
Partner

Sydney
23 September 2020

# Shareholders' Information

## 1. INFORMATION RELATING TO SHAREHOLDERS

### a) Distribution schedule as at 11 September 2020

| | | No. of holders ordinary shares |
|---|---|---|
| 1-1,000 | | 49,772 |
| 1,001-5,000 | | 26,359 |
| 5,001-10,000 | | 2,138 |
| 10,001-100,000 | | 938 |
| 100,001 and over | | 90 |
| | | **79,297** |
| 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 | | 72.17% |
| Number of holders holding less than a marketable parcel | | 702 |

### b) Substantial shareholders as at 11 September 2020

The Company has received substantial shareholding notices to 11 September 2020 in respect of the following holdings:

| | No. of securities | Percentage held |
|---|---|---|
| BlackRock Group (including 2,224,695 American Depositary Receipts) | 38,709,344 | 8.11% |
| The members of the Veritas Group | 30,408,242 | 6.37% |

# Shareholders' Information

## 1. INFORMATION RELATING TO SHAREHOLDERS

### c) Names of the 20 largest registered holders of equity securities as at 11 September 2020

| | No. of securities | Percentage held |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 169,421,519 | 35.49% |
| J P Morgan Nominees Australia Pty Limited | 77,109,330 | 16.15% |
| Citicorp Nominees Pty Limited | 28,047,670 | 5.87% |
| Jardvan Pty Ltd | 15,109,474 | 3.16% |
| National Nominees Limited | 13,864,108 | 2.90% |
| BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C> | 7,646,207 | 1.60% |
| BNP Paribas Noms Pty Ltd <DRP> | 7,390,429 | 1.55% |
| Argo Investments Limited | 3,626,053 | 0.76% |
| Australian Foundation Investment Company Limited | 3,159,672 | 0.66% |
| Polly Pty Ltd <A/C Patterson Family> | 2,817,416 | 0.59% |
| Netwealth Investments Limited <Wrap Services A/C> | 2,225,720 | 0.47% |
| Citicorp Nominees Pty Limited <Colonial First State INV A/C> | 2,209,688 | 0.46% |
| Blaise Mentha | 2,000,000 | 0.42% |
| HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C> | 1,803,725 | 0.38% |
| Australian Executor Trustees Limited <IPS Super A/C> | 1,681,950 | 0.35% |
| Quintal Pty Ltd <Harken Family A/C> | 1,571,908 | 0.33% |
| HSBC Custody Nominees (Australia) Limited-GSCO ECA | 1,429,641 | 0.30% |
| BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C> | 1,348,393 | 0.28% |
| Custodial Services Limited <Beneficiaries Holding A/C> | 1,099,321 | 0.23% |
| Navigator Australia Ltd <MLC Investment Sett A/C> | 1,053,985 | 0.22% |
| | **344,616,209** | **72.17%** |

# Shareholders' Information

## 2. UNQUOTED EQUITY SECURITIES AS AT 11 SEPTEMBER 2020

| | No. on issue | No. of holders |
|---|---|---|
| Options over unissued ordinary shares | 16,172,191 | 237 |
| Performance rights | 240,229 | 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 Australian or New Zealand 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 2.1% of Sonic's shareholders still request a hard copy Annual Report, and more than 64% of shareholders receive communications electronically. The result is a reduction in energy and water resources associated with paper production.

## 4. ANNUAL GENERAL MEETING

The 2020 Annual General Meeting ('AGM') will be held at 10.00am on Thursday 12 November 2020. In the interests of safety for shareholders, team members and the broader community during the COVID-19 pandemic the 2020 AGM will be held virtually rather than at a physical location.

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SONIC HEALTHCARE LIMITED