Annual Report 2021

ABN 24 004 196 909

SONIC HEALTHCARE LIMITED

Corporate Directory

DIRECTORS
Prof. M.R. Compton AM | *Chairman*
Dr C.S. Goldschmidt | *Managing Director*
Mr C.D. Wilks | *Finance Director*
Prof. S. Crowe AO
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
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BANKERS
Australia and New Zealand Banking Group
BNP Paribas
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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 Declaration.

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
Caroline Drage, Laboratory Supervisor and Training Manager at Sonic Healthcare UK, holding a PCR plate in preparation for COVID-19 testing.

Inset
Salome Scott, Head Nurse at the Lower Mountains Family Practice, Sonic Clinical Services, Australia

Contents

Chairman's Letter

Dear Fellow Shareholders,

I am delighted to present to you the Company's 2021 Annual Report on behalf of Sonic Healthcare's Board of Directors.

Sonic Healthcare produced record results for the 2021 financial year, including a net profit of A$1.3 billion, up 149%, on revenues of A$8.8 billion. Shareholders were rewarded with a 7% increase in total dividends per share (to A$0.91) for the year, continuing our progressive dividend policy, and we were also able to increase the franking level to 65%.

We have retained a substantial portion of the profit for the year within the Company to better position Sonic for further growth, in particular, through further business acquisitions, which have been a key part of Sonic's strategy for three decades. The Company's balance sheet is therefore very strong, with net debt reduced by almost A$1.1 billion during the year (a reduction of over 50%) and gearing at the lowest level in more than 20 years.

Sonic's strong financial results for the year reflect the strength of our base business, as well as the tens of millions of COVID-19 PCR tests we have performed across our countries of operation as part of combatting the pandemic. Sonic's investment in specialist equipment, facilities and our people over many years resulted in Sonic being able to play a central role to assist governments in the key responses to the pandemic. Sonic's ability to move swiftly and at scale in setting up and operating COVID-19 testing and subsequently COVID-19 vaccination clinics has no doubt been a significant contribution to limiting spread and reducing burden of disease and saving lives.

Sonic's staff are absolute heroes of the COVID-19 pandemic, working courageously and tirelessly to provide essential services for the benefit of others. They have been, and are, on the frontline, day in, day out at COVID-19 testing centres, collection centres, laboratories, as couriers, essential administrative staff et al. On behalf of the Board of Sonic Healthcare, I wish to thank each one of them for the contributions they have made to date, and are continuing to make, and for the exemplary way in which they assist our patients, our referring physicians and other stakeholders, and for the contribution they are making to fighting this once-in-a-century pandemic.

In addition to expressing thanks and admiration to all of Sonic's staff, I would like to add my thanks to my colleague Directors on the Board. At all times, these Directors show great commitment to Sonic, those the Company serves and its shareholders. This has been even more evident during the COVID-19 pandemic, throughout the year in review and ongoing. Their skill, insight, effort and dedication is acknowledged and appreciated.

As part of planning for Sonic's future, the development, renewal and diversity of the Sonic Board continue to be important considerations. The Board currently 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). Consistent with our Medical Leadership culture, Sonic's Board includes a pathologist, a radiologist, a medical specialist and a registered general medical practitioner. Dr Philip Dubois, who is a non-independent Director, having served the Company well as a senior executive for many years, has advised that he will retire from the Sonic Board by the end of his current three-year term (November 2022), and this change forms part of the Board's renewal planning. I note that the Board has achieved its current gender diversity objective (minimum 30% membership of both male and female members), with one third of Directors being female.

Another important part of planning for Sonic's future is to ensure that we operate in a sustainable manner. We are continuing to invest resources to improve our performance and reporting in the important areas of environmental, social and governance practices. We have a strong foundation to build upon, given Sonic's core purpose is the provision of high-quality, safe and accessible medical services to urban, rural and remote communities.

Sonic's global executive team responsible for overseeing sustainability initiatives has recently been strengthened with the appointment of a Sustainability Director, a Sustainability Manager, and a steering committee comprised of country/division CEOs and chaired by our global CEO. Under their leadership, Sonic will continue to focus on emissions and energy reduction programs, and develop targets for renewable energy use and the Company's pathway to achieving net zero greenhouse gas emissions.

Sonic Healthcare produced record results for the 2021 financial year, including a net profit of A$1.3 billion, up 149%, on revenues of A$8.8 billion.

We are fortunate to operate businesses that naturally have a relatively low environmental impact, however continuous improvement is one of Sonic's Core Values.

Sonic's Catalyst Program continues to support laboratory and imaging services in disadvantaged parts of Africa, as well as contributing to indigenous and other charities.

Our strong focus on the health, safety and wellbeing of our staff is ongoing, and we endeavour to maintain Sonic's longstanding impeccable staff safety record, whilst working on strengthening formal goals in areas such as diversity, inclusion, training and development.

Our sustainability efforts and progress are described each year in our Corporate Responsibility Report, available on our website, with the 2021 version due to be published in November.

Sonic's standing as a socially responsible company continues to be recognised by external parties, including through ongoing inclusion in the FTSE4Good Index Series. Sonic is also included in the FTSE4Good Australia 30 Index.

The Board of Sonic takes great pride in Sonic's environmental, social and governance initiatives, and in the way the Company has responded to the COVID-19 pandemic. We believe our shareholders should share in this pride, and I thank you for your continuing support of Sonic Healthcare.

Professor Mark Compton AM
Chairman

CEO Report

Sonic Healthcare's strong performance in the 2021 financial year reflects the heroic efforts of our 38,000 staff around the world, galvanised by our Medical Leadership culture, to meet the ever-evolving demands of providing seamless essential healthcare services for 138 million patients during a pandemic. I wish to sincerely thank each one of our staff for their unwavering commitments to our patients, our communities and to Sonic Healthcare.

As a global healthcare organisation, we have continued to play a major role in combating the COVID-19 pandemic, by providing more than 30 million PCR tests and over 2 million COVID serology tests to date. Less than two years ago these tests did not even exist, and it has been a truly amazing effort by our people to not only establish and validate testing platforms from multiple suppliers to conduct these tests in 60 Sonic laboratories globally, but then to rapidly ramp up capacity to meet the demands of new waves of infection in our communities.

In addition to providing high-quality, high-volume testing in seven countries, we offered our services to assist with the COVID vaccination rollout in Australia and, proudly, soon became the largest non-government provider of COVID-19 vaccinations in Australia.

These contributions would not have been possible without the investments in people and infrastructure that Sonic has made over more than two decades. The thought-leadership and innovation provided by our pathologists and scientists has been invaluable, as has the flexibility, dedication and courage of our managers and other staff. Our medical centres, specimen collection and drive-through centres, courier networks, laboratories, IT systems, and supply chains have all been essential to conduct the COVID-related services we provide. In the midst of the pandemic, we have continued to invest in our infrastructure, opening new laboratory facilities during the year in Wollongong (NSW, Australia), Giessen (Germany) and Manchester (England) to accommodate base business growth and to provide opportunities for further efficiency gains.

As a global healthcare organisation, we have continued to play a major role in combating the COVID-19 pandemic, by providing more than 30 million PCR tests and over 2 million COVID serology tests to date.

There has also been an ongoing need for innovation in our businesses to meet the challenges of the pandemic, including IT system enhancements for COVID drive-through centres, data entry, results via SMS, travel certificates and telemedicine.

The courage of our staff is truly inspiring – coming to work every day to collect or handle COVID-19 specimens, and to interact daily with patients who could be infectious, whether in our collection centres and drive-throughs, medical centres, imaging branches, or in the many hospitals and aged care facilities we service. The safety of our staff and our patients has remained a paramount focus through the pandemic, and our operations have adapted quickly and effectively to the heightened risk.

Whilst a huge amount of time and effort has gone into combating the pandemic, we have never lost sight of the importance of continuing to provide our usual high quality medical diagnostic services. Our base business revenue (excluding COVID-19 related revenues) grew by 6% versus FY2020 and 4% versus FY2019 (pre-pandemic) on a like-for-like basis. The base business has become increasingly resilient to impacts of pandemic waves and benefits from our geographical and business diversification.

Financial highlights for the 2021 year included:

- Revenue growth of 28% to A$8.8 billion.
- EBITDA growth of 81% to A$2.6 billion.
- Net profit growth of 149% to A$1.3 billion.
- Total dividends for the year up 7% to A$0.91 per share.

The results included significant revenue and earnings contributions from COVID-19 testing volumes, leveraging from our existing infrastructure, however base business still made up more than 75% of our total revenue for the year. After peaking in December, COVID-19 PCR test volumes were lower in the second half of the year versus the first half. Since year end, COVID testing volumes have been increasing again with the spread of the Delta variant.

In total, excluding currency movements, Sonic's laboratory operations achieved organic revenue growth of 37%, enhanced by COVID-19 testing, and EBITDA growth of 97%, showing strong operating leverage.

Organic revenue growth for our Imaging division was 15%. Total revenue growth for Imaging was 19%, with EBITDA growth of 24%, a great result given that Imaging does not conduct COVID testing. We were pleased to achieve margin accretion in both our Laboratory and Imaging divisions.

In addition to organic growth, Sonic continues to focus on synergistic acquisitions and other growth opportunities, supported by our current record low gearing levels and significant available liquidity, geographic footprint, leading market positions and brands, and our deeply embedded Medical Leadership culture.

We were delighted to complete the acquisition of Canberra Imaging Group on 1 September 2021. This acquisition is a significant step in the development of Sonic's Imaging division in Australia and follows our move in March 2021 to a majority 80% ownership of Epworth Medical Imaging in Victoria. We are actively considering further acquisition opportunities in multiple countries, as well as bidding for several outsourcing contracts.

The year in review has certainly been the most tumultuous in Sonic's history. From early in the pandemic, our staff were called upon to play a central role in combatting COVID-19 and shareholders will be proud to know that Sonic's people rose to the occasion magnificently, delivering unwavering and dedicated services which went well beyond the call of duty and will never be forgotten. As we approach the end of calendar 2021, with realistic hopes of pandemic abatement, it is nevertheless reassuring to reflect on the past year as one of great difficulty for all but one in which Sonic's higher purpose and ideals of patient care and Medical Leadership shone through most brightly.

Dr Colin Goldschmidt
CEO and Managing Director

The results included significant revenue and earnings contributions from COVID-19 testing volumes, leveraging from our existing infrastructure, however base business still made up more than 75% of our total revenue for the year.

Financial History

Note that 2021 and 2020 reflect the impacts of adopting the lease accounting standard AASB 16 from 1 July 2019 and are therefore not comparable to the earlier years.

As at 30 June	2021[1]	2020[1]	2019	2018	2017
	$'000	$'000	$'000	$'000	$'000
Revenue[3]	**8,754,123**	6,831,843	6,184,056	5,541,371	5,122,143
Earnings before interest, tax, depreciation and amortisation (EBITDA)[3]	**2,559,790**	1,411,834	1,074,828	948,288	868,559
Net profit after tax[2,3]	**1,315,040**	527,749	549,725	475,606	427,773
Net cash flow from operations	**2,042,836**	1,360,298	847,308	767,920	736,365
Total assets	**11,760,991**	12,127,130	9,959,834	8,200,934	7,878,165
Total liabilities	**5,256,648**	6,462,732	4,467,968	3,918,009	3,952,035
Net assets	**6,504,343**	5,664,398	5,491,866	4,282,925	3,926,130
Net interest-bearing debt[4]	**939,982**	2,021,969	2,298,953	2,482,781	2,435,405

Statistics					
Diluted earnings per share (cents)[2,3]	**273.1**	110.6	122.1	112.2	102.1
Dividends declared per ordinary share (cents)[5]	**91.0**	85.0	84.0	81.0	77.0
Dividend payout ratio[5]	**33.1%**	76.7%	72.5%	72.3%	75.4%
Gearing ratio[6]	**12.5%**	26.1%	29.5%	36.7%	38.3%
Interest cover (times)[6]	**33.8**	11.5	10.5	10.1	10.8
Debt cover (times)[6]	**0.4**	1.8	2.1	2.5	2.7
Net tangible asset backing per share ($)	**(0.44)**	(2.72)	(2.69)	(3.39)	(3.47)
Return (after tax) on invested capital[3]	**16.7%**	7.3%	8.7%	8.6%	8.1%
Return (after tax) on equity[2,3]	**21.6%**	9.5%	11.2%	11.6%	11.2%

1 2021 and 2020 reflect the impacts of adopting the lease accounting standard AASB 16 from 1 July 2019 and are therefore not comparable to the earlier years
2 2018 included a non-recurring income tax benefit of $20,115,000 relating to the restatement of net deferred tax liabilities to the new 21% US corporate tax rate
3 2019 included a non-recurring pre-tax gain of $50,385,000 (post-tax $49,585,000) on the sale of GLP Systems
4 Net interest-bearing debt for 2021 and 2020 excludes lease liabilities under AASB 16
5 Dividends declared and payout ratio relate to the dividends declared out of the profits for the relevant year, rather than when the dividend is paid
6 Calculated using debt facility covenant definitions, which exclude AASB 16

Inset
Scientific Officer Manjit Saundh from the Microbiology Department, Douglass Hanly Moir Pathology, Australia

Annual Report 2021

30 JUNE 2021

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 2021.

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 AM | *Chairman*
Dr C.S. Goldschmidt | *Managing Director*
Mr C.D. Wilks | *Finance Director*
Prof. S. Crowe AO
Dr P.J. Dubois
Mr N. Mitchell
Mr L.J. Panaccio
Ms K.D. Spargo
Dr E.J. Wilson

PRINCIPAL ACTIVITIES

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

DIVIDENDS

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

	2021	2020
	$'000	$'000
Interim dividend paid on 24 March 2021 (2020: 25 March 2020)	**172,025**	161,519
Final dividend paid on 22 September 2021 (2020: 22 September 2020)	**263,441**	243,488
Total dividend for the year	**435,466**	405,007

On 20 August 2021, the Board declared a final dividend in respect of the year ended 30 June 2021 of 55 cents per ordinary share, 65% franked (at a tax rate of 30%), paid on 22 September 2021, with a record date of 8 September 2021. An interim dividend of 36 cents per ordinary share, 30% franked (at 30%), was paid on 24 March 2021. The unfranked component of the 2021 final dividend is conduit foreign income and therefore not subject to Australian dividend withholding tax for non-resident shareholders.

A final dividend of 51 cents per ordinary share was paid on 22 September 2020, in respect of the year ended 30 June 2020, out of profits of that year. The interim dividend in respect of the year ended 30 June 2020 was 34 cents per ordinary share, paid on 25 March 2020. These dividends included no conduit foreign income.

DIVIDEND REINVESTMENT PLAN (DRP)

The Company's Dividend Reinvestment Plan remains suspended for the FY2021 final dividend.

Directors’ Report

OPERATING AND FINANCIAL REVIEW

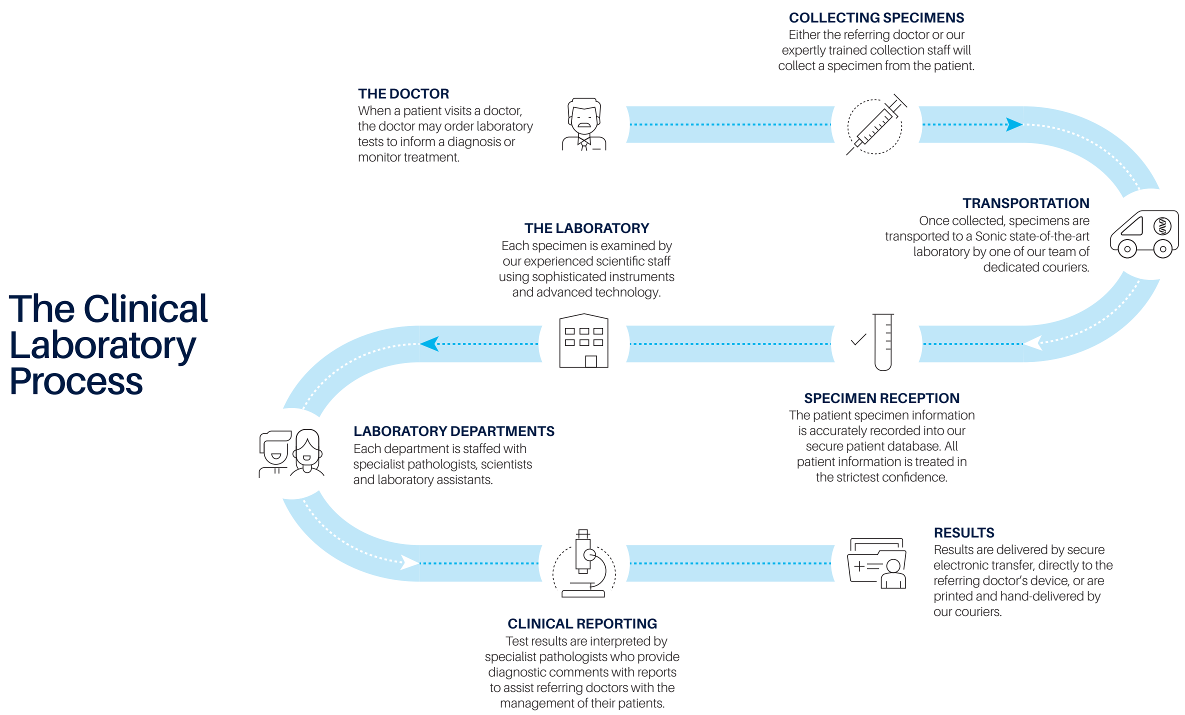
Operations

Sonic Healthcare is one of the world’s leading providers of medical diagnostic services, contributing to the medical care of 138 million patients in FY2021. 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 38,000 people, Sonic enjoys strong positions in the laboratory markets of seven 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.

In response to the COVID-19 pandemic, many laboratories around the world (including ~60 Sonic laboratories globally) commenced performing polymerase chain reaction (PCR) tests for COVID-19. PCR tests detect the presence of SARS-CoV-2, the virus that causes COVID-19, by amplifying its genetic material (ribonucleic acid, RNA) to allow trace amounts to be detected in nasal and throat swab specimens of patients. PCR testing is considered the gold standard for diagnosing COVID-19. Many laboratories also offer SARS-CoV-2 serology tests, which use immunofluorescence techniques to detect antibodies to SARS-CoV-2 that may be present in blood specimens following infection or vaccination. These tests are used clinically to retrospectively diagnose COVID-19 disease, and in epidemiological studies to determine infection rates in the community. Specialised genetics laboratories (including certain Sonic laboratories) perform whole genome sequencing of positive SARS-CoV-2 specimens to support mutation identification and tracking.

The clinical laboratory process is depicted below:



Directors' Report

OPERATING AND FINANCIAL REVIEW

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 (excluding COVID-19 PCR specimens). In Germany, Belgium and Switzerland, laboratories generally do not offer specimen collection services.

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.

OPERATING AND FINANCIAL REVIEW

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

In addition to clinical laboratories and diagnostic imaging, Sonic conducts a number of smaller complementary businesses (disclosed in the Other category in the Segment information note, along with corporate office costs). The most significant of these are the Independent Practitioner Network (IPN) medical centre business and the Sonic HealthPlus occupational health business, which together involve more than 200 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.

				% Change	
	2021 Constant Currency[1]	2021 Statutory	2020	2021 Constant Currency[1] v 2020	2021 Statutory v 2020
	$'000	$'000	$'000		
Revenue	9,129,347	**8,754,123**	6,831,843	33.6%	28.1%
EBITDA[2]	2,667,068	**2,559,790**	1,411,834	88.9%	81.3%
Depreciation	(587,193)	**(573,392)**	(540,658)	8.6%	
EBITA	2,079,875	**1,986,398**	871,176	138.7%	128.0%
Amortisation of intangibles	(70,844)	**(68,202)**	(65,210)	8.6%	
Net interest expense	(96,345)	**(89,603)**	(106,903)	(9.9)%	
Income tax expense	(501,971)	**(480,935)**	(157,160)	219.4%	
Net (profit) attributable to minority interests	(33,681)	**(32,618)**	(14,154)	138.0%	
Net profit attributable to Sonic shareholders	1,377,034	**1,315,040**	527,749	160.9%	149.2%
Cash generated from operations		**2,042,836**	1,360,298		50.2%
Earnings per share					
Basic earnings per share (cents per share)	**288.5**	**275.5**	111.1	159.7%	148.0%
Diluted earnings per share (cents per share)	**286.0**	**273.1**	110.6	158.6%	146.9%

1 For an explanation of 'Constant Currency' refer to (a) on the following page
2 EBITDA = Earnings before interest, tax, depreciation and amortisation

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

Directors' Report

OPERATING AND FINANCIAL REVIEW

Explanation of results

a) *Constant Currency*

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

The average currency exchange rates for the year to 30 June 2021 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:

	2021 Statutory	2020 and Constant Currency
AUD/USD	**0.7473**	0.6712
AUD/EUR	**0.6263**	0.6068
AUD/GBP	**0.5546**	0.5328
AUD/CHF	**0.6800**	0.6557
AUD/NZD	**1.0744**	1.0544

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.

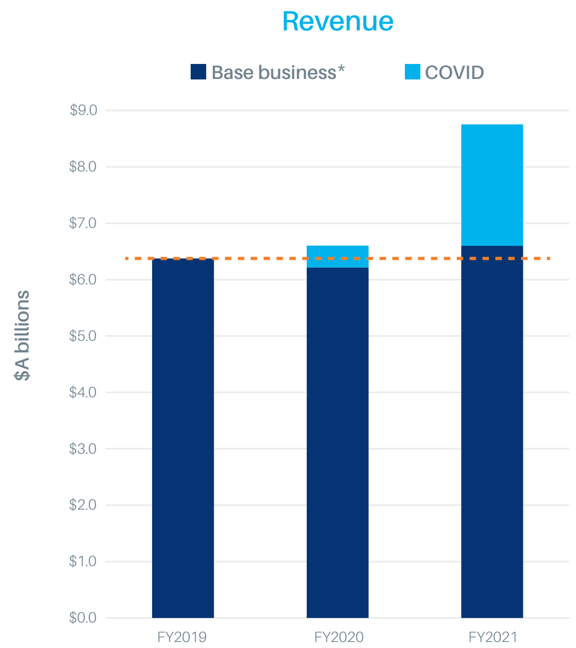
As Sonic's foreign currency earnings grow, debt is repaid, and interest rates change, the natural hedges have only a partial effect, so AUD reported earnings do fluctuate. Sonic believes it is inappropriate to hedge translation risk (a non-cash risk) with real cash hedging instruments.

OPERATING AND FINANCIAL REVIEW

b) *Revenue*

Revenue breakdown	2021 Statutory Revenue	% of 2021 Statutory Revenue	2021 Constant Currency Revenue	2020 Revenue	2021 Constant Currency v 2020
	AUD M		AUD M	AUD M	Growth
Laboratory – Australia and New Zealand	**2,006**	**23%**	**2,007**	1,574	27.5%
Laboratory – USA	**2,239**	**25%**	**2,493**	1,858	34.2%
Laboratory – Europe	**3,476**	**40%**	**3,597**	2,458	46.3%
Imaging – Australia	**620**	**7%**	**620**	521	19.0%
Other	**410**	**5%**	**410**	415	(1.2)%
Revenue	**8,751**		**9,127**	6,826	33.7%
Interest income	**3**		**2**	6	
Total revenue	**8,754**		**9,129**	6,832	33.6%

Total revenue growth for the year was 28% (34% on a Constant Currency basis), enhanced by COVID-19 testing revenue in each of Sonic's laboratory businesses. COVID-19 PCR volumes were lower in the second half of the year versus the first half but have been increasing post-year end with the spread of the Delta variant.



* Base business revenue
- Total revenue excluding COVID revenue
- FY2019 and FY2020 base business revenues normalised for:
  - Currency exchange rates
  - Acquisitions (Aurora, Epworth Medical Imaging etc)
  - Disposals (GLP Systems, Ireland)
  - Non-recurring gains

Base business revenue (excluding COVID testing) grew by 6% versus FY2020 and 4% versus FY2019 (with FY2020 and FY2019 revenues normalised for currency exchange rates, acquisitions and disposals of businesses, and non-recurring gains).

Sonic's base business has become increasingly resilient to impacts of pandemic waves and benefits from geographical and business diversification.

The Laboratory division achieved organic revenue growth of 37% in the year (Constant Currency), with particularly strong growth in Sonic's Northern Hemisphere markets. Sonic's subscale Irish laboratory operations were sold in the second half of the FY2021 year, with a small gain on sale recognised.

Imaging revenue growth was also strong at 19% (15% organic), driven by investments in greenfield sites and new equipment in the current and prior periods, and further enhanced by the acquisition of a majority interest (moving from 40% to 80%) of Epworth Medical Imaging (EMI) from March 2021. EMI is based in Melbourne and has annual revenue of approximately A$45 million.

Revenue for Sonic Clinical Services (SCS), mainly comprising Sonic's medical centre and occupational health businesses (the major component of the Other segment, which also includes other minor operations), declined slightly from the prior year as a result of the impacts of the pandemic.

Exchange rate movements reduced Statutory revenue growth by A$375 million.

Directors' Report

OPERATING AND FINANCIAL REVIEW

c) *Earnings*

EBITDA grew 81%, or 89% on a Constant Currency basis. EBITDA growth of 89% (Constant Currency: 97%) in the Laboratory division was enhanced by COVID-19 testing, leveraging existing infrastructure. EBITDA margins for the Laboratory division increased from 21.3% to 30.8%. Sonic's Imaging business reported 24% EBITDA growth and 108 basis points of margin improvement.

The high volume of COVID-19 PCR tests performed has caused consumables cost to significantly increase as a percentage of revenue, whilst labour cost has reduced substantially on the same basis. Sonic's US business continues to benefit from labour savings flowing from changes made at the beginning of the pandemic. Other expense lines have reduced as a percentage of revenue.

Net profit growth of 149% on 28% growth in revenue demonstrates the strong operating leverage in Sonic's businesses.

d) *Depreciation*

Depreciation increased 9% on the comparative period (at Constant Currency rates), reflecting the growth of the Company, but well below revenue growth.

e) *Intangibles amortisation*

Intangibles amortisation relates to internally developed and purchased software.

f) *Interest expense and debt facilities*

Net interest expense decreased 10% on the prior year (at Constant Currency rates), largely due to strong operating cash flow allowing debt reduction.

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.

g) *Tax expense*

The effective tax rate is 26%, reasonably in line with Sonic's historic expectation of ~25%. The rate was ~23% in the comparative period, which included a number of non-recurring adjustments.

h) *Cash flow from operations*

Cash generated from operations was 50% higher than in the comparative period and gross operating cash flow equated to 97% (FY2020: 113%) of EBITDA. Cash generation was extraordinarily strong in the FY2020 year largely due to cash preservation initiatives in the light of the pandemic and the receipt of prepayments of ~A$63 million of US Medicare testing revenue. These working capital benefits reversed, as expected, in FY2021. Cash generation in FY2021 was also impacted by increases in debtors and inventory related to COVID-19 testing.

OPERATING AND FINANCIAL REVIEW

Financial position

Sonic's net assets at 30 June 2021 of A$6,504M increased by A$840M, or 15%, on the prior year. The main components of this increase were:

- A$925M due to retained earnings (operating profit less dividends paid and other adjustments)
- A$54M from the issue of ordinary Sonic shares resulting from the exercise of employee options and rights
- A$180M reduction relating to net currency exchange rate translation impacts

Excluding the impacts of AASB 16, net (of cash) interest-bearing debt decreased A$1,082M (54%) from the prior year level to A$940M. This net decrease largely resulted from strong cash flow generated from operations and A$79M of currency exchange rate impacts, net of A$32M relating to payments for business acquisitions. 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 2021 (excluding AASB 16 impacts) comprised:

	Facility limit (M)	Drawn (M)	AUD (M) available
Notes held by USA investors – USD (fixed coupons)	US$550	US$550	–
Notes held by USA investors – Euro (fixed coupons)	€515	€515	–
Bank debt facilities			
USD limits	US$175	–	233
Euro limits	€550	€60	775
AUD (Multicurrency) limits	A$48	–	48
CHF limits	CHF125	CHF124	1
Minor debt/finance leasing facilities	n/a	A$18+	–
Cash	n/a	A$(900)+	900
Available liquidity at 30 June 2021 (refer below for current available liquidity)			**1,957**
Net interest-bearing debt (excluding lease liabilities under AASB 16)		**A$940**	

+ Various currencies

In August 2021, Sonic cancelled bank facility limits which were due to expire in April 2022, totalling the equivalent of ~A$540M. Available liquidity is therefore currently ~A$1.1 billion (after payment of the FY2021 final dividend and settlement of the Canberra Imaging Group acquisition).

Sonic's credit metrics at 30 June 2021 were as follows:

	30.6.21	31.12.20	30.6.20
Debt cover (times)	0.4	1.0	1.8
Interest cover (times)	33.8	20.5	11.5
Gearing ratio	12.5%	21.6%	26.1%

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, which exclude the impacts of AASB 16 *Leases*

Directors' Report

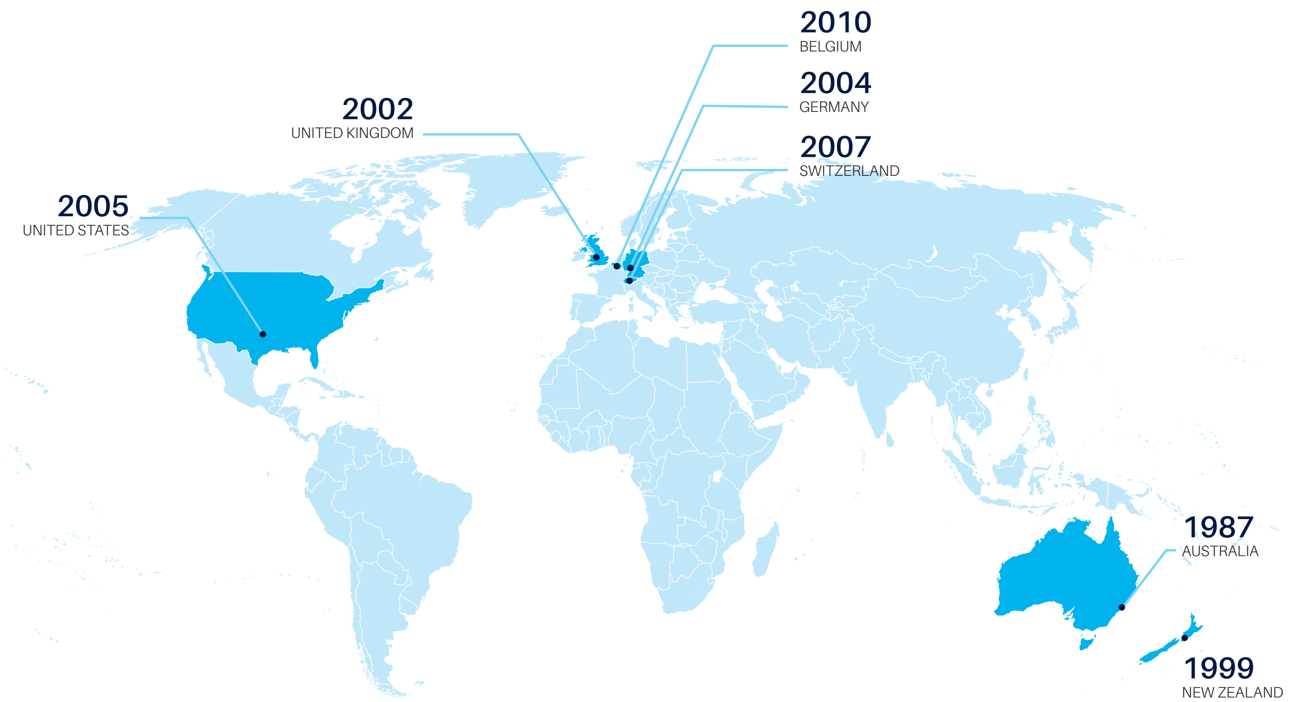
OPERATING AND FINANCIAL REVIEW

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	–	–	–	–
2022	–	–	–	–
2023	48	100	120	125
2024	–	–	345	–
2026	–	–	245	–
2030	–	300	–	–
2032	–	150	85	–
2035	–	100	–	–
	48	**650**	**795**	**125**

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)



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.

The Company's principal objective is to increase value for its stakeholders (including shareholders, staff and the community) in a sustainable manner while ensuring that its operations are conducted ethically and in accordance with the Company's Core Values, Code of Conduct, medical ethics and law.

Directors' Report

OPERATING AND FINANCIAL REVIEW

Prospects for future years

Sonic operates in attractive and growing global healthcare markets, carefully chosen based on a range of factors, including political, legal and financial stability, reliable and stable healthcare funding systems, fragmentation of the market and cultural understanding. Within these markets there is increasing demand for diagnostic services arising from growing and ageing populations, new tests (for example, COVID-19 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 (subject to short term fluctuations in COVID-19 related revenues and profits), 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 (excluding COVID-19 revenue fluctuations). 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.

In the USA and Germany, anatomical pathology has traditionally been seen as a separate service to clinical laboratory testing and there has been less consolidation of anatomical pathology providers. Sonic has deep anatomical pathology experience from operating in other markets, especially Australia, where anatomical pathology and clinical laboratory testing are provided as an integrated service. Sonic has a long term vision of bringing the two disciplines together in the USA and Germany, with consequent revenue and cost synergies and service enhancement for referrers and patients, and is targeting both anatomical pathology and clinical laboratory growth opportunities in those countries. The US anatomical pathology market is estimated to be in excess of US$10B per annum (in addition to the >US$70B clinical laboratory market) and Sonic is already one of the largest participants following previous acquisitions, including the Aurora Diagnostics transaction in 2019. Sonic has already made several anatomical pathology acquisitions in Germany, addressing a highly fragmented €1B per annum market (in addition to at least €4B for the clinical laboratory market).

Within Sonic's existing seven 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) or New Zealand. In the UK, acquisitions are unlikely, as the market is dominated by the National Health Service (NHS) and Sonic is the largest private participant. However, substantial growth opportunities exist from potential NHS and private hospital laboratory outsourcing contracts. For example, Sonic has been chosen as the laboratory provider for the new Cleveland Clinic London hospital, which is due to open in mid-FY2022.

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 intends:

- to maintain a solid investment-grade profile with conservative leverage
- to operate in a sustainable and responsible manner
- 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 earnings guidance for FY2022 due to COVID-19 related unpredictability. The pandemic has the potential to cause fluctuations in both COVID-19 testing revenues and the base business, although the base business has become increasingly resilient to the impacts of pandemic waves. The underlying growth drivers for healthcare services remain unchanged. Base business fluctuations are also mitigated by geographical and business sector diversity. The COVID-19 Delta variant is currently driving increases in COVID-19 testing revenues.

OPERATING AND FINANCIAL REVIEW

Sonic completed the acquisition of Canberra Imaging Group (CIG) on 1 September 2021. CIG has annual revenues of approximately A$60 million and is the leading radiology practice in the Canberra and surrounding areas.

Sonic is currently considering a number of additional acquisition opportunities.

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 2021. 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.
- 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.

Directors' Report

OPERATING AND FINANCIAL REVIEW

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. The Company has a comprehensive Information Security Management System (ISMS) in place, supported by staff training and awareness programs. Internal systems are monitored and regularly tested (at a minimum, as changes are made to the core software or infrastructure). The information security objectives of confidentiality, integrity, access and privacy are achieved by the implementation of a multilayered approach and application of key controls (defence-in-depth). Sonic's ISMS sets out the controls in the following domains: Governance and Administrative, Information Security, Personnel Security, Physical Security, Operational Security, Technical Security and Cyber Security. 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. An external provider has recently completed a Global NIST Maturity Audit for all of Sonic's countries of operation, providing a baseline against which ongoing improvements will be measured.
- 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 seven 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

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 Chairman of ASX-listed Next Science Limited from May 2021 (Non-executive Director 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 (2004-2008), 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
CFO and 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.

INFORMATION ON DIRECTORS

Professor Suzanne Crowe AO

MBBS (Hons), FRACP, MD, FAICD

Non-executive, independent Director, appointed 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 until October 2021), 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. Dr Dubois is a Non-executive Director of ASX-listed company EMVision Limited (since June 2021). 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 was a Non-executive Director of Magnetica Limited (from 2004 until March 2021).

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 retirement in 2017. 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), a member of the Australian Board of Taxation, and on the board of South East Sydney Local Health District. 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, VGI Health Technology Limited, NeuralDx Limited (Non-executive Chairman from March 2019) and Haemokinesis Limited (from July 2021). 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 is 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). Ms Spargo also holds non-executive director roles with the Future Fuels Cooperative Research Centre, Geelong Football Club Limited and Jellis Craig. Ms Spargo was previously a Non-executive Director of Fletcher Building Limited (March 2012 to September 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 Non-executive Director of ASX-listed companies Transurban Group (since January 2017) and Costa Group Holdings Limited (from April 2019). She is a Non-executive Director of Rugby Australia. Dr Wilson 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.

Directors' Report

INFORMATION ON DIRECTORS

c) Directors' interests in shares, options and performance rights as at 22 September 2021

Director's name	Class of shares	Number of shares	Interest	Number of options	Number of performance rights
Dr C.S. Goldschmidt	Ordinary	753,894	Personally	1,583,393+	155,980+
	Ordinary	6,069	Beneficially	–	–
C.D. Wilks	Ordinary	519,622	Personally	679,325+	66,111+
	Ordinary	97,400	Beneficially	–	–
Prof. M.R. Compton	Ordinary	459	Personally	–	–
	Ordinary	8,807	Beneficially	–	–
Prof. S. Crowe	Ordinary	1,440	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	20,000	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. 331,551 of Dr C.S. Goldschmidt's and 147,295 of C.D. Wilks' options have vested to date.

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2021, and the number of meetings attended by each Director (while they were a member of the Board or relevant Committee) were:

			Meetings of Committees					
	Full meetings of Directors		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	11	11	–	–	–	–	3	3
C.D. Wilks	11	11	–	–	–	–	–	–
Prof. M.R. Compton	11	11	4	4	3	3	–	–
Prof. S. Crowe	11	11	–	–	–	–	–	–
Dr P.J. Dubois	11	11	–	–	–	–	–	–
N. Mitchell	11	11	4	4	–	–	3	3
L.J. Panaccio	10	11	4	4	3	3	3	3
K.D. Spargo	11	11	4	4	3	3	–	–
Dr E.J. Wilson	11	11	–	–	3	3	3	3

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 52.

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

	2021	2020
	$	$
PricewaterhouseCoopers – Australian firm and related practices (including overseas PricewaterhouseCoopers firms)		
Taxation and other services	**10,327**	403,197

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,

The Board of Sonic Healthcare are pleased to present the 2021 Remuneration Report, which summarises the strong performance of the Company during the year and the associated remuneration outcomes, as well as explaining our remuneration structures and their links to outcomes for the Company's stakeholders.

The outstanding feature of the 2021 financial year for Sonic Healthcare is clearly the amazing effort of our managers and 38,000 staff around the world to provide vital assistance to governments and communities in combating the COVID-19 pandemic, whilst continuing to seamlessly provide all of the usual critical healthcare services required by our patients and referrers. In total, Sonic provided services to 138 million patients globally during the year, operating continuously despite infection waves, lockdowns and other trying conditions. Sonic has now performed more than 30 million COVID-19 PCR tests and over 2 million serology tests to assist in pandemic control. Towards the end of the year Sonic began to work with governments in Australia to assist with the nation's vaccination rollout, and soon became the largest non-government provider of COVID-19 vaccinations in Australia.

None of these contributions have come easily – they have been enabled by the courage of our staff to continue working in the healthcare frontline, the dedication and flexibility of our management teams and the expertise and innovation provided by our pathologists and scientists. They have also required decades of investment by Sonic in people, facilities, equipment, systems, workflows and supply chains. All of these elements come together under the guiding influence of Sonic's Medical Leadership culture, which inspires and motivates our behaviours.

The commitment engendered by Medical Leadership was never more to the fore than in the early months of the pandemic, when Sonic's revenues fell dramatically. Our staff responded so well, and despite the initial impact of the pandemic on Sonic's finances the Company did not participate in the JobKeeper or similar programs in Australia, and took only modest support in some of our other jurisdictions. Government grants received in the USA totalling US$26 million (most of which were received in the 2020 year) were repaid in full in February 2021.

The health and safety of our 38,000 staff has always been a major focus for Sonic, as even in non-pandemic conditions our staff routinely deal with potentially infective substances and patients. Of course, this focus has only been heightened by the pandemic and I am pleased to say that Sonic continues to maintain its longstanding impeccable staff safety record. On behalf of the Board, I thank all of our employees for their heroic efforts over the last 18 months.

Changes to Remuneration Structures for 2021

As described in last year's remuneration report, the Board conducted a detailed review of the Company's remuneration framework in 2020. Some changes were made with effect for 2020, however given the timing of the review the main changes were effective for 2021. The focus of these changes was to enhance pay for performance alignment, and to provide greater transparency by providing clearer explanation of decisions regarding remuneration structures and quantum. The changes effective for 2021 were as follows:

Element	Action taken
Remuneration mix	The target remuneration mix for Dr C.S. Goldschmidt was revised by reducing the target STI opportunity with a corresponding increase in the LTI opportunity, resulting in the following remuneration mix: Fixed Remuneration 31% (unchanged); STI 29%; LTI 40%.

Directors' Report

REMUNERATION REPORT

Element		Action taken
STI	EBITDA performance target	The annual EBITDA growth performance target is set based on the upper quartile of the market earnings guidance range (or internal forecast range if no guidance is provided) rather than the mid-point. The 1% cap on the contributions from 'unknown' acquisitions arising during the financial year was 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. 80% of the target EBITDA growth must be achieved without any contributions from 'unknown' acquisitions.
	Weighting of financial and non-financial performance	The strategic qualitative component of the STI was 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 chose to place greater emphasis on the quantitative factors for 2021. The 150% upside opportunity on the strategic qualitative component of the STI was removed i.e. now capped at 100%. Potential upside continues to apply to the EBITDA component of the STI award, in defined circumstances where there has been significant outperformance.
	Deferral	50% of the EBITDA component of the STI is deferred into rights to Sonic Healthcare shares. The rights/shares must be held for a total of at least two years. The Board retains discretion in relation to the treatment of any deferred STI where there is cessation of employment.
LTI	EPS target and vesting schedule	The threshold EPS CAGR growth target has been raised from 4% per annum to 5%. The vesting schedule under the EPS performance measure was revised such that the proportion to vest on the achievement of threshold EPS performance was reduced from 40% to 30%. Correspondingly, participants may earn up to 150% of the target remuneration for maximum performance.

Remuneration outcomes

The Board did not exercise any discretion in considering remuneration outcomes with respect to incentive-based remuneration in either 2020 or 2021.

In relation to the STI, the executives achieved the maximum 150% for the EBITDA growth component due to the strong performance of the Company in 2021, whereas for 2020 the minimum hurdle was not reached (due to the initial impacts of the pandemic) and no reward was made. 50% of the 2021 award was deferred into equity for two years. 100% of the strategic qualitative component was awarded in both years based on the Board's considered assessment of the Executives' performance.

For the LTI with a performance measurement period of 3 years to 30 June 2021, 100% of the options and rights vested. This result was due to achievement of relative total shareholder return at the 81st percentile, average ROIC of 12.1% and aggregate EPS equivalent to compound EPS growth of 20.1%.

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

Remuneration Reports tend to be complicated by their nature; however we endeavour to enhance the readability of our Report each year, and welcome any feedback on all aspects of our approach.

Kate Spargo
22 September 2021

REMUNERATION REPORT

In this report

a) Key management personnel
b) Year in review
c) 2021 performance and remuneration outcomes
d) 2021 Executive Director remuneration framework
e) Remuneration governance
f) Non-executive Director remuneration
g) Statutory remuneration disclosures for key management personnel
h) Other statutory disclosures

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 2021 and 2020 (unless otherwise indicated).

Name	Position
Non-executive Directors	
Prof. M.R. Compton AM	Chairman
Prof S. Crowe AO (from 6 April 2020)	Non-executive Director
Dr P.J. Dubois	Non-executive Director (Executive Director to 30 June 2020)
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

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.

b) Year in review

In the early months of the COVID-19 pandemic in the 2020 financial year Sonic Healthcare suffered financially from dramatic falls in patient volumes and revenues due to social restrictions and fear of infection. However, the essential nature of the Company's healthcare services meant that by 30 June 2020 the majority of Sonic's divisions had returned to pre-COVID-19 base revenues, and in addition, many of Sonic's laboratory businesses had ramped up substantial COVID-19 PCR testing to assist their communities in combatting the pandemic. This meant that the Company started the 2021 financial year strongly, and as base businesses (excluding COVID-19 related revenues) became increasingly resilient to new waves of infection, additional COVID-19 testing capacity continued to be added and the volume of COVID-19 PCR tests performed continued to increase. To date, Sonic has performed more than 30 million COVID-19 PCR tests in approximately 60 Sonic laboratories around the world.

Sonic's COVID testing capability has continued to play a crucial role in pandemic control, and the Company has continued to provide its base business essential healthcare services seamlessly throughout the pandemic, such that in total 138 million patients were served globally in the 2021 year. This would not have been possible without the courage and dedication of Sonic's 38,000 staff, working in unrelenting and difficult conditions at the frontline of the pandemic response.

Directors' Report

REMUNERATION REPORT

The Company has maintained a strong focus on staff and patient well-being throughout the pandemic, given the need to work with potentially infective patients and substances.

In addition to the enormous efforts of staff, Sonic's contribution to pandemic control has been enabled by the Company's deeply embedded culture of Medical Leadership, and the many decades of investment it has made in people and infrastructure. Sonic's medical and scientific expertise, equipment, facilities, IT systems and tools, and supply chains were all called upon to meet the many and varied challenges posed by the pandemic.

Financially Sonic performed very strongly in 2021. Revenue for the year was $8.8 billion, up 28% on the prior year. EBITDA and net profit grew 81% (to $2.6 billion) and 149% (to $1.3 billion) respectively. Dividends declared for the year totalled $0.91 per share, an increase of 7% over 2020, supported by Sonic's strong balance sheet, earnings and cash flows. This level of performance far exceeded expectations held at the beginning of the year.

Sonic did not participate in the JobKeeper or similar programs in Australia in 2020 or 2021, and received only limited support in some other jurisdictions. Government grants received in the USA totalling US$26 million (most of which was received in the 2020 year) were repaid in full in February 2021.

c) 2021 performance and remuneration outcomes

The Board did not exercise discretion to adjust any variable remuneration performance targets or outcomes for 2020 or 2021. In light of 2021 performance, remuneration outcomes were as follows:

i) Fixed remuneration

Fixed Remuneration and Total Target Remuneration levels for the Managing Director and Finance Director have remained unchanged since 2017. Certain elements of Non-Executive Director fees were reviewed with effect from 1 January 2021 (see Section f) for full details), as fee levels had not been reviewed since 2017 and market benchmarking revealed that certain fees were well below peer group levels.

In the 2020 year 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 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 usual rates recommenced in June 2020.

ii) STI outcomes

The strong EBITDA growth (89% on a Constant Currency basis) achieved by the Company in 2021 significantly exceeded the targets set at the beginning of the financial year, resulting in the maximum payout (150% of the relevant target component) under the EBITDA growth performance condition which relates to 80% of the total target STI amount.

The remaining 20% of the target STI award was subject to the qualitative strategic performance conditions. The performance conditions were met in full resulting in 100% of the relevant component being paid. 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 (for the Finance Director)

REMUNERATION REPORT

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 COVID-19 pandemic 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 many challenges presented by the pandemic.

Sonic's culture supported its leaders as they managed the demands of the pandemic within our 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. 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 summarises the 2021 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					
2021	92%	2,201,368	140%	–	3,081,914
2020	110%	2,637,397	25%	75%	659,349
C.D. Wilks					
2021	105%	1,147,138	140%	–	1,605,994
2020	105%	1,147,138	25%	75%	286,785

50% of the portion of the STI award related to EBITDA growth is delivered as equity and deferred for two years.

iii) 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 2021, 100% (2020: 70.9%) satisfied the vesting conditions, as follows:

LTI outcomes (1 July 2018 to 30 June 2021)			
Performance measure	Overall weighting	Performance achieved	% eligible to vest
Relative TSR	50%	81st percentile	100%
Aggregate EPS[1]	25%	491.1 cents	100%
Target average ROIC[2]	25%	134.3% of target ROIC	100%
Total	**100%**		**100%**

[1] For the Aggregate EPS component of the LTI issue made in FY2019, the performance was as follows: FY2019 EPS: 117.8, FY2020 EPS: 107.1, FY2021 EPS: 266.2, for a total aggregate EPS of 491.1 cents over the three-year performance period. The minimum hurdle was 364 cents and the maximum hurdle was 408 cents. EPS was calculated on a Constant Currency basis and excluded the impact of the accounting standard AASB 16, which was not in effect at the beginning of the performance period.

[2] For the ROIC component of the LTI issue made in FY2019, the performance was as follows: FY2019 (target: 8.6%, achieved: 8.7%), FY2020 (target: 8.5%, achieved: 8.2%) and FY2021 (target: 10%, achieved: 19.5%). This resulted in 134.3% of the target ROIC being achieved over the three-year performance period. ROIC was calculated excluding the impacts of the accounting standard AASB 16.

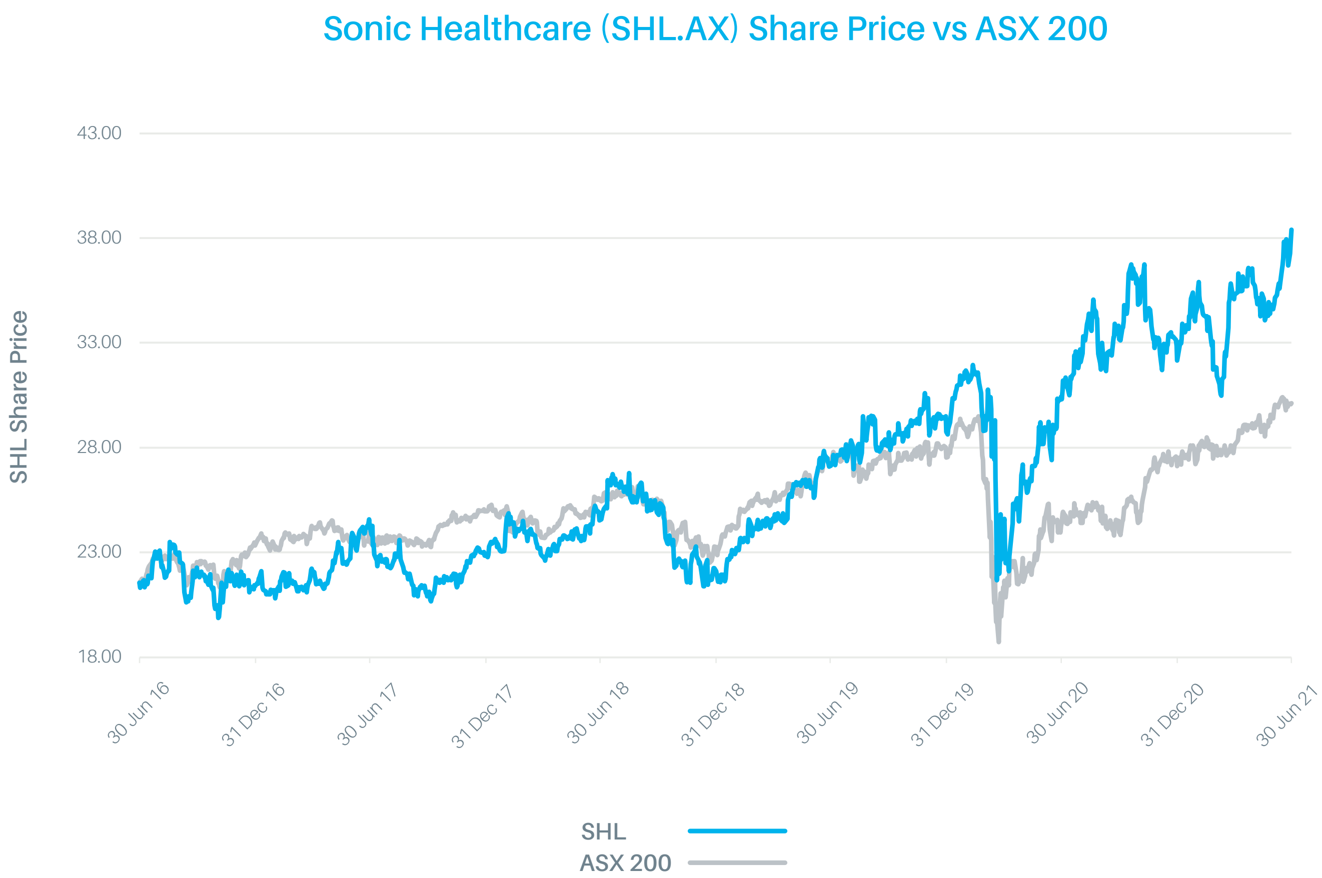
Directors' Report

REMUNERATION REPORT

iv) Company performance

Share price growth

The chart below shows the Company's share price (SHL.AX) performance over the 5 years to 30 June 2021, versus the relative performance of the ASX 200. The ASX 200 increased approximately 40% over the period, whereas SHL.AX increased approximately 78%. Sonic's share price has traded at or around all-time highs post release of the 2021 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).

	2017	2018	2019	2020	2021	Compound average annual growth rate[1]
Growth in EBITDA[2] (on a Constant Currency basis)	2.5%	7.3%	9.5%	0.1%	107.4%	**20.2%**
Net profit attributable to members ($'000)	427,773	475,606	549,725	527,749	1,315,040	**23.8%**
Diluted earnings per share (cps)	102.1	112.2	122.1	110.6	273.1	**20.1%**
Dividends declared per share (cps)	77	81	84	85	91	**4.2%**
Enterprise value[3] ($'000)	12,588,332	12,900,794	15,143,172	16,481,770	19,292,237	**11.4%**
Total shareholder return[4]	56.1%	23.1%	40.7%	40.7%	68.4%	**n/a**
Change in total fixed remuneration plus STI of executives[5]	10.6%	(0.1)%	7.9%	(44.0)%	95.6%	**4.7%**
Change in total remuneration of executives[6]	21.2%	13.1%	(6.3)%	(26.8)%	53.7%	**7.9%**

1 The compound average annual growth rate is calculated over the five year period shown with 2016 as the base year.
2 EBITDA is calculated excluding the impacts of the new lease accounting standard AASB 16, which became effective for Sonic in FY2020.
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 the relevant periods (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 the relevant periods (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) 2021 Executive Director remuneration framework

i) Remuneration strategy

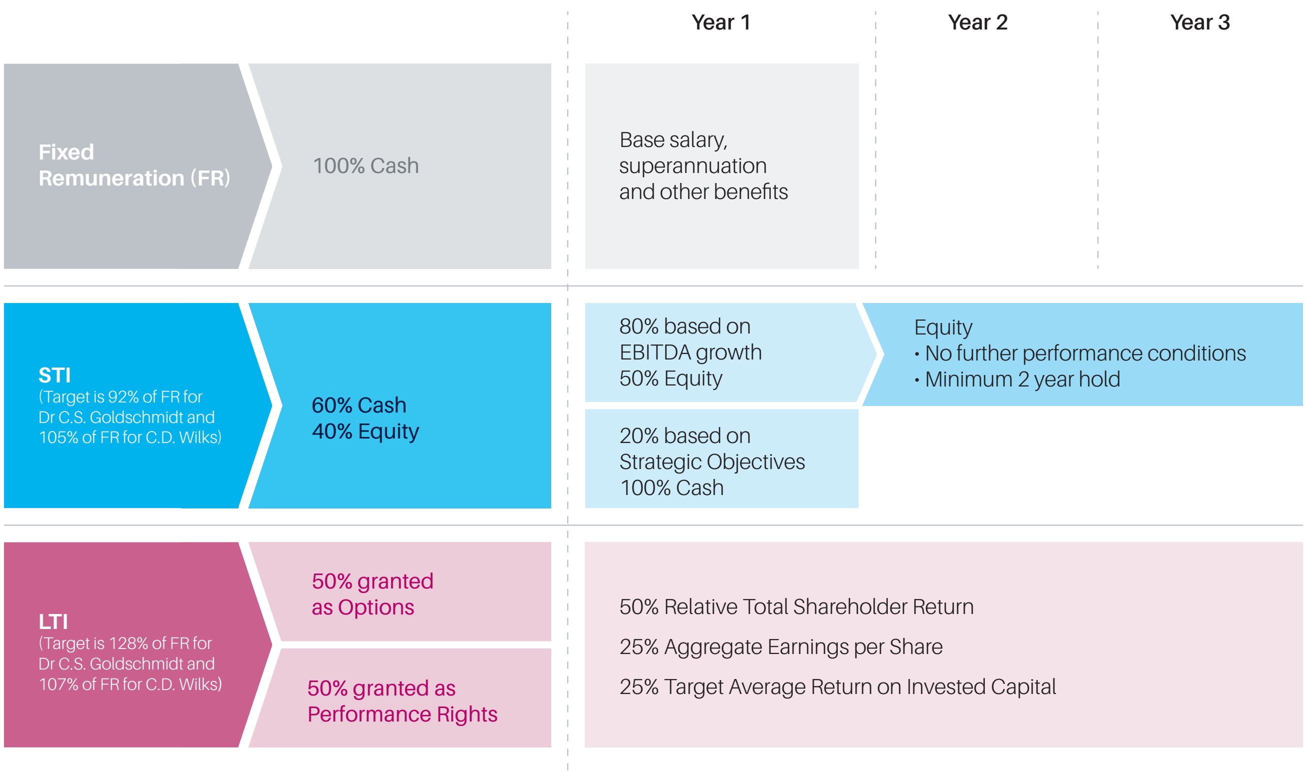
Sonic Healthcare's remuneration opportunities are structured and set at levels that are intended to attract, motivate and retain executives capable of leading and managing the Group's operations, and to align remuneration with the creation of value for shareholders.

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 target 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. 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) were targeted at the 75th percentile for the Managing Director and at the 80th percentile for the Finance Director. There have been no increases to their Fixed Remuneration or Total Target Remuneration since 2017. 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 towards 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 28 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.

REMUNERATION REPORT

iii) Remuneration 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	~31%	~29%	40%
C.D. Wilks	~32%	~34%	~34%

iv) Detailed overview of STI and LTI arrangements

Additional information for the STI and LTI arrangements for the year ended 30 June 2021 are detailed below.

STI Plan

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:** 92% of fixed remuneration for the Managing Director and 105% for the Finance Director. ▪ **Maximum opportunity:** Both can earn up to 140% of target for the achievement of stretch performance.
What is the mix of performance conditions?	The STI is determined based on the extent to which the following conditions are met: ▪ 80% based on EBITDA growth ▪ 20% 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. The annual EBITDA performance target is based on the upper quartile of market earnings guidance, or where no guidance is provided, of the company's internal forecasts. 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. Up to 150% of the component of Target STI which relates to EBITDA growth can be paid in defined circumstances where there has been significant outperformance.
What are the Strategic Objective measures?	The Strategic Objectives applicable to the STI are as follows: ▪ 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 ▪ External standing and reputation (including stakeholder management, brand and quality) ▪ Financial leadership and innovation (for C.D. Wilks)
How is the STI delivered?	50% of the EBITDA related component is delivered as rights to Sonic Healthcare shares. The rights/shares must be held for a total of at least two years. The remainder of the STI is delivered as cash with no deferral.

REMUNERATION REPORT

LTI Plan

The award features for the grant made during the 2021 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. 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: ▪ Relative TSR (45% weighting) ▪ Aggregate EPS (33% weighting) ▪ Average Return on Invested Capital (ROIC) (22% weighting) Note that the weighting percentages are impacted by the potential to earn up to 150% for the Aggregate EPS measure. Based on target remuneration (as opposed to maximum) the percentages would be 50%, 25% and 25%.
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. 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. 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

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. 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. 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. Awards under the aggregate EPS condition vest as follows:

Aggregate EPS (cents) for 3 years ending 2023	Percentage of options and rights that vest
Less than 366	0% vesting of aggregate EPS condition
Equal to 366	30% vesting of aggregate EPS condition
Between 366 and 403	Pro rata between 30% and 100% vesting of aggregate EPS condition
Equal to 403	100% of aggregate EPS condition
Between 403 and 442	Pro rata between 100% and 150% vesting of aggregate EPS condition
Equal to or greater than 442	150% of aggregate EPS condition

366 cents, 403 cents and 442 cents equate to compound annual growth rates of 5%, 10% and 15% respectively, over the EPS for 2020.

Key question	Sonic Healthcare approach
How does the Target Average ROIC performance condition work?	ROIC is calculated as follows: *ROIC = (EBIT less minority interests less cash taxes paid in year) / Average invested capital.* 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 (2021) was 9.0%. ROIC is now measured including the impacts of AASB 16 *Leases* whereas for previous LTI issues AASB 16 did not apply. After completion of the three-year measurement period, the average of the actual ROIC over the three years will be compared to the average of the three ROIC targets ('Target Average ROIC'). Measurement of the average actual ROIC will exclude any significant uncontrollable or one-off events, and the initial impact of business development initiatives, as approved by the Board. 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. The Board may make adjustments in measuring performance under the Aggregate EPS and Target Average ROIC conditions to ensure the intent of the incentive plan is retained e.g. for a change in accounting standards.
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. Options can only be exercised when the market price of Sonic Healthcare shares is higher than the exercise price. 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 has a service contract. Rather, the terms and entitlements of employment are governed by applicable employment laws. There are no set contract/employment periods, and no sign-on payments have been made.

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 (if any) 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 retains discretion in relation to the treatment of any deferred STI where there is cessation of employment.

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.

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 considering remuneration structures and support in the drafting of the 2020 Remuneration Report. In 2021, Ernst & Young provided market data for Non-executive Director fees.
- No remuneration recommendations were made by Ernst & Young in 2020 or 2021.

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

Remuneration of Non-executive Directors is determined by the Board within the maximum amount approved by the shareholders. At the Annual General Meeting on 12 November 2020, shareholders approved a maximum annual amount of $2,500,000 (previously $2,000,000) for remuneration of Non-executive Directors, of which $1,815,000 was paid in 2021. A review of fees was conducted during the year, including comparisons to market data for companies of similar size and complexity. As a result, certain fees were increased with effect from 1 January 2021, as set out in the table below. Fees had previously remained unchanged from 1 July 2017. The most significant increase was to the Chairman's annual fee, which had been well below the level of those for peer companies, and the revised Chairman's fee remains below the median of the peer group.

Fees per annum			Committee Chair		Members	
	Current	Previous	Current	Previous	Current	Previous
Chairman (inclusive of Committee work)	$525,000	$425,000				
Base Non-executive Director fee	$185,000	$185,000				
Audit Committee			$47,000	$40,000	$23,000	$20,000
Risk Management Committee			$38,000	$30,000	$19,000	$15,000
Remuneration and Nomination Committee			$40,000	$35,000	$20,000	$18,000

The base fees set out above were reduced by 50% for a period of approximately eight weeks during the 2020 financial year to show support for Sonic's shareholders and staff given the challenges posed at that time by the COVID-19 pandemic.

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 2020 and 2021. 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*	FY2021	453,306	–	21,694	475,000
	FY2020	373,382	–	20,789	394,171
Prof. S. Crowe *Commenced on 6 April 2020*	FY2021	168,950	–	16,050	185,000
	FY2020	27,806	–	2,641	30,447
Dr P.J. Dubois[2]	FY2021	260,312	–	18,750	279,062
	FY2020	709,512	24,000	21,003	754,515
N. Mitchell	FY2021	224,242	–	21,258	245,500
	FY2020	198,630	–	18,870	217,500
L.J. Panaccio	FY2021	221,461	–	21,039	242,500
	FY2020	206,415	–	19,231	225,646
K.D. Spargo	FY2021	222,831	–	21,169	244,000
	FY2020	203,196	–	19,304	222,500
Dr E.J. Wilson	FY2021	217,352	–	20,648	238,000
	FY2020	197,269	–	18,741	216,010

[1] Other benefits include fringe benefits tax where applicable.
[2] FY2021 includes final payout of entitlements after change in role from Executive to Non-executive Director. FY2020 remuneration was as an Executive.

REMUNERATION REPORT

Executive Directors	Year	Short-term employee benefits			Post-employment benefits	Equity-based remuneration			Other long-term benefits	Total	Performance related % of total remuneration
		Salary & fees	Other benefit[1]	STI (cash)	Superannuation	Value of deferred STI rights	Value of shares	Value of options and rights[2]	Long-service leave accrued[3]		
Name		$	$	$	$	$	$	$	$	$	%
Dr C.S. Goldschmidt *Managing Director*	FY2021	2,375,940	–	1,761,093	21,694	1,320,821	–	1,214,168	39,374	6,733,090	**64**
	FY2020	2,201,420	–	461,544	21,003	197,805	–	1,572,734	39,339	4,493,845	**50**
C.D. Wilks *Finance Director*	FY2021	1,068,046	–	917,711	21,694	688,283	–	503,886	17,348	3,216,968	**66**
	FY2020	989,654	–	200,749	21,003	86,036	–	698,711	(17,151)	1,979,002	**50**

1 Other benefits include fringe benefits tax where applicable.
2 The equity-based remuneration amounts disclosed 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.

Note that the apparent increase in salaries between years relates to the fact that in FY2020 the Executive Directors voluntarily accepted 50% pay cuts for approximately 8 weeks to show support for shareholders and staff during the early days of the COVID-19 pandemic.

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
2021		
Options 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 options issued to be forfeited) with a $19.41 exercise price	255,008	101,633
Performance rights issued in November 2017 with a performance measurement period to 30 June 2020 (having vested after satisfying performance conditions which caused 29.1% of the total options issued to be forfeited) with a nil exercise price	43,097	19,147
Deferred share rights issued in September 2020 for STI performance to 30 June 2020 (resulting shares must be held until September 2022)	6,069	2,640
2021 Total intrinsic value of options and rights at the date of exercise	**$4,779,517**	**$1,977,083**
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**

ii) Equity disclosures relating to key management personnel

Options and performance rights held during the financial year

After approval by shareholders at the 2017, 2018, 2019 and 2020 Annual General Meetings, the Executive Directors were issued the following LTI (the 'FY2018 Issue', 'FY2019 Issue', 'FY2020 Issue' and 'FY2021 Issue'):

	FY2018 Issue		FY2019 Issue		FY2020 Issue		FY2021 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	467,467	207,678	462,372	205,415	407,747	181,147	381,723	145,468
Performance rights over shares in Sonic Healthcare Limited	60,766	26,996	60,626	26,934	44,941	19,966	50,413	19,211

In addition Dr C.S. Goldschmidt and C.D. Wilks were granted 6,069 and 2,640 performance rights respectively to satisfy the deferred STI consideration for the FY2020 performance period. The value of these rights were disclosed as remuneration for the FY2020 year.

REMUNERATION REPORT

	FY2018 Issue	FY2019 Issue	FY2020 Issue	FY2021 Issue
Options exercise price	$21.64	$21.69	$29.26	$34.21
Performance condition measurement period	3 years to 30 June 2020	3 years to 30 June 2021	3 years to 30 June 2022	3 years to 30 June 2023
Earliest vesting date, if performance conditions are met	22 November 2020	21 November 2021	19 November 2022	18 November 2023
Expiry date	22 November 2022	21 November 2023	19 November 2024	18 November 2025
Fair value of each option at grant date	$1.89	$1.96	$2.03	$3.81
Fair value of each right at grant date	$12.97	$13.09	$18.70	$25.72
Percentage that satisfied vesting conditions	70.9%	100.0%	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 FY2021 as part of LTI remuneration (the FY2021 issue) was $2,749,288 for Dr C.S. Goldschmidt and $1,047,696 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 2020	Issued during the 2021 year	(Forfeited) during the 2021 year	(Exercised) during the 2021 year	Balance at 30 June 2021	(Forfeited) since year end	Vested and exercisable at 30 June 2021
Dr C.S. Goldschmidt	1,757,153	381,723	(135,916)	(255,008)	1,747,952	–	496,110
C.D. Wilks	768,980	145,468	(60,383)	(101,633)	752,432	–	220,402

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 2020	Issued during the 2021 year	(Forfeited) during the 2021 year	(Exercised) during the 2021 year	Balance at 30 June 2021	(Forfeited) since year end	Vested and exercisable at 30 June 2021
Dr C.S. Goldschmidt	166,333	56,482	(17,669)	(49,166)	155,980	–	–
C.D. Wilks	73,896	21,851	(7,849)	(21,787)	66,111	–	–

REMUNERATION REPORT

Shareholdings

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

Director's name	Balance at 1 July 2020	Issued during the 2021 year on the exercise of options or rights	Shares provided as remuneration during the 2021 year	Other changes during the 2021 year	Balance at 30 June 2021
Dr C.S. Goldschmidt	741,230	304,174	–	(250,000)	795,404
C.D. Wilks	660,495	123,420	–	(120,000)	663,915
Prof. M.R. Compton	8,511	–	–	755	9,266
Prof. S. Crowe	–	–	–	1,440	1,440
Dr P.J. Dubois	8,770	–	–	3,000	11,770
N. Mitchell	9,770	–	–	–	9,770
L.J. Panaccio	7,026	–	–	1,000	8,026
K.D. Spargo	21,000	–	–	2,000	23,000
Dr E.J. Wilson	7,770	–	–	–	7,770

Whilst Sonic currently does not have a minimum shareholding requirement for the key management personnel, all are encouraged to, and do, hold shares. The Executive Directors, in particular, have very material shareholdings.

iii) Transactions with key management personnel

There were no other transactions with key management personnel during 2021 or 2020.

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 2021 (2020: $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.

Directors' Report

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
22 September 2021

Auditor's Independence Declaration

As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2021, 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
22 September 2021

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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 is sustainable and contributes positively to the community.

The principal features of Sonic's corporate governance framework are set out in this statement, which is current as at 22 September 2021, 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 2021 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 2021 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 value for the Company's stakeholders (including shareholders, staff and the community) in a sustainable manner while ensuring that the Group's activities are managed in accordance with its 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 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
- overseeing the Group's cyber-security
- protecting human rights
- ensuring the Group's remuneration policies are aligned with the Group's purpose, values, strategic objectives and risk appetite
- ensuring the business is conducted ethically and transparently (including tax transparency)

The Board delegates authority for operational management of the business to the Managing Director and senior executives. The Managing Director also oversees the implementation of strategies approved by the Board, and is responsible for providing accurate and relevant information to enable the Board to perform its responsibilities. Senior executives reporting to the Managing Director have their roles and responsibilities defined in specific position descriptions. The Board uses a number of Committees to support it in matters that require more intensive review and involvement. Details of the Board Committees are provided below.

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

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

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

Corporate Governance Statement

1. BOARD OF DIRECTORS

b) Composition of the Board

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

Director's name	Age	Term of office (Years)	Position	Expertise	Committees
Prof. Mark Compton	60	7	Chairman, Non-executive, independent Director	Healthcare industry and company management	Member of Audit Committee and Remuneration and Nomination Committee
Dr Colin Goldschmidt	67	28	Managing Director, Chief Executive Officer	Healthcare industry and company management. Pathologist	Member of Risk Management Committee
Mr Chris Wilks	63	31	Finance Director, Chief Financial Officer	Finance, strategy, accounting, banking, secretarial and company management	
Prof. Suzanne Crowe	70	1	Non-executive, independent Director	Medicine, medical research, governance and company oversight	
Dr Philip Dubois	75	20	Non-executive Director+	Diagnostic imaging industry and company management. Radiologist	
Mr Neville Mitchell	62	4	Non-executive, independent Director	Finance, tax, international healthcare and company management	Chair of Audit Committee and member of Risk Management Committee
Mr Lou Panaccio	64	16	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	69	11	Non-executive, independent Director	Law, governance and company oversight	Chair of Remuneration and Nomination Committee and member of Audit Committee
Dr Jane Wilson	63	11	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 tenures of Mr Panaccio, Ms Spargo and Dr Wilson were specifically addressed in their assessments and the Board was satisfied that they have not become too close to management such that their 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 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.

Corporate Governance Statement

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 $2,500,000 per annum, as approved by shareholders in November 2020. The total amount paid to Non-executive Directors in the 2021 financial year was $1,815,000. 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*
Prof. M.R. Compton
Mr L.J. Panaccio
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 material risks, including but not limited to:
    - business risks, including financial, tax and strategic risks
    - reputational risks, including in relation to Modern Slavery
    - 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
    - cyber security risks, including data security and privacy 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 2021 was:

	2021	2020
Non-executive Directors of Sonic Healthcare Limited	43%	50%
Directors of Sonic Healthcare Limited	33%	33%
Executive staff of the Group+	36%	38%
Other senior leadership positions	56%	56%
Total senior leadership positions*	53%	53%
All employees	74%	74%

+ 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 2021. 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 with 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

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, Modern Slavery, 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 2021 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
- Modern Slavery reporting

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 was held virtually due to the 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 2021 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 2021 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 2021

Consolidated Income Statement

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021	2020
		$'000	$'000
Revenue from operations	3	**8,754,123**	6,831,843
Labour and related costs		**(3,357,164)**	(3,173,784)
Consumables used		**(1,616,831)**	(1,117,373)
Depreciation	4	**(573,392)**	(540,658)
Repairs and maintenance		**(208,648)**	(193,058)
Transportation		**(181,710)**	(177,248)
Utilities		**(145,283)**	(148,907)
Borrowing costs	4	**(92,519)**	(112,851)
Amortisation of intangibles	4	**(68,202)**	(65,210)
Lease expense	4	**(66,006)**	(51,344)
Other expenses from ordinary activities		**(615,775)**	(552,347)
Profit from ordinary activities before income tax expense		**1,828,593**	699,063
Income tax expense	6	**(480,935)**	(157,160)
Profit from ordinary activities after income tax expense		**1,347,658**	541,903
Net (profit) attributable to minority interests		**(32,618)**	(14,154)
Profit attributable to members of Sonic Healthcare Limited	28(b)	**1,315,040**	527,749

	Notes	2021	2020
		Cents	Cents
Basic earnings per share	37	**275.5**	111.1
Diluted earnings per share	37	**273.1**	110.6

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 2021

	Notes	2021	2020
		$'000	$'000
Profit from ordinary activities after income tax expense		1,347,658	541,903
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	28(a)	(178,349)	33,175
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on retirement benefit obligations	25(f)	25,219	(5,782)
Other comprehensive income for the period, net of tax		(153,130)	27,393
Total comprehensive income for the period		1,194,528	569,296
Total comprehensive income attributable to			
Members of Sonic Healthcare Limited		1,160,470	555,809
Minority interests		34,058	13,487
		1,194,528	569,296

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

Consolidated Balance Sheet

AS AT 30 JUNE 2021

	Notes	2021	2020
		$'000	$'000
Current assets			
Cash and cash equivalents	38(a)	**899,827**	1,230,149
Receivables	7	**1,088,717**	986,770
Inventories	8	**224,388**	163,425
Other	9	**71,641**	74,761
Total current assets		**2,284,573**	2,455,105
Non-current assets			
Receivables	10	**31,549**	50,429
Investments	11	**108,110**	91,754
Property, plant and equipment	12	**1,258,382**	1,230,498
Right-of-use assets	13	**1,294,542**	1,267,582
Intangible assets	14	**6,712,251**	6,954,904
Deferred tax assets	15	**65,276**	70,759
Other	16	**6,308**	6,099
Total non-current assets		**9,476,418**	9,672,025
Total assets		**11,760,991**	12,127,130
Current liabilities			
Payables	17	**1,026,535**	983,831
Interest-bearing liabilities	18	**228,944**	364,198
Lease liabilities	19	**322,487**	298,923
Current tax liabilities	20	**254,730**	145,163
Provisions	21	**302,788**	259,826
Other	22	**82,453**	18,192
Total current liabilities		**2,217,937**	2,070,133
Non-current liabilities			
Interest-bearing liabilities	23	**1,592,381**	2,872,429
Lease liabilities	19	**1,090,999**	1,080,331
Deferred tax liabilities	24	**190,505**	173,335
Provisions	25	**130,654**	163,538
Other	26	**34,172**	102,966
Total non-current liabilities		**3,038,711**	4,392,599
Total liabilities		**5,256,648**	6,462,732
Net assets		**6,504,343**	5,664,398
Equity			
Parent entity interest			
Contributed equity	27	**4,081,981**	4,000,910
Reserves	28(a)	**(19,158)**	175,426
Retained earnings	28(b)	**2,322,163**	1,397,417
Total parent entity interest		**6,384,986**	5,573,753
Minority interests		**119,357**	90,645
Total equity		**6,504,343**	5,664,398

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 2021

	Share capital	Reserves	Retained earnings	Total	Minority interests	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 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**
Profit for period	–	–	1,315,040	1,315,040	32,618	**1,347,658**
Other comprehensive income for the period	–	(179,789)	25,219	(154,570)	1,440	**(153,130)**
Total comprehensive income for the period	–	(179,789)	1,340,259	1,160,470	34,058	**1,194,528**
Transactions with owners in their capacity as owners						
Dividends paid	–	–	(415,513)	(415,513)	–	**(415,513)**
Shares issued	75,053	(21,095)	–	53,958	–	**53,958**
Transfers to share capital	6,011	(6,011)	–	–	–	**-**
Share based payments	–	12,643	–	12,643	–	**12,643**
Acquisition of treasury shares	(325)	–	–	(325)	–	**(325)**
Allocation of treasury shares	332	(332)	–	–	–	**-**
Acquisition of minority interests	–	–	–	–	2,535	**2,535**
Contributions from minority interests	–	–	–	–	2,811	**2,811**
Dividends paid to minority interests in controlled entities	–	–	–	–	(10,692)	**(10,692)**
Balance at 30 June 2021	**4,081,981**	**(19,158)**	**2,322,163**	**6,384,986**	**119,357**	**6,504,343**

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 2021

	Notes	2021	2020
		$'000	$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**8,808,462**	6,801,349
Payments to suppliers and employees (inclusive of goods and services tax)		**(6,323,481)**	(5,209,415)
Gross operating cash flow		**2,484,981**	1,591,934
Interest received		**2,916**	5,947
Borrowing costs		**(102,842)**	(101,170)
Income taxes paid		**(342,219)**	(136,413)
Net cash inflow from operating activities	38(b)	**2,042,836**	1,360,298
Cash flows from investing activities			
Payment for purchase of controlled entities, net of cash acquired		**(31,602)**	(97,783)
Payments for property, plant and equipment		**(273,581)**	(234,900)
Proceeds from sale of subsidiaries and non-current assets		**24,401**	73,673
Payments for investments		**(20,921)**	(9,106)
Payments for intangibles		**(89,611)**	(89,086)
Repayment of loans by other entities		**16,305**	32,470
Loans to other entities		**(11,741)**	(10,185)
Net cash (outflow) from investing activities		**(386,750)**	(334,917)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities (net of transaction costs and related taxes)		**53,633**	22,997
Proceeds from borrowings		**122,441**	1,468,184
Repayment of borrowings		**(1,376,607)**	(1,315,512)
Principal elements of lease payments		**(327,893)**	(300,075)
Dividends paid to Company's shareholders		**(415,513)**	(403,667)
Dividends paid to minority interests in subsidiaries		**(10,719)**	(8,663)
Net cash (outflow) from financing activities		**(1,954,658)**	(536,736)
Net (increase)/decrease in cash and cash equivalents		**(298,572)**	488,645
Cash and cash equivalents at the beginning of the financial year		**1,230,149**	736,646
Effects of exchange rate changes on cash and cash equivalents		**(31,750)**	4,858
Cash and cash equivalents at the end of the financial year	38(a)	**899,827**	1,230,149
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 Consolidated Financial Statements

Notes to the Consolidated Financial Statements

30 JUNE 2021

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 22 September 2021.

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 2021 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 Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated 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.

Notes to the Consolidated Financial Statements

30 JUNE 2021

l) Leases

The Group leases properties, equipment and vehicles under rental contracts which are typically made for fixed periods of between 1 month and 22 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 2021 approximately 58% of the Group's leases have extension options of which 8% 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 390% of the 2021 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 is recognised in the Income Statement. In the 2020 year, 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 sub-leases 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 and Belgium).

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.

iv) Software-as-a-Service arrangements (SaaS)

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. As such the Group does not receive a software intangible asset at the contract commencement date. Implementation costs including costs to configure or customise the cloud provider's application software are generally recognised as operating expenses when the services are received.

Costs incurred for the development of distinct software that enhances or modifies, or creates additional capability to, existing systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible assets.

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 several 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 2021. 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) 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.

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 (until the sale of the subscale Irish business in the second half of FY2021).

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) and other minor operations. 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.

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2021	Laboratory	Imaging	Other	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000
Revenue (Constant Currency)					
External sales	8,096,415	619,804	410,518	–	9,126,737
Inter-segment sales	–	288	2,706	(2,994)	–
Total segment revenue (Constant Currency)	8,096,415	620,092	413,224	(2,994)	9,126,737
Currency exchange rate movements	(375,223)	–	–	–	(375,223)
Total segment revenue	7,721,192	620,092	413,224	(2,994)	8,751,514
Interest income					2,609
Total revenue					**8,754,123**
Result					
Segment result (Constant Currency)	2,037,060	88,800	(45,985)	–	2,079,875
Currency exchange rate movements	(93,477)	–	–	–	(93,477)
Segment result	1,943,583	88,800	(45,985)	–	1,986,398
Amortisation of intangibles					(68,202)
Unallocated net interest expense					(89,603)
Profit before tax					**1,828,593**
Income tax expense					(480,935)
Profit after income tax expense					**1,347,658**
Depreciation	431,012	65,513	76,867	–	**573,392**
Other non-cash items	40,632	7,514	17,610	–	**65,756**

2020	Laboratory	Imaging	Other	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000
Revenue					
External sales	5,890,491	520,929	414,891	–	6,826,311
Inter-segment sales	–	215	3,782	(3,997)	–
Total segment revenue	5,890,491	521,144	418,673	(3,997)	6,826,311
Interest income					5,532
Total revenue					6,831,843
Result					
Segment result	860,034	63,295	(52,153)	–	871,176
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
Other non-cash items	31,743	8,547	12,698	–	52,988

Geographical information

	Revenues from sales to external customers+		Non-current assets+^	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Australia	**3,007,161**	2,476,974	**3,162,412**	3,053,429
United States of America	**2,238,923**	1,857,523	**2,636,505**	2,873,029
Germany	**1,982,240**	1,353,358	**1,760,965**	1,785,416
Other	**1,522,883**	1,138,040	**1,743,150**	1,797,638
Total	**8,751,207**	6,825,895	**9,303,032**	9,509,512

+ 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

	2021	2020
	$'000	$'000
Services revenue		
Medical services revenue	**8,752,536**	6,782,580
Other		
Interest received or due and receivable	**2,609**	5,532
Finance income on net investment in lease	**307**	416
Income from sub-leasing right-of-use assets	**4,404**	6,128
Other revenue*	**(5,733)**	37,187
	1,587	49,263
Total	**8,754,123**	6,831,843
Disaggregated revenue		
Laboratory		
USA	**2,238,753**	1,856,953
Germany	**1,981,997**	1,353,686
Australia	**1,976,354**	1,541,284
UK & Ireland	**726,269**	463,658
Switzerland	**579,405**	491,563
Belgium	**186,918**	148,322
New Zealand	**29,076**	31,597
Non-laboratory		
Imaging	**619,572**	520,904
Other (medical centres, occupational health services etc.)	**408,459**	411,800
	8,746,803	6,819,767

* Other revenue in 2020 included government grants received in the USA which were voluntarily refunded in full in 2021, resulting in a negative net amount in 2021.

Contract asset balances of $6,280,000 (2020: $9,263,000) and $6,309,000 (2020: $10,949,000) have been recognised in current receivables and non-current receivables as at 30 June 2021 relating to upfront doctor payments in the medical centre and occupational health businesses.

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NOTE 4 | EXPENSES

	2021	2020
	$'000	$'000
Profit before income tax includes the following specific expenses		
Finance costs		
Finance charges on capitalised leases	**30,950**	28,884
Other borrowing costs	**61,569**	83,967
Total borrowing costs	**92,519**	112,851
Amortisation of intangibles	**68,202**	65,210
Depreciation of		
Plant and equipment	**227,308**	221,309
Buildings	**9,554**	10,025
Total depreciation	**236,862**	231,334
Depreciation charge of right-of-use assets		
Buildings	**326,410**	303,271
Equipment	**10,120**	6,053
Total right-of-use asset depreciation	**336,530**	309,324
Lease expense		
Short-term leases	**39,478**	30,525
Low-value leases	**4,087**	8,173
Variable leases – COVID-19 rent concession	–	(4,315)
Variable leases – Other	**22,441**	16,961
Total lease expense	**66,006**	51,344
Defined contribution superannuation expense	**137,066**	134,043
Bad and doubtful trade debtors	**194,643**	170,453

NOTE 5 | DIVIDENDS

	2021	2020
	$'000	$'000
Total dividends paid on ordinary shares during the year		
Final dividend for the year ended 30 June 2020 of 51 cents (2019: 51 cents) per share paid on 22 September 2020 (2019: 25 September 2019), franked to 30% (2019: 30%)	**243,488**	242,148
Interim dividend for the year ended 30 June 2021 of 36 cents (2020: 34 cents) per share paid on 24 March 2021 (2020: 25 March 2020), franked to 30% (2020: 30%)	**172,025**	161,519
	415,513	403,667
Dividends not recognised at year end		
In addition to the above dividends, since year end the Directors declared a final dividend of 55 cents (2020: 51 cents) per ordinary share, franked to 65% (2020: 30%) based on tax paid at 30%. The aggregate amount of the final dividend paid on 22 September 2021 (2020: 22 September 2020) out of retained earnings at the end of the year, but not recognised as a liability is:	**263,441**	243,488
Franked dividends		
The 2021 final dividend declared after the year end was 65% franked out of franking credits available at year end and those arising from the payment of income tax in the year ending 30 June 2022.		
Franking credits available at the year end for subsequent financial years based on a tax rate of 30%	**5,773**	4,956

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

The Company's Dividend Reinvestment Plan remained suspended for the 2021 final dividend, as it was through the 2021, 2020 and 2019 financial years.

Notes to the Consolidated Financial Statements

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NOTE 6 | INCOME TAX

a) Income tax expense

	2021	2020
	$'000	$'000
Current tax	459,220	151,544
Deferred tax	27,070	(509)
(Over)/under provision in prior years	(5,355)	6,125
Income tax expense	480,935	157,160
Deferred income tax expense included in income tax expense comprises		
Decrease/(increase) in deferred tax assets (Note 15)	17,071	(29,430)
Increase in deferred tax liabilities (Note 24)	9,999	28,921
	27,070	(509)

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

	2021	2020
Profit before income tax expense	1,828,593	699,063
Tax at the Australian tax rate of 30% (2020: 30%)	548,578	209,719
Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income		
Difference in overseas tax rates	(49,524)	(20,714)
Other deductible/non-taxable items (net)	(18,119)	(31,845)
Income tax expense	480,935	157,160

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

	2021	2020
Actuarial gains/(losses) on retirement benefit obligations	4,611	(356)

d) Amounts recognised directly in equity

No amounts were recognised in current or deferred tax in the current or prior reporting period which were credited directly to equity.

e) Tax losses

Deferred tax assets of $9,892,000 (2020: $36,921,000) on the Group's Balance Sheet at 30 June 2021 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 $3,829,000 (2020: $4,117,000).

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

	2021	2020
	$'000	$'000
Temporary differences relating to investments in subsidiaries for which deferred tax assets and liabilities have not been recognised:		
Foreign currency translation	**21,261**	75,389
Undistributed earnings	**2,540**	2,580
	23,801	77,969

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

	2021	2020
	$'000	$'000
Trade debtors	**1,037,925**	859,231
Less: provision for impairment (a)	**(191,568)**	(145,488)
	846,357	713,743
Accrued revenue	**143,619**	154,883
Amounts owing from other entities and contract assets	**8,473**	12,607
Net investment in finance lease receivables	**5,590**	6,936
Sundry debtors	**84,678**	98,601
	1,088,717	986,770

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 2021 current trade debtors of the Group with a nominal value of $191,568,000 (2020: $145,488,000) were impaired.

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

	2021	2020
	$'000	$'000
Opening balance at 1 July	**145,488**	160,070
Provisions on acquisition of controlled entities	**413**	–
Provision for impairment expensed+	**183,379**	162,637
Foreign exchange movements	**(10,374)**	3,016
Receivables written off	**(127,338)**	(180,235)
Closing balance at 30 June	**191,568**	145,488

+ 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 2021, the ageing analysis and expected credit losses of trade debtors are as follows:

	Gross value		Expected credit losses	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Not past due	619,990	510,061	24,173	22,231
30-60 days past due	136,889	108,045	20,022	20,692
60-90 days past due	79,468	62,825	31,383	17,177
90-120 days past due	59,822	45,319	29,283	21,753
120 days+ past due	141,756	132,981	86,707	63,635
Closing balance at 30 June	1,037,925	859,231	191,568	145,488

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

	2021	2020
	$'000	$'000
Consumable stores at cost	224,388	163,425

NOTE 9 | OTHER ASSETS – CURRENT

	2021	2020
	$'000	$'000
Prepayments	71,641	74,761

NOTE 10 | RECEIVABLES – NON-CURRENT

	2021	2020
	$'000	$'000
Amounts owing from other entities and contract assets	**21,935**	39,167
Net investment in finance lease receivables	**9,614**	11,262
	31,549	50,429

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	5,818	3,815	2,611	1,452	843	1,283	15,822	(618)	15,204
Operating leases	330	242	147	74	24	–	817	–	–
	6,148	4,057	2,758	1,526	867	1,283	16,639		

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

	2021	2020
	$'000	$'000
Investments accounted for using the equity method	**96,730**	79,604
Other financial assets	**11,380**	12,150
	108,110	91,754

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.

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

	Freehold land & buildings	Plant & equipment	Leased plant & equipment	Total
	$'000	$'000	$'000	$'000
At 1 July 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	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	–	3,122	–	3,122
Disposals	(39,297)	(13,228)	–	(52,525)
Depreciation (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
Year ended 30 June 2021				
Opening net book amount	267,206	963,292	–	1,230,498
Additions	5,408	266,329	–	271,737
Additions through business combinations (Note 30)	–	16,673	–	16,673
Disposals	(150)	(5,367)	–	(5,517)
Depreciation (Note 4)	(9,554)	(227,308)	–	(236,862)
Foreign exchange movements	(3,564)	(14,583)	–	(18,147)
Closing net book amount	**259,346**	**999,036**	–	**1,258,382**
At 30 June 2021				
Cost	342,797	2,823,383	–	3,166,180
Accumulated depreciation	(83,451)	(1,824,347)	–	(1,907,798)
Net book amount	**259,346**	**999,036**	–	**1,258,382**

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

	2021	2020
	$'000	$'000
Buildings	**1,271,541**	1,246,254
Equipment	**23,001**	21,328
	1,294,542	1,267,582

Additions to the right-of-use assets during the 2021 financial year comprised $226,728,000 (2020: $245,918,000) of new leases and $189,646,000 (2020: $259,021,000) of remeasured leases (including recognition of option periods).

NOTE 14 | INTANGIBLE ASSETS – NON-CURRENT

	Brand names $'000	Goodwill $'000	Software+ $'000	Other $'000	Total $'000
At 1 July 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	–	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
Year ended 30 June 2021					
Opening net book amount	133,940	6,486,334	321,025	13,605	6,954,904
Acquisition of businesses (Note 30)	–	37,129	–	–	37,129
Additions – externally acquired	–	–	25,712	–	25,712
Additions – internally generated	–	–	63,899	–	63,899
Disposals	–	–	(191)	–	(191)
Foreign exchange movements	–	(291,616)	(8,869)	(515)	(301,000)
Amortisation charge (Note 4)	–	–	(67,121)	(1,081)	(68,202)
Closing net book amount	**133,940**	**6,231,847**	**334,455**	**12,009**	**6,712,251**
At 30 June 2021					
Cost	188,962	6,331,159	801,719	20,735	7,342,575
Accumulated amortisation and impairment	(55,022)	(99,312)	(467,264)	(8,726)	(630,324)
Net book amount	**133,940**	**6,231,847**	**334,455**	**12,009**	**6,712,251**

+ 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.

2021

Australia Laboratory	UK Laboratory	USA Laboratory	Germany Laboratory	Switzerland Laboratory	Belgium Laboratory	Imaging	Total
$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
986,221	129,482	2,257,909	1,344,491	588,452	519,187	406,105	6,231,847

2020

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

The carrying value of brand names of $133,940,000 at 30 June 2021 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:

- 2021/2022 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% (2020: ~6%), UK ~6% (2020: ~7%), USA ~6% (2020: ~6%), Germany ~4% (2020: ~4%), Switzerland 5% (2020: ~5%), Belgium ~2% (2020: ~2%), Imaging ~3% (2020: ~3%);
- prevailing market based pre-tax discount rates of 5-10%, taking into account the interest rate environment of different geographies (2020: 5-10%); and
- terminal growth rates: 1-3% (2020: 1-3%)

In assessing cash flow growth factors, management has been conservative in forecasting potential positive contributions from COVID-19 related testing.

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.

NOTE 15 | DEFERRED TAX ASSETS – NON-CURRENT

	2021	2020
	$'000	$'000
Deferred tax assets	65,276	70,759
The balance comprises temporary differences attributable to		
Amounts recognised in profit or loss		
Doubtful debts	53,784	45,956
Employee benefits	82,384	72,036
Sundry accruals	84,962	71,722
Unrealised foreign exchange movements	273	229
Lease liability	341,441	346,268
Tax losses	9,892	36,921
	572,736	573,132
Amounts recognised directly in equity/other comprehensive income		
Share issue costs incurred in prior years	1,097	1,651
Deferred tax assets	573,833	574,783
Less: amounts offset against deferred tax liabilities (Note 24)	(508,557)	(504,024)
Net deferred tax assets	65,276	70,759
Movements		
Opening balance at 1 July	70,759	39,166
(Charged)/credited to the Income Statement (Note 6)	(17,071)	29,430
Foreign exchange movements	11,585	618
Acquisition/disposal of subsidiaries	3	1,545
Closing balance at 30 June	65,276	70,759

NOTE 16 | OTHER ASSETS – NON-CURRENT

	2021	2020
	$'000	$'000
Prepayments	6,308	6,099

NOTE 17 | PAYABLES – CURRENT

	2021	2020
	$'000	$'000
Trade creditors	**225,262**	362,027
Sundry creditors and accruals	**801,273**	621,804
	1,026,535	983,831

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

	2021	2020
	$'000	$'000
Unsecured		
Bank loans	**228,944**	–
USPP notes (Note 23(a))	**–**	363,161
Amounts owing to vendors (a)	**–**	1,037
	228,944	364,198

Details of the fair values and interest rate risk exposure relating to each of these liabilities are set out in 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.

NOTE 19 | LEASE LIABILITIES

	2021	2020
	$'000	$'000
Current	**322,487**	298,923
Non-current	**1,090,999**	1,080,331
	1,413,486	1,379,254

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NOTE 20 | TAX LIABILITIES – CURRENT

	2021	2020
	$'000	$'000
Income tax	**254,730**	145,163

NOTE 21 | PROVISIONS – CURRENT

	2021	2020
	$'000	$'000
Employee benefits	**302,538**	259,826
Lease exit costs	**250**	–
	302,788	259,826

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 2020	19,941
Amounts used during year	(242)
Additional provisions recognised	1,350
Foreign exchange movements	559
Carrying amount at 30 June 2021	21,608
Representing lease exit costs:	
Current	250
Non-current (Note 25)	21,358
	21,608

NOTE 22 | OTHER LIABILITIES – CURRENT

	2021	2020
	$'000	$'000
Unsecured		
Amounts owing to vendors	**80,906**	17,051
Other	**1,547**	1,141
	82,453	18,192

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

	2021	2020
	$'000	$'000
Unsecured		
Bank loans	**44,689**	1,233,344
USPP notes (a)	**1,547,692**	1,639,085
	1,592,381	2,872,429

Details of the fair values and interest rate risk exposure relating to each of these liabilities are set out in Note 39.

a) USPP notes

In January 2011 Sonic issued notes to investors in the United States Private Placement market, raising US$250M of long-term (10 year) debt, which was repaid in 2021. 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.

b) Financing facilities available

At 30 June 2021, the following financing facilities were available:

2021	Total facilities at 30 June 2021	Facilities used at 30 June 2021	Facilities unused at 30 June 2021
	000's	000's	000's
Bank overdraft	A$4,086	A$0	A$4,086
Bank loans			
Syndicated facilities multi-currency USD limits	US$75,000	US$0	US$75,000
Syndicated facilities multi-currency Euro limits	€549,990	€60,000	€489,990
Syndicated facilities multi-currency CHF limits	CHF125,000	CHF124,000	CHF1,000
Club revolving facility AUD limits	A$48,000	A$0	A$48,000
Club revolving facility USD limits	US$100,000	US$0	US$100,000
Notes held by USA investors – USD	US$550,000	US$550,000	US$0
Notes held by USA investors – Euro	€515,000	€515,000	€0
Leasing and hire purchase facilities	A$18,484	A$18,484	A$0

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)

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NOTE 24 | DEFERRED TAX LIABILITIES – NON-CURRENT

	2021	2020
	$'000	$'000
Deferred tax liabilities	**190,505**	173,335
The balance comprises temporary differences attributable to		
Amounts recognised in profit or loss		
Prepayments & sundry debtors	**17,748**	3,212
Inventories	**13,480**	15,955
Accrued revenue	**21,438**	17,515
Right-of-use assets	**310,839**	334,736
Intangibles	**269,025**	230,300
Property, plant & equipment	**64,127**	70,697
Capitalised costs	**2,405**	4,944
	699,062	677,359
Less: amounts offset against deferred tax assets (Note 15)	**(508,557)**	(504,024)
Net deferred tax liabilities	**190,505**	173,335
Movements		
Opening balance at 1 July	**173,335**	151,116
Charged to the Income Statement (Note 6)	**9,999**	28,921
Charged/(credited) to other comprehensive income	**4,517**	(348)
Change in accounting standard	–	(7,476)
Foreign exchange movements	**2,654**	1,122
Closing balance at 30 June	**190,505**	173,335

NOTE 25 | PROVISIONS – NON-CURRENT

	2021	2020
	$'000	$'000
Employee benefits	34,054	31,808
Retirement benefit obligations	75,242	111,789
Lease exit costs	21,358	19,941
	130,654	163,538

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:

	2021	2020
	$'000	$'000
Present value of the defined benefit plan obligations	380,917	382,535
Fair value of defined benefit plan assets	(305,675)	(270,746)
Net liability in the Balance Sheet	75,242	111,789

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 (2.4% to 10.3% 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:

	2021	2020
	%	%
Cash – quoted	2.3	1.1
Mortgages – quoted	1.2	1.3
Real estate – quoted	14.9	14.9
Bonds – quoted	36.1	37.7
Equities – quoted	40.4	39.4
Alternative investments – quoted	5.1	5.6
	100.0	100.0

d) Reconciliations

	2021	2020
	$'000	$'000
Reconciliation of the present value of the defined benefit obligation, which is partly funded		
Balance at the beginning of the year	382,535	343,057
Current service cost	9,958	10,340
Interest cost	1,898	2,184
Actuarial (gains)/losses	(1,876)	3,928
Benefits paid	(7,462)	(7,121)
Member contributions	8,529	7,760
Other	7,293	8,353
Foreign exchange movements	(19,958)	14,034
Balance at the end of the year	380,917	382,535
Reconciliation of the fair value of plan assets		
Balance at the beginning of the year	270,746	240,775
Interest income	1,268	1,950
Actuarial gains/(losses)	27,954	(2,210)
Contributions by Group companies	10,740	10,000
Benefits paid	(6,380)	(6,046)
Member contributions	8,529	7,760
Other	7,293	8,353
Foreign exchange movements	(14,475)	10,164
Balance at the end of the year	305,675	270,746

e) Amounts recognised in Income Statement

	2021	2020
	$'000	$'000
Current service cost	9,958	10,340
Net interest expense	630	234
Total included in the employee benefit expense	10,588	10,574

f) Amounts recognised in Statement of Comprehensive Income

Actuarial gains/(losses) recognised in the year	25,219	(5,782)
Cumulative actuarial (losses) recognised in the Statement of Comprehensive Income	(24,488)	(49,707)

g) Principal actuarial assumptions

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

	2021	2020
	%	%
Discount rate	0.70	0.64
Future salary increases	1.26	1.22

If the discount rate had increased/decreased by 25 basis points (2020: 25 basis points), the impact on the net defined benefit obligation would have been a decrease of 15.7%/increase of 16.7% (2020: decrease of 11.2%/increase of 12.4%). 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 2.4% to 10.3% (2020: 2.3% to 9.7%) 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 2022 are based on the 2021 rates and are estimated at $9,196,000 (2020: $9,232,000).

The weighted average duration of the defined benefit obligation is 16.5 years (2020: 16.5 years).

i) Experience adjustments

	2021	2020
	$'000	$'000
Experience adjustments arising on plan liabilities	**(10,141)**	(6,477)
Experience adjustments arising on plan assets	**27,954**	(2,210)

NOTE 26 | OTHER LIABILITIES – NON-CURRENT

	2021	2020
	$'000	$'000
Unsecured		
Amounts owing to vendors	**21,319**	93,928
Other	**12,853**	9,038
	34,172	102,966

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

	2021	2020	2021	2020
	Shares	Shares	$'000	$'000
Fully paid ordinary shares	**477,923,301**	475,182,416	**4,082,121**	4,001,057
Other equity securities				
Treasury shares	**(4,754)**	(6,035)	**(140)**	(147)
	477,918,547	475,176,381	**4,081,981**	4,000,910

b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	Total
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**

Date	Details	Number of shares	Issue price	Total
2021				$'000
1/7/20	Opening balance of the Group	475,182,416		4,001,057
Various	Shares issued following exercise of employee options/rights	2,740,885	Various	75,053
Various	Transfers from equity remuneration reserve	–		6,011
30/6/21	**Balance of the Group**	**477,923,301**		**4,082,121**

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 2021 final dividend, as it was through the 2021, 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
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**

Date	Details	Number of shares	Total
2021			$'000
1/7/20	Opening balance	6,035	147
28/8/20	On-market purchase of treasury shares	10,000	325
Various	Subscription for unissued shares by SHEST	1,529,385	50,988
Various	Transfer of shares to employees to satisfy exercise of options/rights	(1,540,666)	(51,320)
30/6/21	**Balance of the Group**	**4,754**	**140**

NOTE 28 | RESERVES AND RETAINED EARNINGS

a) Reserves

		2021	2020
		$'000	$'000
Equity remuneration reserve	(i)	(98,060)	(83,265)
Foreign currency translation reserve	(ii)	70,871	251,294
Share option reserve	(iii)	16,427	16,427
Revaluation reserve	(iv)	3,272	3,272
Transactions with minority interests	(v)	(11,668)	(12,302)
		(19,158)	175,426

Movements	2021	2020
Equity remuneration reserve		
Balance 1 July	(83,265)	(78,574)
Share based payments	12,643	6,330
Employee share scheme issue	(21,427)	(8,679)
Transfer to share capital (options exercised)	(6,011)	(2,342)
Balance 30 June	(98,060)	(83,265)
Foreign currency translation reserve		
Balance 1 July	251,294	217,016
Net exchange movement on translation of foreign subsidiaries	(180,423)	34,278
Balance 30 June	70,871	251,294
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	(12,302)	(11,866)
Net exchange movement	634	(436)
Balance 30 June	(11,668)	(12,302)

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

	2021	2020
	$'000	$'000
Retained earnings at the beginning of the financial year	**1,397,417**	1,299,163
Net profit attributable to members of Sonic Healthcare Limited	**1,315,040**	527,749
Dividends paid in the year (Note 5)	**(415,513)**	(403,667)
Change in accounting standards	**–**	(20,046)
Actuarial gains/(losses) on retirement benefit obligations (Note 25)	**25,219**	(5,782)
Retained earnings at the end of the financial year	**2,322,163**	1,397,417

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'.

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a) Consolidated Income Statement of the Extended Closed Group

	2021	2020
	$'000	$'000
Revenue	3,189,472	2,922,474
Labour and related costs	(1,461,727)	(1,333,385)
Depreciation	(335,309)	(314,326)
Consumables used	(306,658)	(270,101)
Repairs and maintenance	(77,791)	(68,260)
Utilities	(70,035)	(70,990)
Borrowing costs	(51,501)	(89,348)
Lease expense	(39,361)	(21,176)
Amortisation of intangibles	(28,191)	(26,598)
Transportation	(19,105)	(17,271)
Other expenses from ordinary activities	(120,554)	(156,469)
Profit before income tax expense	679,240	554,550
Income tax expense	(212,351)	(67,604)
Net profit attributable to members of the Extended Closed Group	466,889	486,946

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

Profit from ordinary activities after income tax expense	466,889	486,946
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(12)	(210)
Other comprehensive income for the period, net of tax	(12)	(210)
Total comprehensive income for the period	466,877	486,736

c) Reconciliation of retained earnings

Retained earnings at the beginning of the financial year	499,918	428,221
Change in accounting standards	–	(11,582)
Profit from ordinary activities after income tax expense	466,889	486,946
Dividends paid during the year	(415,513)	(403,667)
Retained earnings at the end of the financial year	551,294	499,918

d) Consolidated Balance Sheet of the Extended Closed Group

	2021	2020
	$'000	$'000
Current assets		
Cash and cash equivalents	288,610	441,929
Receivables	944,041	892,499
Inventories	45,341	40,262
Other	20,546	20,193
Total current assets	1,298,538	1,394,883
Non-current assets		
Receivables	24,254	40,233
Investments	3,076,848	2,962,846
Property, plant and equipment	624,859	625,646
Right-of-use assets	699,712	683,262
Intangible assets	1,653,112	1,635,974
Deferred tax assets	27,447	29,362
Other	53	53
Total non-current assets	6,106,285	5,977,376
Total assets	7,404,823	7,372,259
Current liabilities		
Payables	428,086	446,507
Lease liabilities	220,659	205,740
Current tax liabilities	168,577	59,474
Provisions	228,604	198,366
Other	490	664
Total current liabilities	1,046,416	910,751
Non-current liabilities		
Interest-bearing liabilities	1,183,333	1,410,234
Lease liabilities	527,393	519,014
Provisions	24,686	23,456
Deferred tax liabilities	5,406	24,654
Other	39	509
Total non-current liabilities	1,740,857	1,977,867
Total liabilities	2,787,273	2,888,618
Net assets	4,617,550	4,483,641
Equity		
Parent Company interest		
Contributed equity	4,130,007	4,024,196
Reserves	(63,751)	(40,473)
Retained earnings	551,294	499,918
Total equity	4,617,550	4,483,641

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NOTE 30 | INVESTMENTS IN SUBSIDIARIES

Details of subsidiaries	Country of incorporation	Class of share	Beneficial interest	Beneficial interest
			2021	2020
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	50.1
Epworth Pathology	Australia		50.1	50.1
Epworth Medical Imaging Pty Limited	Australia	Ord	80	40
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

(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.

Details of subsidiaries	Country of incorporation	Class of share	Beneficial interest 2021 %	Beneficial interest 2020 %
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
Labor 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

(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.

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Details of subsidiaries	Country of incorporation	Class of share	Beneficial interest 2021 %	Beneficial interest 2020 %
MVZ Medizinisches Labor Nord GmbH	Germany	Ord	100	100
MVZ Bioscientia 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	100
LABex Facilities LLP	United Kingdom		100	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

(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.

Details of subsidiaries	Country of incorporation	Class of share	Beneficial interest 2021 %	Beneficial interest 2020 %
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
Klinisch Labo Rigo BV	Belgium	Ord	100	100
Laboratoires J. Woestyn SRL	Belgium	Ord	–	100
A.M.L. West BV	Belgium	Ord	100	–

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Business combinations

a) Acquisition of subsidiaries/business assets

Acquisitions of subsidiaries/business assets in the period comprised 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	29,298
Less: cash of entities acquired	(3,407)
	25,891
Deferred consideration	50
Consideration – other	17,920
Total consideration	43,861
Fair value of identifiable net assets of businesses acquired	
Debtors & other receivables	5,981
Prepayments	175
Inventory	322
Property, plant & equipment	16,673
Right-of-use assets	43,704
Deferred tax assets	3
Sundry creditors & accruals	(9,250)
Lease liabilities	(45,620)
Provisions	(2,721)
	9,267
Minority interests	2,535
Goodwill	37,129

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. $619,000 of the purchased goodwill recognised is expected to be deductible for income tax purposes, over a 15 year period.

Acquisition related costs of $620,000 are included in other expenses in the Income Statement.

The fair value of acquired debtors and other receivables is $5,981,000. The gross contractual amount due is $6,394,000, of which $413,000 is expected to be uncollectible.

b) Reconciliation of cash paid to Cash Flow Statement

	2021	2020
	$'000	$'000
Cash consideration for acquisitions in the financial year	29,298	62,180
Cash consideration for Steinberg minority interest acquisition in the financial year	–	22,825
Acquisition costs	620	2,134
Cash consideration paid to vendors for acquisitions in previous financial years	5,091	11,057
Less: cash of entities acquired	(3,407)	(413)
Payment for purchase of controlled entities, net of cash acquired	**31,602**	97,783

NOTE 31 | COMMITMENTS FOR EXPENDITURE

Capital commitments

	2021	2020
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	15,440	22,353

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 $12,744,000 (2020: $7,315,000) 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. Refer to Notes 13 and 19 for details of the carrying value of leased assets and liabilities.

NOTE 34 | REMUNERATION OF AUDITORS

	2021	2020
	$	$
PricewaterhouseCoopers – Australian firm		
Audit and review of financial reports of Group entities	**1,518,721**	1,490,839
Other assurance services	–	198,400
Taxation and other services	–	86,650
Total audit, taxation and other services	**1,518,721**	1,775,889
Related practices of PricewaterhouseCoopers Australian firm (including overseas PricewaterhouseCoopers firms)		
Audit and review of financial reports of Group entities	**968,534**	791,117
Other assurance services	**6,353**	113,805
Taxation and other services	**3,974**	4,342
Total audit, taxation and other services	**978,861**	909,264
Non-PricewaterhouseCoopers audit firms		
Audit and review of financial reports of Group entities	**334,751**	339,228

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
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	100.0%	21 November 2023
19 November 2019	588,894	64,907	19 November 2022	3 years to 30 June 2022	tbd	19 November 2024
18 November 2020	527,191	69,624	18 November 2023	3 years to 30 June 2023	tbd	18 November 2025

+ 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

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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.

2021										
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
			Number	Number	Number	Number	Number	Number	Number	Number
20/10/15	20/08/20	$18.49	415,000	–	–	(415,000)	–	–	–	–
20/11/15	20/11/20	$19.41	356,641	–	–	(356,641)	–	–	–	–
11/12/15	11/10/20	$19.78	1,233,500	–	–	(1,233,500)	–	–	–	–
17/11/16	17/09/21	$21.62	716,000	–	–	(411,000)	–	305,000	305,000	–
17/11/16	17/09/21	$22.02	155,000	–	–	(37,500)	–	117,500	117,500	–
17/11/16	17/11/21	$21.62	237,666	–	–	–	–	237,666	237,666	–
05/07/17	05/05/22	$23.34	885,000	–	–	(225,000)	–	660,000	433,750	505,000
22/11/17	22/11/22	$21.64	675,145	–	(196,299)	–	–	478,846	478,846	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	1,000,000	1,615,000
21/02/19	21/12/23	$24.30	980,000	–	–	–	–	980,000	–	815,000
19/11/19	19/11/24	$29.26	588,894	–	–	–	–	588,894	–	588,894
05/12/19	05/12/23	$28.58	4,336,199	–	–	–	–	4,336,199	–	4,336,199
22/05/20	22/05/24	$27.28	5,170,000	–	–	–	–	5,170,000	–	5,170,000
18/11/20	18/11/25	$34.21	–	527,191	–	–	–	527,191	–	527,191
Total			**18,416,832**	**527,191**	**(196,299)**	**(2,678,641)**	**–**	**16,069,083**	**2,572,762**	**14,703,917**
Weighted average exercise price			**$25.11**	**$34.21**	**$21.64**	**$20.14**	**–**	**$26.28**	**$22.01**	

2020									
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
			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
17/11/16	17/09/21	$21.62	800,000	–	–	(84,000)	–	716,000	516,000
17/11/16	17/09/21	$22.02	200,000	–	–	(45,000)	–	155,000	105,000
17/11/16	17/11/21	$21.62	671,089	–	(433,423)	–	–	237,666	237,666
05/07/17	05/05/22	$23.34	970,000	–	(55,000)	(30,000)	–	885,000	432,500
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	–	(20,000)	–	–	980,000	–
19/11/19	19/11/24	$29.26	–	588,894	–	–	–	588,894	–
05/12/19	05/12/23	$28.58	–	4,346,199	(10,000)	–	–	4,336,199	–
22/05/20	22/05/24	$27.28	–	5,170,000	–	–	–	5,170,000	–
Total			10,025,064	10,105,093	(518,423)	(1,194,902)	–	18,416,832	3,296,307
Weighted average exercise price			$21.39	$27.95	$22.04	$19.25	–	$25.11	$20.54

The weighted average share price at the date of exercise for options exercised in the 2021 year was $33.37 (2020: $28.95). The weighted average remaining contractual life of share options on issue at the end of the year was 2.5 years (2020: 3.0 years).

Fair value of options granted

The average assessed fair value of options granted during the year ended 30 June 2021 was $3.81 per option (2020: $2.60). The valuation model inputs for options granted during the years ended 30 June 2021 and 30 June 2020 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
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%
18/11/20	18/11/25	$34.21	$34.21	4.0	22.6%	0.3%	3.3%

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.

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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.

2021										
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
			Number	Number	Number	Number	Number	Number	Number	Number
22/11/17	22/11/22	Nil	87,762	–	(25,518)	(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
18/11/20	18/11/25	Nil	–	69,624	–	–	–	69,624	–	69,624
23/09/20	01/10/21	Nil	–	8,709	–	(8,709)	–	–	–	–
18/11/20	01/10/21	Nil	–	2,572	–	(2,572)	–	–	–	–
Total			**240,229**	**80,905**	**(25,518)**	**(73,525)**	**–**	**222,091**	**–**	**222,091**

2020									
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
			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	–
21/11/18	21/11/23	Nil	87,560	–	–	–	–	87,560	–
19/11/19	19/11/24	Nil	–	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	–

The weighted average remaining contractual life of performance rights on issue at the end of the year was 3.3 years (2020: 3.3 years).

Fair value of rights granted

The average assessed fair value of rights granted during the year ended 30 June 2021 was $26.72 per right (2020: $19.12). The valuation model inputs for performance rights granted during the years ended 30 June 2021 and 30 June 2020 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
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%
18/11/20	18/11/25	Nil	$34.21	3.0	22.6%	0.1%	3.3%
18/11/20	01/10/21	Nil	$34.21	0.3	22.6%	0.1%	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:

	2021	2020
	$'000	$'000
Equity remuneration	12,643	6,330

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

i) Sonic Healthcare Limited Employee Option Plan

A total of 2,678,641 ordinary shares of Sonic were issued during the year ended 30 June 2021 under the Sonic Healthcare Limited Employee Option Plan. 1,365,166 options have been exercised since that date, but prior to the date of this report, resulting in the issue of 1,365,166 ordinary shares. The amounts paid on issue of those shares were:

Number of options exercised	Amounts paid (per share)
415,000	$18.49
356,641	$19.41
1,233,500	$19.78
953,666	$21.62
385,000	$21.83
155,000	$22.02
380,000	$23.34
165,000	$24.30
4,043,807	

ii) Sonic Healthcare Limited Performance Rights Plan

A total of 73,525 performance rights were exercised during the year ended 30 June 2021 under the Sonic Healthcare Limited Performance Rights Plan, satisfied by the issue of 62,244 new ordinary shares and by 11,281 shares purchased on-market. Nil performance rights have been exercised since 30 June 2021 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.

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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:

	2021	2020
	$	$
Short-term employee benefits	7,891,244	5,793,577
Long-term employee benefits	56,722	22,188
Post-employment benefits	183,996	162,585
Share based payments	3,727,158	2,555,286
Total compensation	11,859,120	8,533,636

c) Transactions and outstanding balances with associates

	2021	2020
	$'000	$'000
Provision of services to associates	83,392	69,861
Provision of services from associates	3,703	3,953
Interest income	403	604
Current payables	6,243	17,272
Current receivables	10,838	12,998
Loans receivable	3,153	16,670

NOTE 37 | EARNINGS PER SHARE

	2021	2020
	Cents	Cents
Basic earnings per share	275.5	111.1
Diluted earnings per share	273.1	110.6

	2021	2020
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	477,374,485	474,827,551
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	481,461,273	477,161,002

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.

	2021	2020
Reconciliations of earnings used in calculating earnings per share	$'000	$'000
Net profit	1,347,658	541,903
Net (profit) attributable to minority interests	(32,618)	(14,154)
Earnings used in calculating basic and diluted earnings per share	1,315,040	527,749

NOTE 38 | STATEMENT OF CASH FLOWS

a) Cash at bank and on hand

	2021	2020
	$'000	$'000
Cash at bank and on hand	899,827	1,230,149

Cash balances bear interest rates of between 0.00% – 0.45% (2020: 0.00% – 0.88%).

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

	2021	2020
	$'000	$'000
Operating profit after income tax	**1,347,658**	541,903
Add non-cash items	**643,000**	597,120
Add/(less) changes in assets and liabilities during the financial year:		
(Increase)/decrease in sundry debtors and prepayments	**14,310**	(18,154)
(Increase)/decrease in trade debtors and accrued revenue	**(146,644)**	(138,498)
(Increase)/decrease in inventories	**(65,535)**	(42,846)
(Increase)/decrease in deferred tax assets	**106**	(23,783)
Increase/(decrease) in trade creditors and accrued expenses	**69,854**	346,299
Increase/(decrease) in deferred tax liabilities	**26,463**	20,632
Increase/(decrease) in current tax liabilities	**111,283**	19,401
Increase/(decrease) in other provisions	**1,965**	12,767
Increase/(decrease) in other liabilities	**3,766**	385
Increase/(decrease) in provision for employee entitlements	**36,610**	45,072
Net cash inflow from operating activities	**2,042,836**	1,360,298

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)

d) Reconciliation of liabilities arising from financing activities

	Balance at 1 July 2020	Cash flows	Acquisition/ (disposal)	Other non-cash movements	Foreign exchange adjustments	Balance at 30 June 2021
	$'000	$'000	$'000	$'000	$'000	$'000
Lease liabilities	1,379,254	(327,893)	45,620	336,565	(20,060)	1,413,486
Other loans	1,037	(1,015)	–	–	(22)	–
Bank loans	1,233,344	(918,613)	–	–	(41,098)	273,633
USPP notes	2,002,246	(334,538)	–	–	(120,016)	1,547,692
Total	**4,615,881**	**(1,582,059)**	**45,620**	**336,565**	**(181,196)**	**3,234,811**

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 *Leases*. Future compliance with these debt covenants is modelled by reference to a rolling 5 year financial forecast model.

During 2020 and 2021 the Group maintained a Net Debt to EBITDA ratio of between 0.4 to 2.1 times. 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 excluding the impacts of AASB 16), 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 2021 and 30 June 2020 were as follows:

	2021	2020
Net Debt to EBITDA (times)	**0.43**	1.81
Gearing	**12.5%**	26.1%
Interest Cover (times)	**33.77**	11.49

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 (amounts in AUD):

	2021	2020
	$'000	$'000
AUD	–	161,280
USD	**733,333**	1,336,432
EURO	**909,235**	1,342,251
CHF	**178,757**	278,117
GBP	–	117,510
	1,821,325	3,235,590

Hedge of net investments in foreign operations

Of the total bank loans and USPP notes of $1,821,325,000 (2020: $3,235,590,000), $733,333,000 (2020: $798,954,000) are denominated in USD and qualify as a hedge of the Group's net investment in operations in the United States and $178,757,000 (2020: $278,117,000) are denominated in CHF and qualify as a hedge of the Group's net investment in operations in Switzerland. 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 (2020: $nil).

The remaining bank loans and USPP notes of $909,235,000 (2020: $2,158,519,000) denominated in EUR (2020: AUD, USD, EUR and GBP) are in the same functional currency as Sonic's operations in Germany and Belgium (2020: 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 2021, had the Australian dollar weakened/strengthened by 10% (2020: 10%) against all relevant currencies, the Group's post-tax profit would have been $nil higher/$nil lower (2020: $nil higher/$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 (2020: $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 2021: $273,633,000; 2020: $1,233,344,000). 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 85% of total bank loans and USPP notes in 2021 (2020: 62%), 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 2021 and 2020.

Notes to the Consolidated Financial Statements

30 JUNE 2021

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 2021		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets									
Cash and deposits		140,885	–	–	–	–	–	275,944	416,829
Trade debtors	7	–	–	–	–	–	–	1,037,925	1,037,925
Accrued revenue	7	–	–	–	–	–	–	143,619	143,619
Sundry debtors	7	–	–	–	–	–	–	84,678	84,678
Amounts owing from other entities	7, 10	631	355	338	251	3,240	117	14,304	19,236
Net investment in finance leases	7, 10	5,590	3,680	2,509	1,388	801	1,236	–	15,204
Investments	11	–	–	–	–	–	–	108,110	108,110
Total assets		147,106	4,035	2,847	1,639	4,041	1,353	1,664,580	1,825,601
Liabilities									
Trade and other creditors	17	–	–	–	–	–	–	1,026,535	1,026,535
Amounts owing to vendors	22, 26	–	–	–	–	–	–	102,225	102,225
Other liabilities	22, 26	–	–	–	–	–	–	14,400	14,400
Lease liabilities	19	322,487	265,587	202,001	144,970	101,608	376,833	–	1,413,486
USPP notes	23	–	–	–	292,536	71,158	1,183,998	–	1,547,692
Total liabilities		322,487	265,587	202,001	437,506	172,766	1,560,831	1,143,160	4,104,338
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

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 2021		$'000	$'000	$'000	$'000	$'000	$'000	$'000	%
Assets									
Cash and deposits		482,998	–	–	–	–	–	482,998	0.00
Amounts owing from other entities	10	–	9,600	–	–	–	1,572	11,172	1.90
Total assets		482,998	9,600	–	–	–	1,572	494,170	
Liabilities									
Bank loans	18,23	228,944	–	44,689	–	–	–	273,633	0.87
Total liabilities		228,944	–	44,689	–	–	–	273,633	
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	

Sensitivity analysis

If interest rates in all relevant currencies applied to financial instruments held at 30 June 2021 had changed by -10/+100 basis points (2020: -10/+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 $346,000/$2,935,000 lower/higher mainly as a result of lower/higher interest income from cash and deposits (2020: $201,000/$246,000 lower/lower mainly as a result of lower/higher interest expense on bank loans). Note that the impact of interest rate changes on debt 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 $346,000/$2,935,000 lower/higher as a result of a decrease/increase in interest income (2020: $201,000/$246,000 lower/lower as a result of a decrease in net interest expense). The impacts on profit and equity of either change in rates are higher in 2021 due to the lower balance of floating rate bank loans compared to cash and deposits.

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 2021		$'000	$'000	$'000	$'000	$'000	$'000
Liabilities							
Trade and other creditors	17	1,026,535	–	–	–	1,026,535	1,026,535
Amounts owing to vendors	22, 26	80,906	21,121	198	–	102,225	102,225
Bank loans	18, 23	231,013	385	44,690	–	276,088	273,633
USPP notes	23	39,701	39,701	472,645	1,332,082	1,884,129	1,547,692
Other liabilities	22, 26	1,547	12,853	–	–	14,400	14,400
Lease liabilities	19	349,500	285,702	491,501	433,815	1,560,518	1,413,486
Financial guarantee contracts		12,744	–	–	–	12,744	–
Total liabilities		1,741,946	359,762	1,009,034	1,765,897	4,876,639	4,377,971
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 liabilities	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

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 which had a fair value of $1,665,433,000.

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:

	2021	2020
Balance sheet	$'000	$'000
Current assets	**3,893,164**	3,642,156
Total assets	**7,531,382**	6,997,661
Current liabilities	**2,830,559**	2,612,836
Total liabilities	**2,941,174**	2,658,750
Shareholders' equity		
Contributed equity	**4,168,568**	4,066,750
Reserves		
Equity remuneration reserve	**(97,064)**	(82,268)
Share option reserve	**16,427**	16,427
Retained earnings	**502,277**	338,002
Total equity	**4,590,208**	4,338,911
Profit for the year	**579,788**	435,959
Total comprehensive income	**579,788**	435,959

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 $89,198,000 (2020: $86,097,000) 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 2021 or 30 June 2020 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 2021.

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 2021

In the Directors' opinion:

a) the financial statements and Notes set out on pages 66 to 143 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 2021 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
22 September 2021

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 2021 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 financial report comprises:

- the consolidated balance sheet as at 30 June 2021
- 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 consolidated financial statements, which include significant accounting policies and other explanatory information
- 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.

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

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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	*Audit scope*
• For the purpose of our audit we used overall Group materiality of $91 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.	• 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, respectively, 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 the most financially significant operations. • 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*
Estimated recoverable amount of Goodwill and Brand Names *(Refer to note 14)* Goodwill and brand names of $6.4 billion are recognised on the consolidated balance sheet. 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). The recoverable amount of goodwill and brand names was considered a key audit matter given: • the financial significance of the intangible assets on the consolidated balance sheet; and • 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: • assessing the identification of CGUs and the allocation of carrying value of assets and liabilities and cash flows to those CGUs for consistency with our knowledge of the Group; • assessing whether the models applied by the Group for impairment testing were prepared in accordance with the requirements of Australian Accounting Standards; • comparing the cash flow forecasts in the models to the Board reviewed forecast; • testing the mathematical accuracy and integrity of the models; • assessing the terminal value growth rates and discount rates applied in the models; • assessing cash flow forecasts, which contain key growth assumptions included in the models, against historical performance and budget accuracy, future strategic plans, the impact of COVID-19 and other market information; • performing sensitivity analyses over the key assumptions used in the models to assess any possibility of a reasonable possible change; and • evaluating the related financial statement disclosures for consistency with Australian Accounting Standards requirements.

Key audit matter	*How our audit addressed the key audit matter*
Lease accounting *(Refer to note 1, 13, 19)* Lease accounting was a key audit matter due to the: • financial significance of lease liabilities and right-of-use assets to the balance sheet; and • significant judgements required by the Group in applying, such as determining the appropriate lease term and the incremental borrowing rate.	Our audit procedures included, amongst others: • for a sample of lease arrangements, we agreed key inputs used in calculating the Group's lease liability and right-of-use asset, to underlying supporting documentation; • evaluating the appropriateness of the lease term applied and the Group's assumptions relating to the exercise of option periods; • assessing the appropriateness of incremental borrowing rates applied to discount future lease payments; • assessing the completeness of lease liabilities by comparing to other relevant information; • testing the mathematical accuracy of the Group's lease calculations; and • evaluating the related financial statement disclosures for consistency with Australian Accounting Standards requirements.
Income tax *(Refer to note 6, 15, 20, 24)* 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: • assessing adjustments between accounting and taxable profits; • evaluating the analysis conducted by the Group for key judgements made in respect of the ultimate amounts expected to be paid to tax authorities; • reading selected correspondence between tax authorities and the Group's tax advisors; • 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 2021, 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 50 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of Sonic Healthcare Limited for the year ended 30 June 2021 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
22 September 2021

Shareholders' Information

1. INFORMATION RELATING TO SHAREHOLDERS

a) Distribution schedule as at 10 September 2021

		No. of holders ordinary shares
1-1,000		53,937
1,001-5,000		25,381
5,001-10,000		2,078
10,001-100,000		938
100,001 and over		93
		82,427
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		72.5%
Number of holders holding less than a marketable parcel		682

b) Substantial shareholders as at 10 September 2021

The Company has received substantial shareholding notices to 10 September 2021 in respect of the following holdings:

	No. of securities	Percentage held
BlackRock Group (including 1,100,870 American Depositary Receipts)	34,087,800	7.12%
State Street Corporation and its subsidiaries	24,623,402	5.14%
The members of the Veritas Group	24,388,890	5.09%

Shareholders' Information

1. INFORMATION RELATING TO SHAREHOLDERS

c) Names of the 20 largest registered holders of equity securities as at 10 September 2021

	No. of securities	Percentage held
HSBC Custody Nominees (Australia) Limited	176,333,314	36.81%
J P Morgan Nominees Australia Pty Limited	64,302,540	13.42%
Citicorp Nominees Pty Limited	35,477,522	7.41%
Jardvan Pty Ltd	15,109,474	3.15%
National Nominees Limited	12,629,188	2.64%
BNP Paribas Noms Pty Ltd <DRP>	7,110,445	1.48%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	7,027,569	1.47%
Argo Investments Limited	3,726,053	0.78%
BNP Paribas Nominees Pty Ltd Six SIS Ltd <DRP A/C>	3,596,510	0.75%
Australian Foundation Investment Company Limited	3,159,672	0.66%
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	2,711,736	0.57%
Netwealth Investments Limited <Wrap Services A/C>	2,202,828	0.46%
Citicorp Nominees Pty Limited <Colonial First State INV A/C>	2,187,813	0.46%
Blaise Mentha	2,000,000	0.42%
Polly Pty Ltd <A/C Patterson Family>	1,817,416	0.38%
BNP Paribas Nominees Pty Ltd ACF Clearstream	1,755,494	0.37%
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	1,727,193	0.36%
Quintal Pty Ltd <Harken Family A/C>	1,587,908	0.33%
Australian Executor Trustees Limited <IPS Super A/C>	1,557,059	0.33%
Custodial Services Limited <Beneficiaries Holding A/C>	1,213,818	0.25%
	347,233,552	**72.50%**

Shareholders' Information

2. UNQUOTED EQUITY SECURITIES AS AT 10 SEPTEMBER 2021

	No. on issue	No. of holders
Options over unissued ordinary shares	15,008,917	236
Performance rights	222,091	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% of Sonic's shareholders still request a hard copy Annual Report, and more than 63% of shareholders receive communications electronically. The result is a reduction in energy and water resources associated with paper production.

4. ANNUAL GENERAL MEETING

The 2021 Annual General Meeting (AGM) will be held at 10.00 am on Thursday 18 November 2021. In the interests of safety for shareholders, team members and the broader community during the COVID-19 pandemic, the 2021 AGM will be held virtually rather than at a physical location.


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