

Annual Report 2023



Corporate Directory

DIRECTORS

Prof. M.R. Compton AM | *Chairman*
Dr C.S. Goldschmidt | *Managing Director*
Mr C.D. Wilks | *Finance Director*
Prof. C. Bennett AO
Prof. S. Crowe AO
Dr K. Giles
Mr N. Mitchell
Mr L.J. Panaccio
Ms K.D. Spargo

COMPANY SECRETARY

Mr P.J. Alexander

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

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AUDITOR

PricewaterhouseCoopers

SOLICITORS

Allens
Gilbert+Tobin
Norton Rose Fulbright

BANKERS

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

STOCK EXCHANGE LISTINGS

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

Vivienne Bui,
Patient Services District Supervisor,
Melbourne Pathology,
Victoria, Australia





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Inset

Kevin Wallace, Biochemistry
Laboratory Technician,
Melbourne Pathology,
Victoria, Australia

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Chairman's Letter

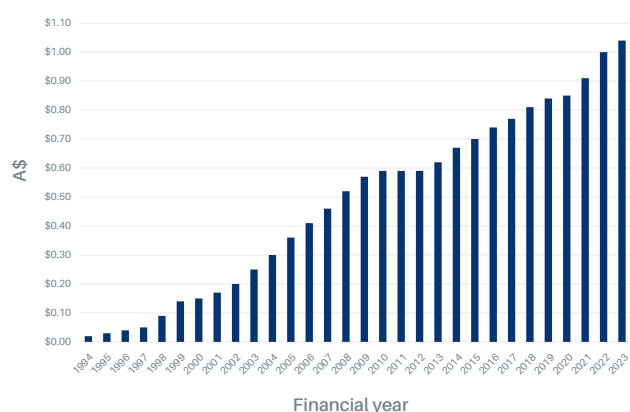
Dear Fellow Shareholders,

On behalf of the Company's Board of Directors, I am delighted to present to you Sonic Healthcare's 2023 Annual Report.

The Company's net profit for the 2023 financial year was A\$685 million, on revenues of A\$8.2 billion. Whilst these figures are lower than the prior year, due to an 80% decrease in COVID-related revenue, our base (non-COVID) business is strong, demonstrated by revenue growth of 11%. Compared with FY2019, the last pre-pandemic year, net profit is up by 25%.

We have continued our long held progressive dividend strategy, with total dividends for the year at A\$1.04 per share, up 4%. Both dividends for the year were fully franked, reflecting the strong performance of our Australian operations through the pandemic. Our 30-year dividend history is set out in the chart below, and I believe it is an enviable track record of growing rewards for shareholders.

Dividend history (full-year, per share)

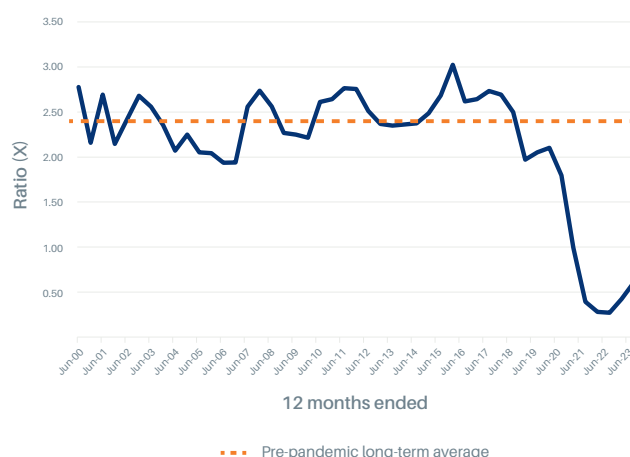


In addition to the significant increase in our profit since 2019, the last pre-pandemic year, strong operating cash flows have also meant that the Company's balance sheet has significantly strengthened. Net interest-bearing debt at 30 June 2023 was A\$886 million, versus the pre-pandemic level at 31 December 2019 of A\$2,352 million. This reduction was achieved whilst still investing in the growth of the Company through capital expenditure on equipment, technology, infrastructure and business acquisitions, as well as increasing dividend payments and conducting our first ever on-market share buyback.

The buyback commenced in the second half of FY2022 and continued into FY2023, reaching a total outlay of A\$425 million.

The chart below shows Sonic's Debt Cover ratio (Net debt/ EBITDA) history. Gearing at 30 June 2023 was close to the record low level.

Debt cover history



This low gearing position sets the Company in a strong position for future growth. In addition we have recently announced acquisitions settling post 30 June 2023 for a total value of around A\$890 million, leaving significant capacity still available for further growth opportunities.

The Sonic Board continues to focus on development, renewal and diversity to provide strong governance to oversee the Company's ongoing growth. During the financial year we welcomed two new independent, Non-executive Directors to the Board, Professor Christine Bennett AO and Dr Katharine Giles. Both are qualified medical practitioners who bring an impressive array of skills and experience to our Board. Both have already demonstrated their value through new insights and diverse viewpoints. A further development occurring in the year was the appointment of Professor Suzanne Crowe AO as the Chair of the Risk Management Committee of the Board, bringing a fresh perspective to the role based on her extensive clinical and commercial expertise.

Sonic's Board currently comprises seven Non-executive Directors, all of whom the Board considers to be independent, plus two Executive Directors (being the Chief Executive Officer and the Chief Financial Officer).

Board members include a pathologist and three medical practitioners in keeping with the Company's Medical Leadership culture. The Board's current gender diversity objective (minimum 40% membership of both male and female members) is also satisfied, with 44% of Directors being female.

Sonic Healthcare's 2023 Sustainability Report will be released in November 2023, and available on the Company's website. Our sustainability governance and strategy has progressed significantly over the last twelve months and I strongly recommend that shareholders read the Report, which describes our sustainability governance and management structures at Board, executive and operational levels, details the Company's material sustainability topics, and sets out our net zero strategy and milestones, as determined by the Sonic Sustainability Steering Committee. The Report will also detail the manner in which Sonic continues to care for our people, the environment, our communities, and other communities in dire need. The Sonic Healthcare Foundation, established and funded by Sonic in FY2022, is now well advanced in providing healthcare support in parts of the world where the need is most acute.

Sonic's sustainability strategy and progress have been recognised during the year with improved ratings from external parties, with our MSCI rating moving from A (Average) to A+ (Leader), and our ISS ESG rating from C (Prime) to C+ (Prime). Sonic's Board and management are proud of progress in these areas, and we hope that shareholders feel this pride as well, as our sustainability journey continues.

Sonic continues to be included in the FTSE4Good Index Series and the FTSE4Good Australia 30 Index.


Sonic Healthcare is an amazing Australian healthcare and corporate success story, developing from one small laboratory in Sydney to market leading or top 3 positions in seven countries and number three globally. This incredible progress would not have been possible without the dedication and expertise of our dedicated and talented people, and in particular our executives, managers, medical practitioners, allied health practitioners, scientists, technical people, and others, all bound together by the higher purpose embodied in Sonic's culture of Medical Leadership. I thank each of them for their past and future efforts. I also thank my fellow Directors for their leadership and support of the Company, all showing strong Medical Leadership at the most senior governance level of the Company.

Finally, but by no means least, the strong support of our shareholders has also been instrumental in Sonic's success. My sincere thanks, and those of all at Sonic, go to you for your ongoing commitment to the Company and our mission to deliver excellent medical services to doctors and patients alike.



Professor Mark Compton AM
Chairman

CEO's Report



Sonic Healthcare continues to transition from the high volume COVID-19 testing environment to business as usual. Whilst our headline numbers for the 2023 financial year show lower revenue and earnings versus the prior year, this is the result of 80% less COVID-related revenue. Sonic is significantly stronger now than pre-pandemic, with much lower gearing and higher earnings – our earnings per share for FY2023 were 19% higher than in the most recent pre-pandemic comparable period, FY2019.

The chart opposite demonstrates the history of our revenue growth, a track record in which Sonic's staff and shareholders should take immense pride. Whilst the COVID revenue reduced in FY2023, the growth of our base business (excluding COVID services) continues apace. To date, we have performed approximately 60 million COVID-19 PCR tests across our seven countries of operation, whilst also providing COVID-related antibody testing, genetic sequencing and vaccination services as part of our contribution to combat the pandemic.

Our base business revenue (excluding COVID services) grew 11% in total in FY2023, including organically by 7% on a like-for-like basis. Pleasingly, base business organic revenue growth gained momentum during the year, with 6% growth in the first half, and 9% in the second. Sonic's unique Medical Leadership culture, and related investments over decades in people and infrastructure, have optimally positioned Sonic's operations to be strong in the specialist and hospital referrer sub-markets, and to capitalise on the accelerating trend towards higher value tests and modalities in laboratory medicine and radiology respectively. In turn, this has driven market share growth.

We have invested in the development and commercialisation of innovative testing capabilities, including genetic tests, such as ThyroSeq[®] and Oncotype DX[®], microbiome testing and others. Our management teams around the world continue to seek out innovative new tests that we can bring to market to benefit patients and our business.

Revenue history



In addition, Sonic has successfully positioned itself as a trusted partner for government organisations, hospital groups, and other healthcare providers to provide outsource or joint venture laboratory services. As a very recent example of this, Sonic has been chosen as the only private laboratory organisation to provide genetic testing for the PROSPeCT project, a landmark new national cancer genomic profiling study in Australia, to enable clinical trials for new cancer therapies. We are also close to finalisation of the 15-year contract to provide laboratory services for the Hertfordshire and West Essex ICS Pathology Transformation Procurement, a major UK NHS laboratory outsourcing. In addition, we have recently been awarded preferred bidder status for the Whittington Health NHS Trust, a minimum 5-year laboratory outsourcing project. We continue to explore other contract opportunities in the UK and more broadly.

Synergistic acquisitions are an ongoing part of our strategy to consolidate fragmented laboratory and radiology markets, and we have recently announced three highly attractive acquisitions. The Diagnosticum Laboratory Group and Medical Laboratories Duesseldorf are superb additions to our German laboratory operations. Both are high-quality, well-respected labs, with strong cultural alignment with Sonic, and complementary footprints with our existing operations. The acquisition of Synlab Suisse significantly adds to Sonic's market leading position in Switzerland, and provides the opportunity for substantial synergy capture. We have a healthy pipeline of further acquisition opportunities currently under consideration. In addition to their financial benefits, the many acquisitions that Sonic has made over the years have enriched our culture, expanded the talent pool of our people, and introduced us to new ways to improve our service and operational efficiency.

We continue to invest in state-of-the-art facilities and equipment, currently including new or expanded hub laboratory facilities in Hamburg and Munich (Germany) and Brisbane (Australia). These new facilities exemplify our high workplace standards and will foster efficiency gains as well as providing capacity for future growth.

At the same time, we remain acutely conscious that our infrastructure and services represent essential services to the communities, states and countries in which we operate.

In the post-pandemic environment, our management teams around the globe are focused on base business organic growth and margin improvement. We have locked in major initiatives in our businesses to promote earnings growth over coming years, including adjusting our workforce to match the vastly reduced COVID-related revenues.

Sonic expects that the use of artificial intelligence in pathology and radiology will cause step-changes in efficiency, quality and capacity in coming years, and we are investing in IT and infrastructure, including for digital pathology, to unlock these material upsides. Our Franklin.ai joint venture is nearing completion of its first AI product, with validation studies and field trials to commence in early 2024. Harrison.ai, in which Sonic has a 20% interest, continues to progress its radiology AI joint venture and we are already using their chest X-ray product throughout our radiology operations, whilst the second product, for CT brain, is currently being evaluated by our practices.

Sonic views sustainability as an integral part of business strategy, and we continue to invest in our sustainability initiatives to achieve the goals we have established. A detailed update on our progress will be provided in our 2023 Sustainability Report, due to be released in November 2023.

Our 41,000 staff around the world are united and energised by our deeply embedded Medical Leadership culture, which we describe as The Sonic Difference. I am inspired every day by the talent, dedication and deep expertise of our managers, pathologists, radiologists and staff, and I offer each of them my sincere thanks for everything they do to provide the outstanding services on which Sonic's reputation depends.

Dr Colin Goldschmidt
CEO and Managing Director

Sonic is significantly stronger now than pre-pandemic, with much lower gearing and higher earnings – our earnings per share for FY2023 were 19% higher than in the most recent pre-pandemic comparable period, FY2019.



Financial History

Note that FY2023 revenue and earnings comparisons with FY2022 have been impacted materially by an 80% reduction in COVID revenue. In addition, the Company adopted the lease accounting standard AASB 16 from 1 July 2019 and therefore most metrics for 2019 are not comparable to the later years.

As at 30 June	2023	2022	2021	2020	2019 ¹
	\$'000	\$'000	\$'000	\$'000	\$'000
Base business revenue	7,683,541	6,911,644	6,599,038	6,417,604	6,184,056
COVID-19 revenue	485,407	2,428,510	2,155,085	414,239	-
Total revenue²	8,168,948	9,340,154	8,754,123	6,831,843	6,184,056
Earnings before interest, tax, depreciation and amortisation (EBITDA) ²	1,707,524	2,830,447	2,559,790	1,411,834	1,074,828
Net profit after tax ²	684,984	1,460,566	1,315,040	527,749	549,725
Net cash flow from operations	1,471,033	2,225,821	2,042,836	1,360,298	847,308
Total assets	13,014,629	12,552,013	11,760,991	12,127,130	9,959,834
Total liabilities	5,092,767	5,123,839	5,256,648	6,462,732	4,467,968
Net assets	7,921,862	7,428,174	6,504,343	5,664,398	5,491,866
Net interest-bearing debt ³	886,340	811,803	939,982	2,021,969	2,298,953

Statistics					
Diluted earnings per share (cents) ²	145.0	302.5	273.1	110.6	122.1
Dividends declared per ordinary share (cents) ⁴	104.0	100.0	91.0	85.0	84.0
Dividend payout ratio ⁴	71.7%	32.5%	33.1%	76.7%	72.5%
Gearing ratio ⁵	9.9%	9.7%	12.5%	26.1%	29.5%
Interest cover (times) ⁵	29.4	47.3	33.8	11.5	10.5
Debt cover (times) ⁵	0.6	0.3	0.4	1.8	2.1
Net tangible asset backing per share (\$)	0.28	0.14	(0.44)	(2.72)	(2.69)
Return (after tax) on invested capital (ROIC) ^{2,6}	8.8%	19.7%	18.7%	8.5%	8.8%
Return (after tax) on equity ²	8.9%	21.0%	21.6%	9.5%	11.2%

¹ 2019 is pre the adoption of the lease accounting standard AASB 16 and therefore most metrics are not comparable to the later years

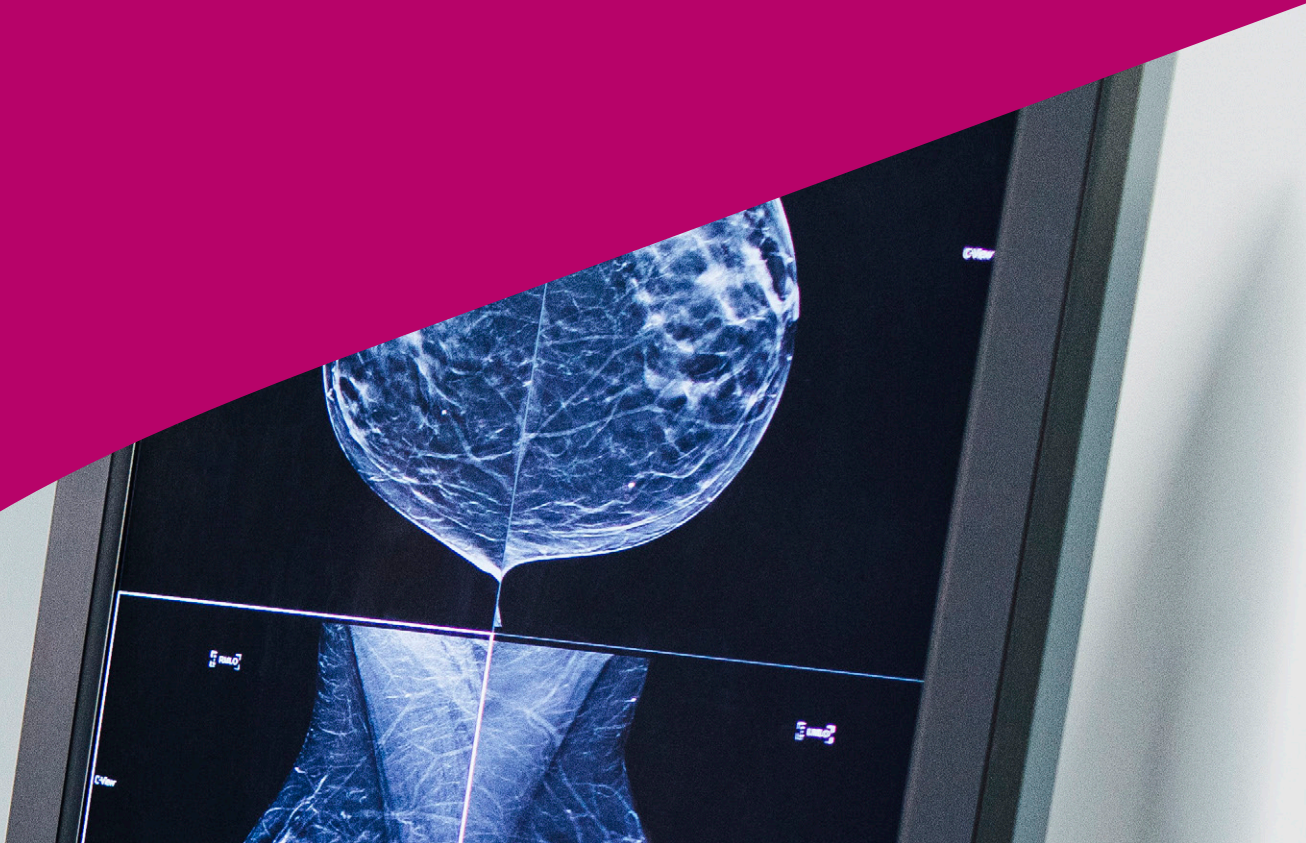
² 2019 included a non-recurring pre-tax gain of \$50,385,000 (post-tax \$49,585,000) on the sale of GLP Systems

³ Net interest-bearing debt excludes lease liabilities under AASB 16

⁴ 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

⁵ Calculated using debt facility covenant definitions, which exclude AASB 16

⁶ The methodology for calculating ROIC has been amended in FY2023 to more appropriately demonstrate Sonic's returns, using pre-AASB 16 measures. Comparative years have been restated. ROIC is calculated as tax effected (using the effective tax rate and adjusted for the tax benefit of goodwill amortisation) EBIT (pre-AASB 16), less minority interests, divided by invested capital. Invested capital is measured as total pre-AASB 16 equity (excluding minority interests) plus net interest bearing debt (excluding lease liabilities under AASB 16). Invested capital is the average of the opening and closing position.





Inset

Fiona, Advanced
Skills Radiographer,
Queensland X-Ray,
Queensland, Australia

30 JUNE 2023

SONIC HEALTHCARE LIMITED
ABN 24 004 196 909

Annual Report 2023

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 2023.

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
Mr N. Mitchell
Mr L.J. Panaccio
Ms K.D. Spargo

Dr P.J. Dubois and Dr E.J. Wilson retired as Directors at the Company's Annual General Meeting held on 17 November 2022. Prof. C. Bennett AO and Dr K. Giles were appointed as Directors on 26 September 2022.

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:

	2023	2022
	\$'000	\$'000
Interim dividend paid on 22 March 2023 (2022: 23 March 2022)	196,971	191,956
Final dividend paid on 21 September 2023 (2022: 21 September 2022)	293,923	283,382
Total dividend for the year	490,894	475,338

On 16 August 2023, the Board declared a final dividend in respect of the year ended 30 June 2023 of 62 cents per ordinary share, 100% franked (at a tax rate of 30%), paid on 21 September 2023, with a record date of 7 September 2023. An interim dividend of 42 cents per ordinary share, 100% franked (at a tax rate of 30%), was paid on 22 March 2023.

A final dividend of 60 cents per ordinary share (100% franked, at a tax rate of 30%) was paid on 21 September 2022, in respect of the year ended 30 June 2022, out of profits of that year. The interim dividend in respect of the year ended 30 June 2022 was 40 cents per ordinary share (100% franked, at a tax rate of 30%), paid on 23 March 2022.

DIVIDEND REINVESTMENT PLAN (DRP)

The Company's Dividend Reinvestment Plan remained suspended for the FY2023 final dividend, as it was through the 2023 and 2022 financial years.

OPERATING AND FINANCIAL REVIEW

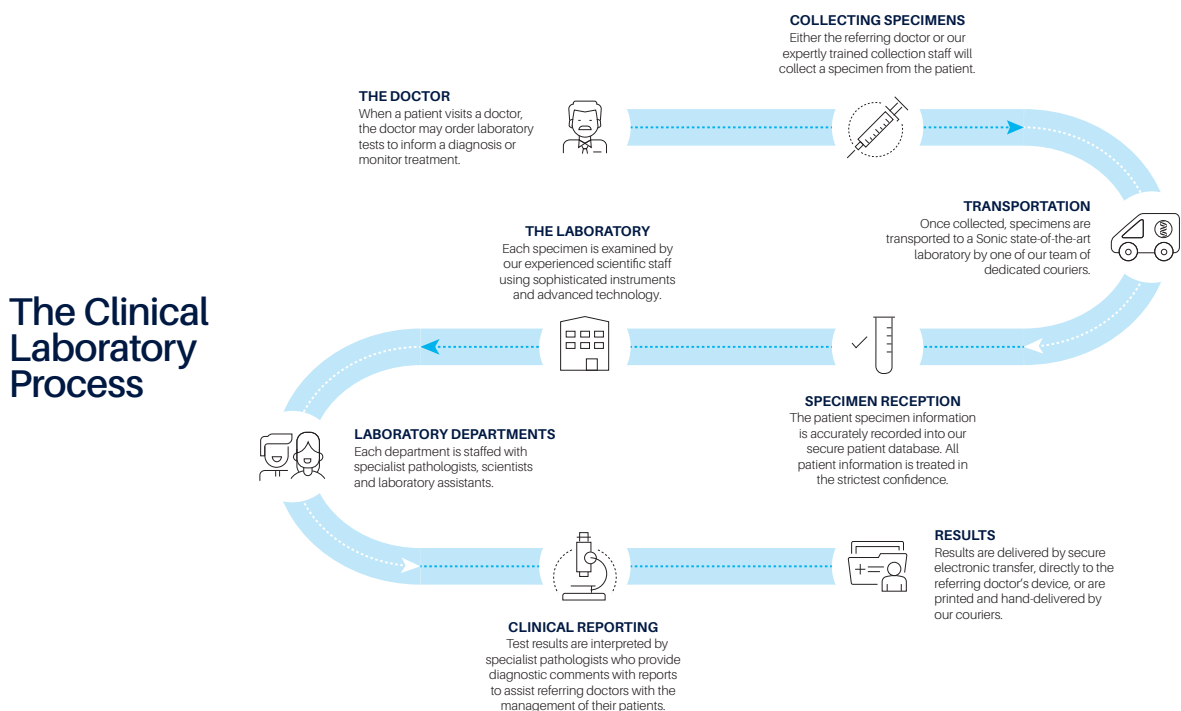
Operations

Sonic Healthcare is one of the world's leading providers of medical diagnostic services, contributing to the medical care of 126 million patients in FY2023. 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 41,000 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. Sonic's large laboratories reach or exceed tertiary teaching hospital laboratory standards and are recognised for their esoteric testing expertise, for example, in anatomical pathology, genetic and molecular testing.

Directors' Report

OPERATING AND FINANCIAL REVIEW

Diagnostic imaging (including radiology) is the medical specialty of using medical imaging technologies to diagnose and treat diseases. The array of imaging technologies includes magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine studies, ultrasound, mammography, bone densitometry and general X-ray. 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 around 2,000 general practitioners. Approximately 70% of all Australians live within 10 kilometres of an IPN/Sonic HealthPlus clinic.

Financial results

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

				% Change	
	2023 Constant Currency ¹	2023 Statutory	2022 Statutory	2023 Constant Currency ¹ v 2022	2023 Statutory v 2022
	\$'000	\$'000	\$'000		
Base business revenue	7,510,648	7,683,541	6,911,644	8.7%	11.2%
COVID-19 revenue	478,155	485,407	2,428,510	(80.3)%	(80.0)%
Total revenue	7,988,803	8,168,948	9,340,154	(14.5)%	(12.5)%
EBITDA²	1,678,484	1,707,524	2,830,447	(40.7)%	(39.7)%
Depreciation	(624,030)	(631,298)	(607,427)	2.7%	3.9%
EBITA	1,054,454	1,076,226	2,223,020	(52.6)%	(51.6)%
Amortisation of intangibles	(70,261)	(71,630)	(67,990)	3.3%	5.4%
Net interest expense	(71,096)	(73,408)	(77,825)	(8.6)%	(5.7)%
Income tax expense	(219,306)	(223,257)	(561,739)	(61.0)%	(60.3)%
Net (profit) attributable to minority interests	(23,063)	(22,947)	(54,900)	(58.0)%	(58.2)%
Net profit attributable to Sonic shareholders	670,728	684,984	1,460,566	(54.1)%	(53.1)%
Cash generated from operations		1,471,033	2,225,821		(33.9)%
Earnings per share					
Basic earnings per share (cents per share)	142.8	145.8	305.5	(53.3)%	(52.3)%
Diluted earnings per share (cents per share)	142.0	145.0	302.5	(53.1)%	(52.1)%

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 2023 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:

	2023 Statutory	2022 and Constant Currency
AUD/USD	0.6732	0.7255
AUD/EUR	0.6432	0.6445
AUD/GBP	0.5590	0.5458
AUD/CHF	0.6315	0.6763
AUD/NZD	1.0925	1.0669

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

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

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

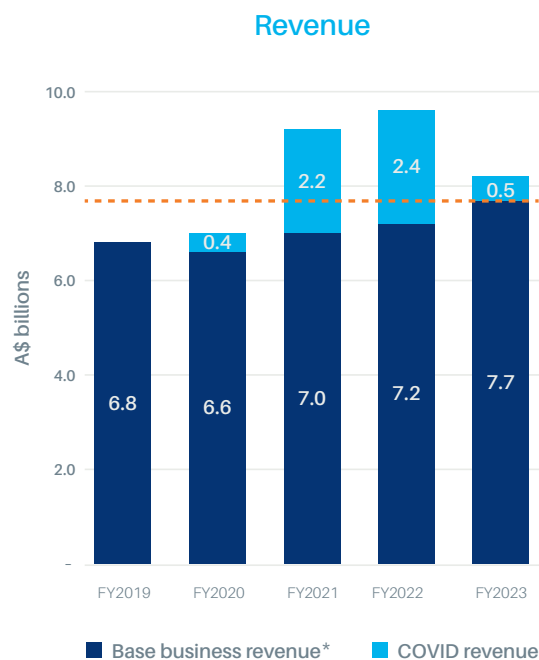
Directors' Report

OPERATING AND FINANCIAL REVIEW

b) Revenue

Revenue breakdown	2023 Statutory Revenue	% of 2023 Statutory Revenue	2023 Constant Currency Revenue	2022 Statutory Revenue	2023 Constant Currency v 2022
	AUD M		AUD M	AUD M	Growth
Laboratory – Australia and New Zealand	1,968	24.1%	1,969	2,491	(21.0)%
Laboratory – USA	2,114	25.9%	1,961	2,169	(9.6)%
Laboratory – Europe	2,895	35.5%	2,867	3,539	(19.1)%
Radiology – Australia	796	9.8%	796	706	12.7%
Other	382	4.7%	382	433	(11.7)%
Revenue	8,155	100.0%	7,975	9,338	(14.6)%
Interest income	14		14	2	
Total revenue	8,169		7,989	9,340	(14.5)%

Revenue reductions in the Laboratory and Other operations relate to much lower demand for COVID-19 related services, with COVID revenue of A\$485 million in FY2023, versus A\$2,429 million in the prior year (down 80%).



*** Base business revenue**

Prior period base business revenues normalised for working days, currency exchange rates and acquisitions/disposals

Base business revenue (excluding COVID services) grew organically by 7% (on a Constant Currency and working day basis) versus the comparative period and 13% versus FY2019 (pre-pandemic). Base business organic revenue growth gained momentum during the year, such that growth was 6% in the first half, and 9% in the second.

Particularly strong organic base business growth was achieved in the Australian (11%), German (10%), and Belgian (12%) laboratory businesses. Sonic's Swiss base business achieved growth of 1%, with strong volume and mix growth, including market share gains, offsetting a fee cut that took effect on 1 August 2022 with an annual impact on Swiss revenue of ~7%.

Non-organic impacts on Laboratory revenue included the annualisation of the acquisition of ProPath in the USA in mid-December 2021.

Radiology revenue growth was strong at 13%, augmented by the acquisition of Canberra Imaging Group (1 September 2021). Organic growth per working day was 11%.

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), reduced 10% from the prior year, mainly due to the cessation of COVID related services. Revenue improved in the second half due to increasing doctor hours and increasing private billing by General Practitioners.

Directors' Report

OPERATING AND FINANCIAL REVIEW

c) *Earnings*

Earnings and margins for the year were impacted by the dramatic reduction in COVID revenues, particularly in the second half (COVID revenue in the first half was A\$379 million, dropping to A\$106 million in the second half). Second half margins were affected by legacy COVID-related labour and infrastructure costs.

Sonic's Radiology business (which does not provide COVID-related services) achieved more than 20% EBITDA growth, including contributions from acquisitions. Radiology's EBITDA margin expanded by ~150 basis points.

The 7.0% growth in labour cost versus the prior year includes currency translation impacts equating to ~2.4%, and acquisition related labour costs equating to ~2.5%.

Consumables cost decreased as a percentage of revenue due to reductions in COVID volumes and successful procurement and operational initiatives.

Major drivers and initiatives are set to enhance earnings in FY2024 and FY2025.

d) *Depreciation*

Depreciation increased 4% from the prior year (3% on a Constant Currency basis), less than the growth in base business revenue.

e) *Intangibles amortisation*

Intangibles amortisation relates to internally developed and purchased software.

f) *Interest expense*

Net interest expense decreased 9% on the prior year (at Constant Currency rates), due to strong operating cashflow and higher interest rates on cash deposits, whilst debt was at fixed rates. At 30 June 2023 all of Sonic's debt was 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 for the year was 24%, down from 27% in the prior year. The unusually low tax rate in the year largely reflects overprovisions in prior years and a higher level than usual of potential tax deductions relating to vested employee options.

h) *Cash flow from operations*

Cash generated from operations was 34% lower than in the prior year, reflecting the reduction in COVID-19 revenue. Gross operating cash flow equated to 110% of EBITDA (95% in the prior year). Conversion of EBITDA to cash was enhanced by reductions in debtors and inventory related to COVID-19 testing. Tax paid in the period was 59% more than the tax expense due to timing of instalments and return lodgements.

Directors' Report

OPERATING AND FINANCIAL REVIEW

Financial position

Sonic's net assets at 30 June 2023 of A\$7,922M increased by A\$494M, or 7%, on the prior year. The main components of this increase were:

- A\$203M due to retained earnings (operating profit less dividends paid and other adjustments)
- A\$84M from the issue of ordinary Sonic shares resulting from the exercise of employee options and rights
- A\$309M relating to net currency exchange rate translation impacts
- A\$131M reduction from the payments for buyback and treasury shares.

Excluding the impacts of AASB 16, net (of cash) interest-bearing debt increased A\$74M (9%) from the prior year level to A\$886M. This increase largely resulted from A\$110M relating to payments for business acquisitions and investments, A\$131M of payments for buyback and treasury shares and A\$43M of currency exchange rate impacts, net of strong cash flow generated from operations. Working capital balances improved from the prior year with reduced amounts of trade debtors and inventory related to COVID-19 testing. 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 2023 (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 (multicurrency) limits	US\$100	-	150
Euro (multicurrency) limits	€509	€2	831
AUD (multicurrency) limits	A\$157	-	157
CHF (multicurrency) limits	CHF125	-	210
Minor debt/finance leasing facilities	n/a	A\$11 ⁺	-
Cash	n/a	A\$(798) ⁺	798
Available liquidity at 30 June 2023			2,146
Net interest-bearing debt (excluding lease liabilities under AASB 16)		A\$886	

⁺ Various currencies

Sonic's credit metrics at 30 June 2023 were as follows:

	30.6.23	31.12.22	30.6.22
Debt cover (times)	0.6	0.5	0.3
Interest cover (times)	29.4	36.9	47.3
Gearing ratio	9.9%	10.5%	9.7%

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

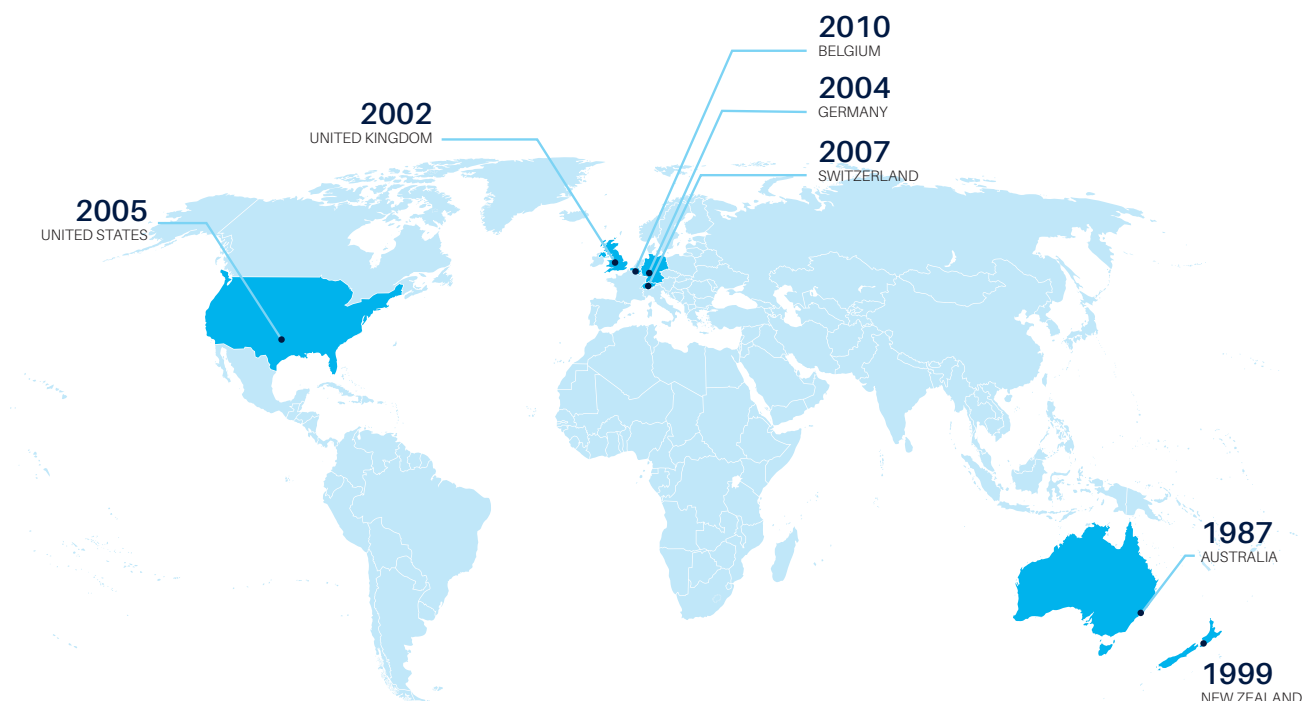
OPERATING AND FINANCIAL REVIEW

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

Calendar Year	AUD (M)	USD (M)	Euro (M)	CHF (M)
2024	-	-	345	-
2026	-	-	245	-
2027	157	100	349	-
2028	-	-	-	125
2030	-	300	-	-
2032	-	150	85	-
2035	-	100	-	-
	157	650	1,024	125

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 radiology 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 Leadership culture, 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 and preventative medicine. Against this favourable backdrop, Sonic expects to continue for the foreseeable future to grow revenue, earnings and returns on investment organically, including through outsourcing contracts, and further enhanced by synergistic business acquisitions and joint ventures. Organic growth in the markets in which Sonic participates has averaged approximately 5% per annum over the long term (excluding COVID-19 revenue fluctuations). Based on recent trends in non-COVID related revenues and other factors, Sonic believes organic growth could even be higher than this into the future.

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 and ProPath in FY2022. Sonic has already made several anatomical pathology acquisitions in Germany.

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 is the laboratory provider for the Cleveland Clinic London hospital, which opened in March 2022, and is currently the preferred bidder for two additional NHS outsourcing contracts.

About half of the clinical laboratory market in the USA is represented by hospital laboratories, and Sonic has a strategy to seek to partner with hospital groups for their laboratory services.

Sonic is also interested in growing its Australian radiology and clinical services businesses via acquisitions. 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 provided earnings guidance for FY2024. Sonic expects EBITDA for FY2024 in the range of A\$1.7B to A\$1.8B. This equates to up to 5% growth on FY2023 EBITDA, with base business performance offsetting the material reduction in COVID-related earnings. Net interest expense is expected to increase by ~25% from the FY2023 level, due to recently announced business acquisitions, and the effective tax rate is expected to be in the range of 25-27%.

Key guidance considerations:

- current (mid-August 2023) currency exchange rates and base interest rates are assumed to prevail
- excludes any future business acquisitions other than those already announced to 17 August 2023
- incorporates potential fee reductions in the USA from 1 January 2024 (impact ~US\$10M)
- no other regulatory changes are assumed.

Sonic is currently considering a number of additional acquisition opportunities.

OPERATING AND FINANCIAL REVIEW

Whilst Sonic's gearing is currently close to record low levels, the intent is to move over time back towards the Company's long-term average Debt Cover level of approximately 2.4 times. Whilst the Company's preference is to do this by investing in synergistic acquisitions and other growth opportunities, if appropriate opportunities do not eventuate in a timely manner the Board will consider other capital management initiatives. The Company completed its first ever on-market share buyback in FY2023, acquiring shares in FY2022 and FY2023 for a total consideration of A\$425M.

Sonic expects that the use of artificial intelligence in pathology and radiology will cause step-changes in efficiency, quality, and capacity in coming years, and the Company is investing in IT and infrastructure, including for digital pathology, to unlock these gains. During the 2022 financial year Sonic acquired a 20% strategic equity stake in Harrison.ai and established a joint venture with them, called Franklin.ai, to develop best-in-class AI diagnostic tools for pathology. With the support and expertise of Sonic and Harrison.ai, Franklin.ai has been ramping up at pace and will commence validation studies for its first product release in early 2024. Franklin.ai's products are expected to be marketed globally, in addition to being used within Sonic's laboratory operations. Harrison.ai already had another joint venture with a third party, called Annalise.ai, a market leader in radiology AI. The Annalise.ai chest X-ray product is the world's most comprehensive, capable of detecting 124 findings, and is being marketed internationally. Annalise.ai's brain CT scan product has recently been released and tools for other modalities are expected to follow. Sonic's Radiology division expects to benefit from use of these products as they become available, with the chest x-ray product already deployed in all Sonic radiology sites, and the brain CT product currently being evaluated.

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 2023. 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 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 multi-layered 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 is engaged to conduct Global NIST Maturity Audits for all of Sonic's countries of operation, assessing ongoing improvements against a baseline.
- 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. During 2023 the Company conducted a qualitative analysis of climate-related risks in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Under both low and high emissions scenarios, increased frequency and severity of extreme weather events and sustained higher or lower average temperatures were identified as having the highest residual risk to Sonic's operations, supply chain and staff wellbeing. However, due to the broad geographic spread of Sonic's businesses globally and within each region, the risk of significant impact in a single location is not considered to be material to Sonic's overall operations in the short term. Climate-related risks will be further explored in 2024 with a quantitative assessment of identified risks. Please refer to Sonic's 2023 Sustainability Report (available in November 2023) for more details.

Sonic's operations are located in developed nations with well-established laws governing labour standards and human rights, reducing the risk of human rights violations within our operations. The Company continues to review its supply chain to identify any risk of modern slavery practices. Please refer to our 2023 Modern Slavery Statement (available in November 2023) for more details.

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, other than the settlement of the acquisition of Synlab Suisse on 3 July 2023 (refer to the ASX announcement on 27 June 2023 for details).

Directors' Report



Back row

Prof. Suzanne Crowe
Lou Panaccio
Dr Colin Goldschmidt
Prof. Christine Bennett
Chris Wilks
Neville Mitchell

Front row (on couch)

Kate Spargo
Prof. Mark Compton
Dr Katharine Giles

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 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), 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 as Non-executive Chairman of ASX-listed Next Science Limited from May 2021 (Non-executive Director from 2018) to 23 August 2023, and for formerly ASX-listed Independent Practitioner Network Limited (2004-2008). He was also 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 and pathologist who completed his medical training in Sydney. Dr Goldschmidt became CEO of Sonic in 1993 and has led Sonic's global expansion by committing the Company to a unique model of Medical Leadership, which incorporates operational and cultural attributes focussed on care for staff and highest quality service to doctors and patients. 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



Emeritus Professor Christine Bennett AO

MBBS, FRACP, Master Paed, GAICD

Non-executive, independent Director, appointed September 2022

Professor Bennett is a specialist paediatrician with over 40 years of healthcare industry experience across the private, public and not-for-profit sectors. She holds a Bachelor of Medicine, Bachelor of Surgery from the University of Sydney, a Master of Paediatrics from the University of New South Wales, and is a Fellow of the Royal Australasian College of Physicians. Professor Bennett is an experienced non-executive director in for-profit and social enterprises and is currently a Non-executive Director of ASX-listed Regis Healthcare (since March 2018), Patron of Research Australia (since 2022), and Convenor of the Champion of Change Health Group for gender equality (since 2019). Her previous Board non-executive director roles include Telstra Health, HeartWare Limited, Symbion Health Limited and Chair of Sydney Children's Hospital Network. In December 2021, Professor Bennett retired from and was awarded Emeritus Professor by The University of Notre Dame Australia where she was Deputy Vice Chancellor, Enterprise & Partnerships and Dean, School of Medicine, Sydney for over ten years. Her prior experience has included being Group Executive and Chief Medical Officer for MBF and then Bupa Health and Care services; CEO and later Chair of Research Australia; Managing Director of Total Health Enterprise Ltd; Partner in Health and Life Sciences for KPMG Australia; CEO of Westmead Hospital and Community Health Services; General Manager for the Royal Hospital for Women; and Head of Planning in NSW Health. Professor Bennett has an active commitment to and involvement in medical professional issues, public policy and medical research. In 2008 she was appointed as Chair of the National Health and Hospitals Reform Commission producing a long-term blueprint for reform of health and aged care in Australia. Professor Bennett was awarded an Officer of the Order of Australia (AO) in the 2014 Australia Day Honours in recognition of her distinguished service to medicine and health care leadership.



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 Medical, Inc. (from January 2016), and Emeritus Professor of Medicine at Monash University, Melbourne (from 2020). She was a Non-executive Director of St Vincent's Health Australia Ltd from January 2013 until October 2021. 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. Professor Crowe is Chair of the Risk Management Committee (effective 17 November 2022, member since 23 September 2021).

Directors' Report

INFORMATION ON DIRECTORS



Dr Katharine Giles

MBBS (Hons), MBA, GAICD

Non-executive, independent Director, appointed September 2022

Dr Giles holds a Bachelor of Medicine, Bachelor of Surgery (Hons) and an MBA (Dean's Honours list) from the University of Western Australia. She is a registered medical practitioner with the Medical Board of Australia. After initially practicing as a medical doctor, Dr Giles moved to commercial pursuits which combined science, medicine and health. Dr Giles is currently Managing Director and Chief Executive Officer of OncoRes Medical (since 2017), which is developing a novel imaging technology to improve cancer outcomes. Dr Giles is also a Venture Partner at Brandon Capital Partners (since 2012), a venture capital firm dedicated to developing and supporting Australian life sciences businesses. She was previously an Investment Manager with Stone Ridge Ventures, a fund manager specialising in seed-to-early-stage technology investment. Dr Giles has start-up experience in medical apps, diagnostics and fitness devices and has served on the boards of private health care related technology companies. She is a member of the Curtin University Commercialisation Advisory Board and has recently been appointed to the board of the Australian Government's National Reconstruction Fund.



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 is a Non-executive Director and Audit Committee Chair of ASX-listed companies Fisher and Paykel Healthcare Corporation Limited (from November 2018) and Sigma Healthcare Limited (from February 2023). He was formerly a Non-executive Director of ASX-listed Osprey Medical, Inc. (from July 2012 until May 2022) and QBiotech Group Limited (from November 2017 to May 2023). He has also performed roles with a number of industry and government committees. Mr Mitchell is Chair of the Audit Committee and a member of the Risk Management Committee.



Lou Panaccio

BEC, CA, MAICD

Non-executive, independent Director, appointed June 2005

Mr Panaccio is a Chartered Accountant with extensive executive management experience in business and healthcare services. Mr Panaccio is currently on the boards of ASX- and NASDAQ-listed Avita Medical, Inc. (Non-executive Chairman from July 2014), ASX-listed Rhythm Biosciences Limited (Non-executive Director from August 2017) and ASX-listed Adherium Limited (Non-executive Chairman from February 2022). He is also a Non-executive Director of Unison Housing Limited, Non-executive Chairman of Azure Health Technology Limited, NeuralDx Limited and Magellan Stem Cells Pty Ltd (from August 2023). 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, the Executive Chairman of Health Networks Australia until 2017 and a Non-executive Director of Haemokinesis Limited until October 2022. Mr Panaccio is a member of the Audit Committee, the Remuneration and Nomination Committee, and the Risk Management Committee.

Directors' Report

INFORMATION ON DIRECTORS



Kate Spargo

LLB (Hons), BA, FAICD

Non-executive, independent Director, appointed July 2010

Ms Spargo has gained broad business experience as both a legal advisor, having worked in private practice and government, and as a director. Ms Spargo has been a director of both listed and unlisted companies over the last 20 years and her current directorships include the ASX-listed companies Adairs Limited (from May 2015), Sigma Healthcare Limited (from December 2015) and Bapcor Limited (from 1 March 2023). Ms Spargo also holds non-executive director roles with CIMIC Group Limited (from September 2017), 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 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.

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, 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 26 September 2023

Director's name	Class of shares	Number of shares	Interest	Number of options	Number of performance rights
Dr C.S. Goldschmidt	Ordinary	897,025	Personally	1,243,921 ⁺	138,856 ⁺
	Ordinary	41,663	Beneficially	-	-
C.D. Wilks	Ordinary	488,284	Personally	510,051 ⁺	56,687 ⁺
	Ordinary	116,471	Beneficially	-	-
Prof. M.R. Compton	Ordinary	459	Personally	-	-
	Ordinary	12,057	Beneficially	-	-
Prof. C. Bennett	Ordinary	2,000	Personally	-	-
Prof. S. Crowe	Ordinary	1,440	Personally	-	-
	Ordinary	2,560	Beneficially	-	-
Dr K. Giles	Ordinary	2,000	Beneficially	-	-
N. Mitchell	Ordinary	9,770	Beneficially	-	-
L.J. Panaccio	Ordinary	8,026	Beneficially	-	-
K.D. Spargo	Ordinary	3,000	Personally	-	-
	Ordinary	22,000	Beneficially	-	-

⁺ 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. 407,747 of Dr C.S. Goldschmidt's and 181,147 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 2023, and the number of meetings attended by each Director (while they were a member of the Board or relevant Committee) were:

Director's name	Full meetings of Directors		Meetings of Committees					
			Audit		Remuneration and Nomination		Risk Management	
	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held
Dr C.S. Goldschmidt	9	9	-	-	-	-	2	2
C.D. Wilks	8	9	-	-	-	-	-	-
Prof. M.R. Compton	8	9	3	4	2	4	-	-
Prof. C. Bennett	7	7	-	-	-	-	-	-
Prof. S. Crowe	9	9	-	-	-	-	2	2
Dr P.J. Dubois	3	3	-	-	-	-	-	-
Dr K. Giles	7	7	-	-	-	-	-	-
N. Mitchell	9	9	4	4	-	-	2	2
L.J. Panaccio	9	9	3	4	4	4	2	2
K.D. Spargo	9	9	4	4	4	4	-	-
Dr E.J. Wilson	3	3	-	-	2	2	1	1

Directors' Report

INSURANCE OF OFFICERS

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

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

ENVIRONMENTAL REGULATION

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

NON-AUDIT SERVICES

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

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

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

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 52.

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

	2023	2022
	\$	\$
PricewaterhouseCoopers - Australian firm and related practices (including overseas PricewaterhouseCoopers firms)		
Taxation and other services	-	83,320

Directors' Report

SHARE OPTIONS

Information on share options is detailed in Note 34 – 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 is pleased to present the 2023 Remuneration Report, which summarises the 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.

Sonic Healthcare achieved a net profit for the 2023 financial year of A\$685 million, on revenues of A\$8.2 billion. Whilst these results were lower than in the prior year due to an 80% decrease in COVID-related revenue, net profit was 25% higher than in FY2019, the last pre-pandemic year. Shareholders were rewarded with total dividends for the year of A\$1.04 per share, up 4% on FY2022.

In many ways, the 2023 financial year was one of transition for Sonic Healthcare. Early in the year the Company was still performing substantial volumes of COVID-19 PCR tests, and the progress of the pandemic and the development of new strains were unpredictable. It was important to retain surplus testing capacity to be able to react swiftly if required. Volumes of COVID testing fell dramatically, and unpredictably, through the year. In addition, COVID PCR fees were reduced in most of our jurisdictions at points during the year. In combination, this meant that monthly COVID revenue went from almost A\$100 million in the month of July 2022, down to around A\$10 million in June 2023.

While COVID has become just a memory for many, I want to take this opportunity to highlight that since the beginning of the pandemic, Sonic has performed approximately 60 million COVID-19 PCR tests, in addition to providing COVID-related antibody testing, genetic sequencing and vaccination services. At the same time non-COVID medical diagnostic services have been seamlessly provided for more than 100 million patients a year. None of this would have been possible without the strength of Sonic's Medical Leadership culture, which inspires and motivates our people, nor without the investments made in people, state-of-the-art facilities, equipment, and systems. The management of the COVID era is a testament to the strong resilience of the Company.

Sonic's base business (excluding COVID-related revenues) has now strengthened. Base business revenue grew organically by 7% over the year on a like-for-like basis, gaining momentum with 6% growth in the first half, and 9% in the second. Sonic's Medical Leadership culture, and the related investments already mentioned, have positioned Sonic's operations optimally in the specialist and hospital referrer sub-markets. In turn, this has enabled Sonic to grow market shares and benefit from the trend towards higher value tests and modalities in laboratory medicine and radiology respectively.

Sonic's sustainability strategy gained substantial momentum during the 2023 year, with additional resources appointed throughout the Company, and with the completion of key short-term milestones and progress made towards longer term goals, including the transition to renewable energy sourcing. Details of our progress will be included in the 2023 Sustainability Report, to be published in November 2023. As part of Sonic's commitment to social aspects of sustainability, the Sonic Healthcare Foundation was established and funded by Sonic in FY2022, and the Foundation is now well advanced in providing healthcare support in parts of the world where the need is dire. All of Sonic takes great pride in the activities of the Foundation, and we trust that our shareholders do as well.

As always, the health and safety of our staff is a major focus for Sonic, and I am happy to report that Sonic has continued to maintain its very longstanding very sound staff safety record. On behalf of the Board, I thank all of our employees for their amazing efforts over the last year.

Directors' Report

REMUNERATION REPORT

Changes to remuneration structures for 2023

Having instituted significant changes in 2020 and 2021 following a detailed review of the Company's remuneration framework, and further updates in 2022, the following additional adjustments have been made in 2023:

Element	Action taken
Remuneration level	Fixed and Total Target Remuneration values had remained unchanged for 5 years to 30 June 2022. Based on independent market benchmarking, the Finance Director's Fixed Remuneration was increased by ~10% to \$1,200,000 with effect from 1 July 2022, with proportionate flow on increases in the 'at risk' elements of his remuneration package. The Managing Director's remuneration remained unchanged.
STI - Non-financial performance objectives	20% of the STI opportunity is assessed against non-financial aspects and this year we have weighted half of this award to the Company's environmental, governance and sustainability objectives. The other half remains based on our previously documented qualitative factors.
Malus and clawback	Malus and clawback provisions now apply to awards.
Mandatory shareholding levels	Mandatory minimum shareholding levels have been set for the Managing Director and Finance Director.

Remuneration outcomes

The award of an STI is based on both an EBITDA target (80% of the opportunity) and strategic qualitative or non-financial targets (20% of the opportunity). The Company achieved an actual EBITDA level equating to 90.3% of the EBITDA target, resulting in the Executives achieving 35.3% of STI target for the EBITDA component. 50% of the EBITDA related award was deferred into equity for two years.

In relation to the strategic qualitative component, the Board assessed the contributions made by the Executives in these areas including Medical Leadership, strategy development, reputation and risk management, and the oversight and management of the federation model, as well as the specific area of sustainability. The Board was pleased to be confident in awarding 100% of the opportunity to the Executives based on their work during the year. Their ongoing focus on the strategic aspects that make the Company a resilient, innovative, useful and growing business is fundamental to the Company. This focus is demonstrated in many ways, including sourcing and completing value enhancing business acquisitions like the three recently announced European transactions, winning preferred bidder status for outsource contracts from the UK National Health Service, and setting Sonic's digital pathology and AI strategy for the future.

For the LTI with a performance measurement period of 3 years to 30 June 2023, 84.3% of the options and rights vested. The ROIC and EPS performance condition components were fully satisfied, particularly due to the extraordinarily strong financial performances in FY2021 and FY2022. 64.6% of the relative total shareholder return component vested, with the relative TSR equating to the 58th percentile.

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.

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



Kate Spargo

26 September 2023

Directors' Report

REMUNERATION REPORT

In this report

- a) Key management personnel
- b) Year in review
- c) 2023 performance and remuneration outcomes for Executive Directors
- d) 2023 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 2023 and 2022 unless otherwise stated.

Name	Position
Non-executive Directors	
Prof. M.R. Compton AM	Chairman
Prof. C. Bennett AO (from 26 September 2022)	Non-executive Director
Prof. S. Crowe AO	Non-executive Director
Dr P.J. Dubois (until 17 November 2022)	Non-executive Director
Dr K. Giles (from 26 September 2022)	Non-executive Director
N. Mitchell	Non-executive Director
L.J. Panaccio	Non-executive Director
K.D. Spargo	Non-executive Director
Dr E.J. Wilson AO (until 17 November 2022)	Non-executive Director
Executive Directors	
Dr C.S. Goldschmidt	Managing Director
C.D. Wilks	Finance Director

The Board is satisfied that given 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

The 2023 financial year was one of transition for Sonic Healthcare. The Company achieved a net profit for the year of A\$685 million, on revenues of A\$8.2 billion, significantly lower than in the prior year due to an 80% decrease in COVID-related revenue. Pleasingly however, Sonic's base (non-COVID) business performed strongly, demonstrated by revenue growth of 11%, and net profit was up a substantial 25% compared to FY2019, the last pre-pandemic year.

Early in FY2023 the Company was still performing large volumes of COVID-19 PCR tests, to assist in pandemic control. At that stage the progress of the pandemic was still unknown, and there was always the possibility of a new and more dangerous strain developing. Testing volumes remained impossible to predict, and it was incumbent on Sonic to retain surplus testing capacity so as to be able to meet spikes in demand if required. In addition to volume changes, COVID PCR fees were reduced in most of Sonic's markets at points during the year. As the pandemic waned, Sonic's base business (excluding COVID-related revenues) strengthened. Base business revenue grew organically by 7% over the year on a like-for-like basis, gaining momentum with 6% growth in the first half, and 9% in the second. Organic growth was augmented by the full year effect of acquisitions occurring in the prior year. Sonic's Medical Leadership culture, and related investments over decades in people and infrastructure, have positioned Sonic's operations optimally in the specialist and hospital referrer sub-markets, enabling Sonic to grow market shares and benefit from the trend towards higher value tests and modalities in laboratory medicine and radiology respectively.

Directors' Report

REMUNERATION REPORT

Considerable progress was made with Sonic's sustainability strategy in the 2023 year, with additional resources appointed throughout the Company, and with the completion of key short-term milestones plus steps made towards longer term goals, including the transition to renewable energy sourcing. Details of this progress will be included in the 2023 Sustainability Report, to be published in November 2023.

c) 2023 performance and remuneration outcomes for Executive Directors

The Board did not exercise discretion to adjust any variable remuneration performance targets or outcomes for 2022 or 2023. In light of 2023 performance, remuneration outcomes were as follows:

i) Fixed Remuneration

Fixed and Total Target Remuneration values had remained unchanged for 5 years to 30 June 2022. In the 2022 annual review of remuneration carried out by the Board's Remuneration and Nomination Committee, independent market benchmarking revealed that C.D. Wilks' remuneration had fallen behind the targeted percentile versus CFOs of companies of similar sizes and complexity based on market capitalisation, global complexity and industry. His Fixed Remuneration was therefore increased by approximately 10% to \$1,200,000 with effect from 1 July 2022, with proportionate increases in the other elements of his remuneration package. Dr C.S. Goldschmidt's remuneration remained unchanged.

ii) STI outcomes

The EBITDA achieved by the Company in 2023 reached 90.3% of the target set at the beginning of the financial year (which was based on market expectation at the time the target was set as Sonic did not publish earnings guidance), resulting in a payout of 35.3% of the relevant target component under the EBITDA 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
- progress with the Company's environmental, governance and sustainability objectives
- financial leadership and innovation (for the Finance Director).

From 2023, 50% of the portion of the target STI award related to qualitative strategic performance conditions (20% of total target STI) is assessed based on progress with the Company's environmental, governance and sustainability objectives, and is assessed against the achievement of specific milestones/objectives for the year. For the 2023 year these were:

- completion of a qualitative assessment of climate-related risks and opportunities in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) across Sonic's global business, with the findings to be reported in the 2023 Sustainability Report
- to establish a scope 3 (upstream and downstream value chain) emissions boundary, conduct a scope 3 emissions inventory and estimate Sonic's global scope 3 emissions using available data. The findings will be reported in the 2023 Sustainability Report
- to include standard Sustainability clauses in all new significant supplier contracts
- to submit Sonic's inaugural response to the Climate Disclosure Project (CDP) questionnaire.

These milestones/objectives were achieved.

These 'qualitative' factors 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 that are linked to them, which are the basis of Sonic Healthcare's success as a healthcare provider and as a business. The COVID-19 pandemic strongly tested the quality of all these factors.

Directors' Report

REMUNERATION REPORT

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 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.

Now that the pandemic has receded, Sonic is adjusting to the changes in requirements for staffing and testing. The pandemic experience has shown just how resilient our Company is to challenges, and we are now asking our people to move forward with new challenges such as increasingly complex testing, the inclusion of AI in our work, and our sustainability strategy.

The table below summarises the 2023 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					
2023	92%	2,201,368	48.3%	51.7%	1,062,337
2022	92%	2,201,368	140%	-	3,081,914
C.D. Wilks					
2023	105%	1,263,206	48.3%	51.7%	609,599
2022	105%	1,147,138	140%	-	1,605,994

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 2023, 84.3% (2022: 100%) satisfied the performance conditions, as follows:

LTI outcomes (1 July 2020 to 30 June 2023)			
Performance measure	Overall weighting	Performance achieved	% eligible to vest
Relative TSR	45%	58th percentile	64.6%
Aggregate EPS ¹	33%	747.7 cents	100%
Target average ROIC ²	22%	150.3% of target ROIC	100%
Total	100%		84.3%

- For the Aggregate EPS component of the LTI issue made in FY2021, the performance was as follows: FY2021 EPS: 286.0, FY2022 EPS: 314.1, FY2023 EPS: 147.6, for a total aggregate EPS of 747.7 cents over the three-year performance period. The minimum hurdle was 366 cents and the maximum hurdle was 442 cents. EPS was calculated on a Constant Currency basis and included the impact of the accounting standard AASB 16.
- For the ROIC component of the LTI issue made in FY2021, the performance was as follows: FY2021 (target: 9%, achieved: 16.7%), FY2022 (target: 11%, achieved: 18.1%) and FY2023 (target: 9%, achieved: 8.8%). This resulted in 150.3% of the target ROIC being achieved over the three-year performance period. ROIC was calculated including the impacts of the accounting standard AASB 16 for FY2021 and FY2022, however the methodology was revised to exclude the impacts of AASB 16 in both the target set and the result achieved for FY2023. Refer to the Financial History (page 7) for a description of the revised methodology.

Directors' Report

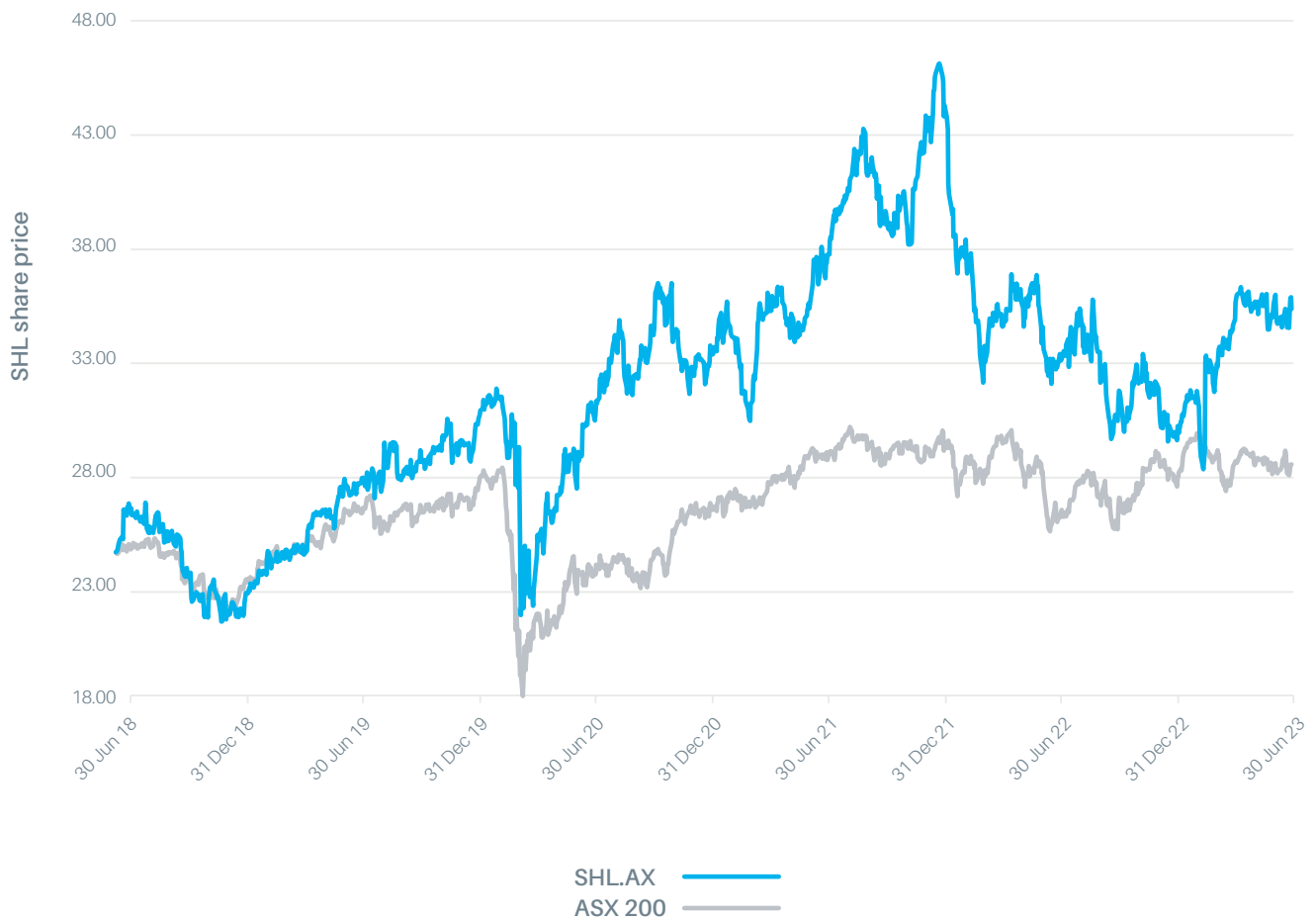
REMUNERATION REPORT

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 2023, versus the relative performance of the ASX 200. The ASX 200 increased approximately 16% over the period, whereas SHL.AX increased approximately 45%.

Sonic Healthcare (SHL.AX) Share Price vs ASX 200



Directors' Report

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).

	2019	2020	2021	2022	2023	Compound average annual growth rate ¹
Growth in EBITDA² (on a Constant Currency basis)	9.5%	0.1%	107.4%	11.5%	(47.9)%	5.7%
Net profit attributable to members (\$'000)	549,725	527,749	1,315,040	1,460,566	684,984	7.6%
Diluted earnings per share (cps)	122.1	110.6	273.1	302.5	145.0	5.3%
Dividends declared per share (cps)	84	85	91	100	104	5.1%
Enterprise value³ (\$'000)	15,143,172	16,481,770	19,292,237	16,385,887	17,632,904	6.4%
Total Shareholder Return⁴	40.7%	40.7%	68.4%	32.0%	27.7%	n/a
Change in total Fixed Remuneration plus STI of Executives⁵	7.9%	(44.0)%	95.6%	0%	(35.5)%	(6.4)%
Change in total remuneration of Executives⁶	(6.3)%	(26.8)%	53.7%	13.3%	(21.9)%	(2.0)%

¹ The compound average annual growth rate is calculated over the five-year period shown with 2018 as the base year.

² EBITDA is calculated excluding the impacts of the 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 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 slightly decreased, despite strong Total Shareholder Returns.

Directors' Report

REMUNERATION REPORT

d) 2023 Executive Director remuneration framework

i) Remuneration strategy

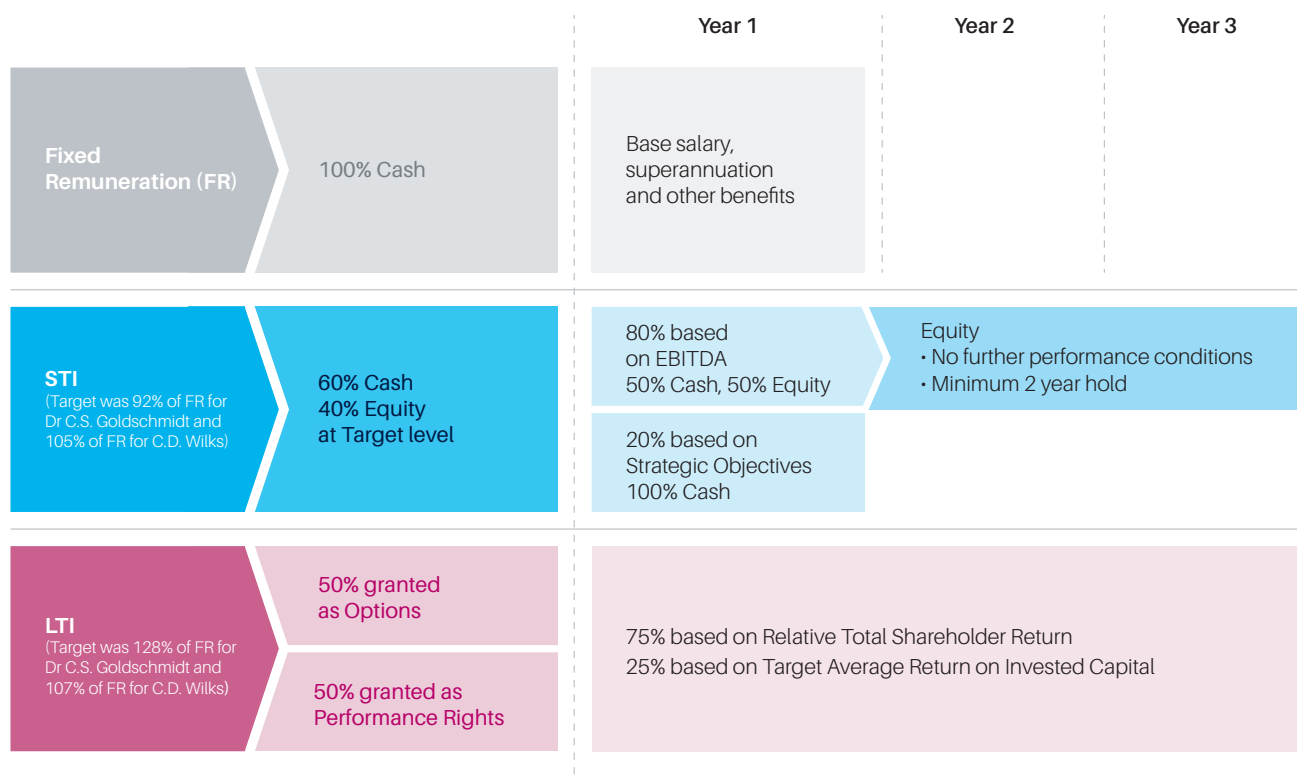
Sonic Healthcare's remuneration opportunities are structured and set at levels that are intended to attract, motivate and retain Executives capable of leading and managing the Group's operations, and to align remuneration with the creation of value for shareholders.

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.



Directors' Report

REMUNERATION REPORT

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

	Fixed Remuneration (FR)	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 targets and strategic objectives.	Performance is assessed against Relative Total Shareholder Return (TSR) 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.	Aligned to earnings 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 when set. Fixed and Total Target Remuneration values had remained unchanged for 5 years to 30 June 2022. In the annual review of remuneration carried out by the Board's Remuneration and Nomination Committee, independent market benchmarking revealed that C.D. Wilks' remuneration had fallen behind the targeted percentile versus CFOs of companies of similar sizes and complexity based on market capitalisation, global complexity and industry. His Fixed Remuneration was therefore increased by approximately 10% to \$1,200,000 with effect from 1 July 2022, with proportionate increases in the other elements of his remuneration package. Dr C.S. Goldschmidt's remuneration has remained unchanged. 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 was, 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 30 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 considered it appropriate to recognise the value of the knowledge, skills and experience the individuals bring to Sonic Healthcare, as well as the sustained performance they have delivered.
- Reflecting their sustained performance, both the Managing Director and Finance Director have built and retained large shareholdings with Sonic Healthcare over their significant tenure, resulting in a high level of alignment between the Executives and shareholders.
- The role and strategic responsibilities of C.D. Wilks, Finance Director, are considered broader than those of a typical CFO role.

Directors' Report

REMUNERATION REPORT

iii) Remuneration mix

The table below provides a summary of target remuneration mix for 2023 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 2023 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?	<ul style="list-style-type: none"> 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?	<p>The STI is determined based on the extent to which the following conditions are met:</p> <ul style="list-style-type: none"> 80% based on EBITDA 20% based on Strategic Objectives (of which 50% relates specifically to sustainability objectives)
How does the EBITDA performance condition work?	<p>Achievement of a target level of underlying EBITDA. The annual EBITDA performance target is based on the upper quartile of market earnings guidance, or where no guidance is provided, based on market expectation. No guidance was provided for FY2023 due to uncertainties associated with the COVID-19 pandemic. Instead the EBITDA target was based on market consensus earnings at the time the target was set.</p> <p>EBITDA 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 or interest rates.</p> <p>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.</p>
What are the Strategic Objective measures?	<p>The Strategic Objectives applicable to the STI are as follows:</p> <ul style="list-style-type: none"> 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) Progress with the Company's environmental, governance and sustainability objectives (50% weighting)
How is the STI delivered?	<p>50% of the EBITDA related component is delivered as rights to Sonic Healthcare shares. The rights/shares are held in the Sonic Healthcare Employee Share Trust for a period of at least two years.</p> <p>The remainder of the STI is delivered as cash with no deferral.</p>

REMUNERATION REPORT

LTI Plan

The award features for the grant made during the 2023 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?	<p>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.</p> <p>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.</p>										
What is the mix of performance conditions?	<p>Awards vest under the LTI plan based on the extent to which the following conditions are achieved over the three-year performance measurement period:</p> <ul style="list-style-type: none"> Relative TSR (75% weighting) Average Return on Invested Capital (ROIC) (25% weighting) <p>Note that previously the LTI performance conditions included a third measure, being Earnings Per Share (EPS) growth. In setting the performance conditions for this period the Board considered the context of the impacts of the COVID-19 pandemic and in particular the difficulties of predicting the level of COVID-19 PCR testing revenues. Consequently the Board determined that EPS growth was not a suitable performance measure for the 2023 LTI. The Board intends to consider the reintroduction of the EPS growth hurdle in future years.</p>										
How does the Relative TSR performance condition work?	<p>Relative Total Shareholder Return (TSR) provides a direct link between executive remuneration and shareholder return relative to the Company's peers.</p> <p>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.</p> <p>Awards under the Relative TSR condition vest as follows:</p> <table border="1"> <thead> <tr> <th>TSR ranking achieved</th> <th>Percentage of options and rights that vest</th> </tr> </thead> <tbody> <tr> <td>Below the 51st percentile</td> <td>0% vesting of Relative TSR component</td> </tr> <tr> <td>51st percentile</td> <td>50% vesting of Relative TSR component</td> </tr> <tr> <td>Greater than 51st and less than 75th percentile</td> <td>Pro rata between 50% and 100% vesting of Relative TSR component</td> </tr> <tr> <td>75th percentile and above</td> <td>100% vesting of Relative TSR component</td> </tr> </tbody> </table>	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
TSR ranking achieved	Percentage of options and rights that vest										
Below the 51st percentile	0% vesting of Relative TSR component										
51st percentile	50% vesting of Relative TSR component										
Greater than 51st and less than 75th percentile	Pro rata between 50% and 100% vesting of Relative TSR component										
75th percentile and above	100% vesting of Relative TSR component										

Directors' Report

REMUNERATION REPORT

Key question	Sonic Healthcare approach										
How does the Target Average ROIC performance condition work?	<p>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 (2023) was 9%. 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').</p> <p>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.</p> <p>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.</p> <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th style="background-color: #e1f5fe;">Average ROIC over 3 years</th> <th style="background-color: #e1f5fe;">Percentage of options and rights that vest</th> </tr> </thead> <tbody> <tr> <td>Less than Target Average ROIC</td> <td>0% vesting of Average ROIC component</td> </tr> <tr> <td>Equal to Target Average ROIC</td> <td>40% vesting of Average ROIC component</td> </tr> <tr> <td>Greater than Target Average ROIC and less than 110% of Target Average ROIC</td> <td>Pro rata between 40% and 100% vesting of average ROIC component</td> </tr> <tr> <td>110% of Target Average ROIC or greater</td> <td>100% vesting of average ROIC component</td> </tr> </tbody> </table>	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
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										
Does the LTI have re-testing?	<p>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 Target Average ROIC conditions to ensure the intent of the incentive plan is retained e.g. for a change in accounting standards.</p>										
How are the awards delivered under the LTI?	<p>Vesting of LTI grants is dependent upon the achievement of the performance conditions outlined above over the three-year performance period.</p> <p>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.</p>										

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.

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.

Malus and clawback

Where, in the opinion of the Board, a participant has obtained, or will obtain, an unfair benefit as a result of an act which:

- constitutes fraud, or dishonest or gross misconduct in relation to the affairs of the Group or any Group Company;
- brings the Group or any Group Company into disrepute;
- is in breach of their obligations to the Group or any Group Company, including compliance with any applicable Company policy;
- constitutes a failure to perform any other act reasonably and lawfully requested of the participant; or
- has the effect of delivering strong Company performance in a manner which is unsustainable or involves unacceptably high risk, and results, or is likely to result, in a detrimental impact on Company performance following the end of the period;

the Board may, to ensure that no unfair benefit is obtained by the participant, in its absolute discretion, subject to applicable laws, determine any treatment in relation to an award, including, without limitation, to:

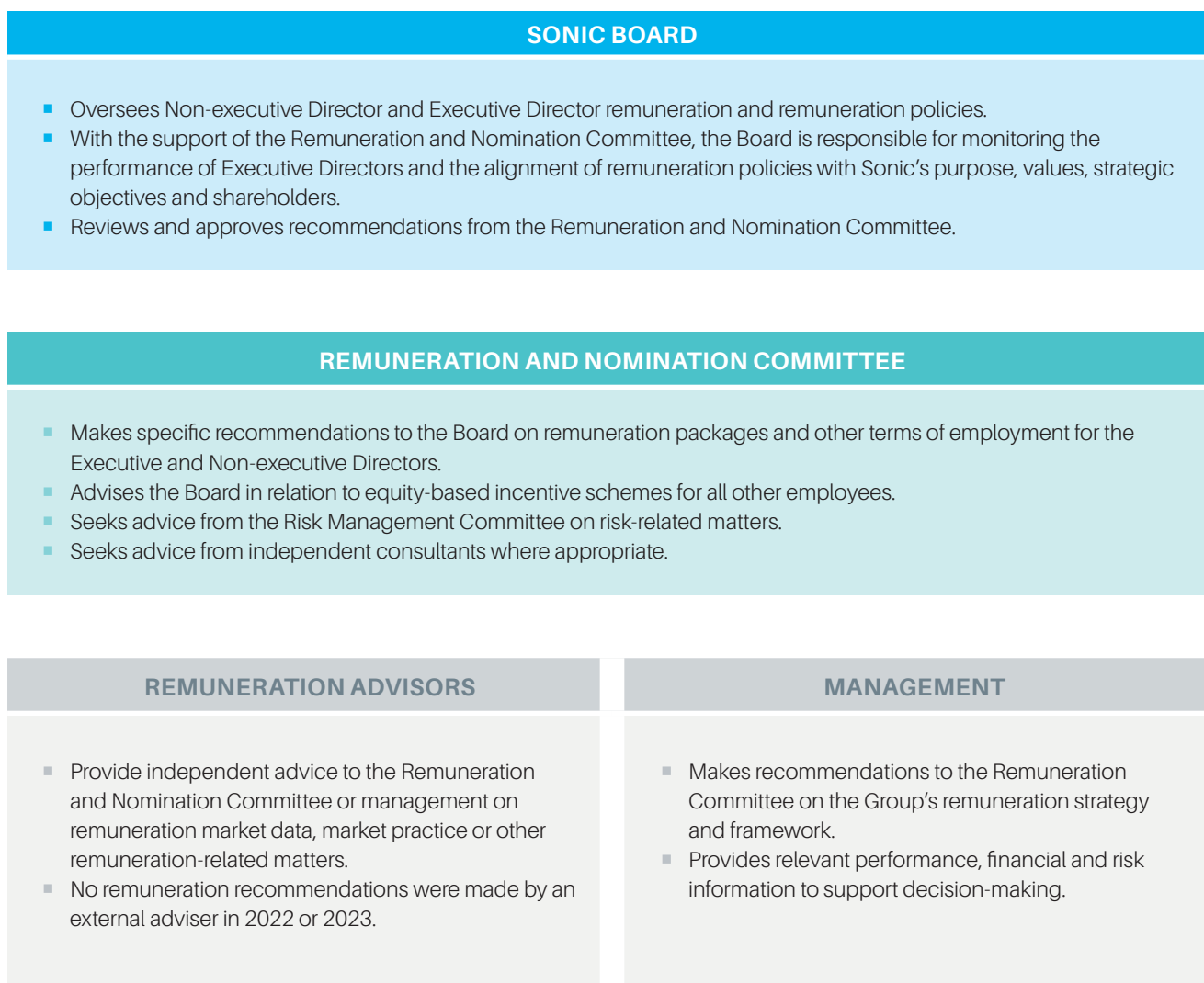
- vary downwards (including to nil) the number of shares/securities in respect of which an award vests;
- reset the performance condition and/or alter the period(s) applying to awards;
- deem all or any awards which have not vested to have lapsed or been forfeited (as relevant); or
- determine any treatment in relation to an award as the Board deems fit.

Directors' Report

REMUNERATION REPORT

ii) Remuneration policy and governance oversight

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



Directors' Report

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 for remuneration of Non-executive Directors, of which \$2,054,598 was paid in 2023. Fees effective from 1 January 2022 are as set out below.

Fees per annum	Committee Chair		Members
	Current	Current	Current
Chairman (inclusive of Committee work)	\$550,000		
Base Non-executive Director fee	\$200,000		
Audit Committee		\$47,000	\$23,000
Risk Management Committee		\$38,000	\$19,000
Remuneration and Nomination Committee		\$40,000	\$20,000

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 2022 and 2023. These disclosures have been calculated in accordance with the relevant 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 <i>Chairman</i>	FY2023	524,708	-	25,292	550,000
	FY2022	514,869	-	23,568	538,437
Prof. C. Bennett	FY2023	139,175	-	14,613	153,788
	FY2022	-	-	-	-
Prof. S. Crowe	FY2023	208,871	-	21,932	230,803
	FY2022	188,522	-	18,816	207,338
Dr P.J. Dubois	FY2023	69,245	-	7,270	76,515
	FY2022	175,384	-	17,538	192,922
Dr K. Giles	FY2023	139,175	-	14,613	153,788
	FY2022	-	-	-	-
N. Mitchell	FY2023	240,724	-	25,276	266,000
	FY2022	235,867	-	23,258	259,125
L.J. Panaccio	FY2023	237,104	-	24,896	262,000
	FY2022	232,001	-	22,918	254,919
K.D. Spargo	FY2023	238,009	-	24,991	263,000
	FY2022	232,958	-	22,979	255,937
Dr E.J. Wilson	FY2023	89,325	-	9,379	98,704
	FY2022	228,232	-	22,610	250,842

¹ Other benefits include fringe benefits tax where applicable

Directors' Report

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 benefits ¹	STI (cash)		Value of deferred STI rights	Value of shares	Value of options and rights ²			
Name		\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Dr C.S. Goldschmidt <i>Managing Director</i>	FY2023	2,372,342	-	751,305	25,292	311,032	-	2,470,025	38,511	5,968,507	59
	FY2022	2,374,066	-	1,761,093	23,568	1,320,821	-	2,164,737	40,970	7,685,255	68
C.D. Wilks <i>Finance Director</i>	FY2023	1,174,708	-	431,120	25,292	178,479	-	976,977	49,149	2,835,725	56
	FY2022	1,066,172	-	917,711	23,568	688,283	-	874,124	18,416	3,588,274	69

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 increase in accrued leave balances during the year.

Directors' Report

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
2023		
Options 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 \$21.64 exercise price	331,551	147,295
Performance rights issued in November 2019 with a performance measurement period to 30 June 2022 (having fully vested after satisfying performance conditions) with a nil exercise price	44,941	19,966
Deferred share rights issued in September 2022 for STI performance to 30 June 2022 (resulting shares must be held until September 2024)	33,896	17,663
2023 Total intrinsic value of options and rights at the date of exercise	\$6,580,697	\$3,009,738
2022		
Options 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 options issued to be forfeited) with a \$21.62 exercise price	164,559	73,107
Performance rights issued in November 2018 with a performance measurement period to 30 June 2021 (having fully vested after satisfying performance conditions) with a nil exercise price	60,626	26,934
Deferred share rights issued in September 2021 for STI performance to 30 June 2021 (resulting shares must be held until September 2023)	31,495	16,412
2022 Total intrinsic value of options and rights at the date of exercise	\$6,837,620	\$3,122,514

ii) Equity disclosures relating to key management personnel

Options and performance rights held during the financial year

After approval by shareholders at the 2019, 2020, 2021 and 2022 Annual General Meetings, the Executive Directors were issued the following LTI (the 'FY2020 Issue', 'FY2021 Issue', 'FY2022 Issue' and 'FY2023 Issue'):

	FY2020 Issue		FY2021 Issue		FY2022 Issue		FY2023 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	407,747	181,147	381,723	145,468	248,622	94,745	265,915	111,589
Performance rights over shares in Sonic Healthcare Limited	44,941	19,966	50,413	19,211	39,409	15,018	46,752	19,619

In addition Dr C.S. Goldschmidt and C.D. Wilks were granted 41,663 and 21,711 performance rights respectively to satisfy the deferred STI consideration for the FY2022 performance period. The value of these rights were disclosed as remuneration for the FY2022 year.

Directors' Report

REMUNERATION REPORT

	FY2020 Issue	FY2021 Issue	FY2022 Issue	FY2023 Issue
Options exercise price	\$29.26	\$34.21	\$38.90	\$32.79
Performance condition measurement period	3 years to 30 June 2022	3 years to 30 June 2023	3 years to 30 June 2024	3 years to 30 June 2025
Earliest vesting date, if performance conditions are met	19 November 2022	18 November 2023	18 November 2024	17 November 2025
Expiry date	19 November 2024	18 November 2025	18 November 2026	17 November 2027
Fair value of each option at grant date	\$2.03	\$3.81	\$5.27	\$3.87
Fair value of each right at grant date	\$18.70	\$25.72	\$25.11	\$19.53
Percentage that satisfied vesting conditions	100.0%	84.3%	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 FY2023 as part of LTI remuneration (the FY2023 issue) was \$1,940,774 for Dr C.S. Goldschmidt and \$814,431 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 2022	Issued during the 2023 year	(Forfeited) during the 2023 year	(Exercised) during the 2023 year	Balance at 30 June 2023	(Forfeited) since year end	Vested and exercisable at 30 June 2023
Dr C.S. Goldschmidt	1,832,015	265,915	-	(331,551)	1,766,379	(60,086)	870,119
C.D. Wilks	774,070	111,589	-	(147,295)	738,364	(22,898)	386,562

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 2022	Issued during the 2023 year	(Forfeited) during the 2023 year	(Exercised) during the 2023 year	Balance at 30 June 2023	(Forfeited) since year end	Vested and exercisable at 30 June 2023
Dr C.S. Goldschmidt	134,763	88,415	-	(78,837)	144,341	(7,935)	7,767
C.D. Wilks	54,195	41,330	-	(37,629)	57,896	(3,024)	4,048

Subsequent to the year end Dr C.S. Goldschmidt and C.D. Wilks were awarded 10,217 and 5,863 performance rights respectively to satisfy their deferred STI component for the FY2023 performance period. The value of these rights were disclosed as remuneration in the FY2023 year.

Directors' Report

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 2022	Issued during the 2023 year on the exercise of options or rights	Shares provided as remuneration during the 2023 year	Other changes during the 2023 year	Balance at 30 June 2023
Dr C.S. Goldschmidt	852,084	410,388	-	(331,551)	930,921
C.D. Wilks	660,368	184,924	-	(200,000)	645,292
Prof. M.R. Compton	9,266	-	-	2,000	11,266
Prof. C. Bennett	-	-	-	1,000	1,000
Prof. S. Crowe	1,440	-	-	2,560	4,000
Dr P.J. Dubois	11,770	-	-	(11,770)	-
Dr K. Giles	-	-	-	1,000	1,000
N. Mitchell	9,770	-	-	-	9,770
L.J. Panaccio	8,026	-	-	-	8,026
K.D. Spargo	23,000	-	-	2,000	25,000
Dr E.J. Wilson	7,770	-	-	(7,770)	-

Whilst Sonic currently does not have a minimum shareholding requirement for Non-executive Directors, all are encouraged to, and do, hold shares. The Managing Director and Finance Director are required to, and have, shareholdings (including purchased shares, vested securities and unvested securities not subject to performance measures) at least equivalent in value to 150% and 75% (respectively) of Fixed Remuneration.

iii) Transactions with key management personnel

There were no other transactions with key management personnel during 2023 or 2022.

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 2023 (2022: \$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).

Directors' Report

REMUNERATION REPORT

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.

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
26 September 2023



Auditor's Independence Declaration

As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Sonic Healthcare Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'B Entwistle', is written over a faint, light blue grid background.

Brett Entwistle
Partner
PricewaterhouseCoopers

Sydney
26 September 2023

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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 26 September 2023, 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 2023 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 2023 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 Leadership Principles, medical ethics and law.

The Sonic Medical Leadership Principles are summarised as:

- Personalised service for doctors and patients
- Respect for our people
- Company conscience
- Operational excellence
- Professional and academic expertise

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, Medical Leadership Principles 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 clinical quality, patient safety and regulatory matters
- overseeing the Group's sustainability (ESG) strategy including approval of Sonic's annual Sustainability Report
- overseeing the Group's cybersecurity, including data security and privacy requirements and the Group's information security management system
- protecting human rights, including approval of Sonic's annual Modern Slavery Statement
- 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 meeting taxation obligations and providing 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	Term of office (Years)	Position	Expertise	Committees
Prof. Mark Compton	9	Chairman, Non-executive, independent Director	Healthcare industry and company management	Member of Audit Committee and Remuneration and Nomination Committee
Dr Colin Goldschmidt	30	Managing Director, Chief Executive Officer	Healthcare industry and company management. Sustainability experience. Pathologist	Member of Risk Management Committee
Mr Chris Wilks	33	Finance Director, Chief Financial Officer	Finance, strategy, accounting, banking, secretarial and company management	
Prof. Christine Bennett	1	Non-executive, independent Director	Medicine, healthcare industry and management, healthcare policy, medical research, governance and sustainability	
Prof. Suzanne Crowe	3	Non-executive, independent Director	Medicine, medical research, governance and company oversight	Chair of Risk Management Committee
Dr Katharine Giles	1	Non-executive, independent Director	Medicine, medical research, technology and innovation, management, venture capital	
Mr Neville Mitchell	6	Non-executive, independent Director	Finance, tax, international healthcare and company management	Chair of Audit Committee and member of Risk Management Committee
Mr Lou Panaccio	18	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	13	Non-executive, independent Director	Law, governance, sustainability and company oversight	Chair of Remuneration and Nomination Committee and member of Audit Committee

The composition of Sonic's Board is consistent with the principle of medical management and leadership, which has been a core strategy of Sonic since 1993. Sonic's Managing Director is a pathologist, and the Board also includes three other medical specialists, ensuring that it has the capacity to understand complex medical issues and be in close touch with the medical marketplace. The presence of medical practitioners on Sonic's Board also gives comfort both to referring doctors (Sonic's customers) and to owners of diagnostic practices that Sonic seeks to acquire.

The Board currently comprises seven Non-executive Directors, all 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, sustainability experience, including awareness of impacts on organisations, the economy, environment and people, and expertise in acquiring and merging healthcare businesses. The Board considers that it 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 should continue to be regarded as independent. The tenures of Mr Panaccio and Ms Spargo 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
- Sustainability
- Digital/data strategy
- 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, sustainability issues, 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 2023 financial year was \$2,054,598. 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
 - 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.

Corporate Governance Statement

2. BOARD COMMITTEES

b) Risk Management Committee

Members of the Risk Management Committee are:

Prof. S Crowe | *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 all material risks, including but not limited to risks relating to:
 - brand, culture and reputation, including in relation to Modern Slavery
 - workplace health and safety
 - people
 - clinical care and quality
 - operations
 - legal and regulatory
 - information protection including cybersecurity risks, including data security and privacy risks
 - financial management, including taxation risks
 - environment
 - strategy
 - 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

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 2023 was:

	2023	2022
Non-executive Directors of Sonic Healthcare Limited	57%	43%
Directors of Sonic Healthcare Limited	44%	33%
Executive staff of the Group⁺	39%	38%
Other senior leadership positions	56%	56%
Total senior leadership positions*	53%	53%
All employees	73%	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. In addition, the Company has the objective to have not less than 40% of its Directors of each of male and female genders. These objectives were achieved in 2023.

Corporate Governance Statement

4. IDENTIFYING AND MANAGING BUSINESS RISKS

Sonic recognises that risk management is an integral part of good management and corporate governance practice and is fundamental to driving shareholder value across the business.

Sonic views the management of risk as a core managerial capability. Risk management is strongly promoted internally and forms part of the performance evaluation of key executives.

Sonic's material business risks are described in the operating and financial review section of the Directors' Report. Information on Sonic's impact on society and the environment can be found in Sonic's Sustainability Report 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 unifying code of conduct embraced by Sonic employees
- Sonic's Code of Conduct and Global Whistleblower Policy
- centrally administered Group insurance program, ensuring a consistent and adequate approach across all operating areas
- the ongoing engagement of a professional Risk Manager to coordinate the Company's approach to material business risk management.

Corporate Governance Statement

4. IDENTIFYING AND MANAGING BUSINESS RISKS

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

c) Regulatory compliance

Sonic's laboratory, radiology 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 radiology 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 2023 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
- Data Security Statement
- Diversity Policy
- Workplace Health and Safety Policy
- Privacy Policy
- Environmental Policy
- Modern Slavery reporting

Corporate Governance Statement

6. CONTINUOUS DISCLOSURE

The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules, and overseeing and 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 and facilitate virtual attendance. 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.

Corporate Governance Statement

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

b) The Managing Director and Finance Director

The performances of the Managing Director and Finance Director are formally reviewed by the Board annually, including during the 2023 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)
- progress with sustainability governance and initiatives
- 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 2023 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.

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SONIC HEALTHCARE LIMITED
ABN 24 004 196 909

30 JUNE 2023

Consolidated Income Statement

FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023	2022
		\$'000	\$'000
Revenue from operations	3	8,168,948	9,340,154
Labour and related costs		(3,868,375)	(3,614,351)
Consumables used		(1,279,695)	(1,604,459)
Depreciation	4	(631,298)	(607,427)
Transportation		(217,016)	(206,134)
Utilities		(178,462)	(163,082)
Borrowing costs	4	(87,025)	(79,819)
Amortisation of intangibles	4	(71,630)	(67,990)
Other expenses from ordinary activities		(904,259)	(919,687)
Profit from ordinary activities before income tax expense		931,188	2,077,205
Income tax expense	6	(223,257)	(561,739)
Profit from ordinary activities after income tax expense		707,931	1,515,466
Net (profit) attributable to minority interests		(22,947)	(54,900)
Profit attributable to members of Sonic Healthcare Limited	27(b)	684,984	1,460,566

		Cents	Cents
Basic earnings per share	36	145.8	305.5
Diluted earnings per share	36	145.0	302.5

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 2023

	Notes	2023	2022
		\$'000	\$'000
Profit from ordinary activities after income tax expense		707,931	1,515,466
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	27(a)	320,502	90,886
Items that will not be reclassified to profit or loss			
Fair value gain on financial asset	27(a)	1,921	-
Actuarial (losses)/gains on retirement benefit obligations	24(f)	(1,454)	23,688
Other comprehensive income for the period, net of tax		320,969	114,574
Total comprehensive income for the period		1,028,900	1,630,040
Total comprehensive income attributable to:			
Members of Sonic Healthcare Limited		993,054	1,580,036
Minority interests		35,846	50,004
		1,028,900	1,630,040

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

Consolidated Balance Sheet

AS AT 30 JUNE 2023

	Notes	2023	2022
		\$'000	\$'000
Current assets			
Cash and cash equivalents	37(a)	797,994	779,997
Receivables	7	1,022,175	1,217,462
Inventories	8	199,201	216,193
Other	9	113,801	92,258
Total current assets		2,133,171	2,305,910
Non-current assets			
Receivables	10	37,739	38,191
Investments	11	175,799	145,222
Property, plant and equipment	12	1,510,930	1,321,121
Right-of-use assets	13	1,287,176	1,303,743
Intangible assets	14	7,789,619	7,361,486
Deferred tax assets	15	72,375	68,991
Other	16	7,820	7,349
Total non-current assets		10,881,458	10,246,103
Total assets		13,014,629	12,552,013
Current liabilities			
Payables	17	959,992	1,018,552
Lease liabilities	18	346,791	341,858
Current tax liabilities	19	220,608	374,259
Provisions	20	342,722	328,236
Other	21	8,230	21,369
Total current liabilities		1,878,343	2,084,274
Non-current liabilities			
Interest-bearing liabilities	22	1,673,461	1,576,934
Lease liabilities	18	1,080,228	1,093,945
Deferred tax liabilities	23	332,731	264,240
Provisions	24	103,861	99,245
Other	25	24,143	5,201
Total non-current liabilities		3,214,424	3,039,565
Total liabilities		5,092,767	5,123,839
Net assets		7,921,862	7,428,174
Equity			
Parent entity interest			
Contributed equity	26	3,842,423	3,860,948
Reserves	27(a)	339,884	61,172
Retained earnings	27(b)	3,554,197	3,351,020
Total parent entity interest		7,736,504	7,273,140
Minority interests		185,358	155,034
Total equity		7,921,862	7,428,174

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 2023

	Share capital	Reserves	Retained earnings	Total	Minority interests	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2021	4,081,981	(19,158)	2,322,163	6,384,986	119,357	6,504,343
Profit for period	-	-	1,460,566	1,460,566	54,900	1,515,466
Other comprehensive income for the period	-	95,782	23,688	119,470	(4,896)	114,574
Total comprehensive income for the period	-	95,782	1,484,254	1,580,036	50,004	1,630,040
Transactions with owners in their capacity as owners						
Dividends paid	-	-	(455,397)	(455,397)	-	(455,397)
Shares issued	67,592	(18,751)	-	48,841	-	48,841
Transfers to share capital	8,265	(8,265)	-	-	-	-
Costs of share transactions net of tax	(18)	-	-	(18)	-	(18)
Share-based payments	-	17,240	-	17,240	-	17,240
Acquisition of shares	(302,548)	-	-	(302,548)	-	(302,548)
Allocation of treasury shares	5,676	(5,676)	-	-	-	-
Acquisition of minority interests	-	-	-	-	1,249	1,249
Contributions from minority interests	-	-	-	-	153	153
Dividends paid to minority interests in controlled entities	-	-	-	-	(15,729)	(15,729)
Balance at 30 June 2022	3,860,948	61,172	3,351,020	7,273,140	155,034	7,428,174
Profit for period	-	-	684,984	684,984	22,947	707,931
Other comprehensive income for the period	-	309,524	(1,454)	308,070	12,899	320,969
Total comprehensive income for the period	-	309,524	683,530	993,054	35,846	1,028,900
Transactions with owners in their capacity as owners						
Dividends paid	-	-	(480,353)	(480,353)	-	(480,353)
Shares issued	100,763	(16,488)	-	84,275	-	84,275
Costs of share transactions net of tax	(7)	-	-	(7)	-	(7)
Transfers to share capital	8,917	(8,917)	-	-	-	-
Share-based payments	-	18,453	-	18,453	-	18,453
Acquisition of shares	(134,100)	-	-	(134,100)	-	(134,100)
Allocation of treasury shares	5,902	(2,735)	-	3,167	-	3,167
Acquisition of minority interests	-	(21,125)	-	(21,125)	(680)	(21,805)
Contributions from minority interests	-	-	-	-	5,480	5,480
Dividends paid to minority interests in controlled entities	-	-	-	-	(10,322)	(10,322)
Balance at 30 June 2023	3,842,423	339,884	3,554,197	7,736,504	185,358	7,921,862

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 2023

	Notes	2023	2022
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		8,520,953	9,423,315
Payments to suppliers and employees (inclusive of goods and services tax)		(6,639,798)	(6,744,340)
Gross operating cash flow		1,881,155	2,678,975
Interest received		13,617	1,994
Borrowing costs		(83,752)	(76,960)
Income taxes paid		(339,987)	(378,188)
Net cash inflow from operating activities	37(b)	1,471,033	2,225,821
Cash flows from investing activities			
Payment for purchase of controlled entities, net of cash acquired		(82,390)	(547,160)
Payments for property, plant and equipment		(389,125)	(286,953)
Proceeds from sale of non-current assets		15,204	14,990
Payments for investments		(27,525)	(81,209)
Payments for intangibles		(107,888)	(91,636)
Repayment of loans by other entities		19,575	14,893
Loans to other entities		(7,892)	(12,105)
Net cash (outflow) from investing activities		(580,041)	(989,180)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities (net of transaction costs and related taxes)		84,265	48,815
Payments for buyback and treasury shares		(130,933)	(302,548)
Proceeds from borrowings		116,109	137,836
Repayment of borrowings		(119,218)	(418,039)
Principal elements of lease payments		(371,204)	(344,489)
Dividends paid to Company's shareholders		(480,353)	(455,397)
Dividends paid to minority interests in subsidiaries		(10,177)	(15,472)
Net cash (outflow) from financing activities		(911,511)	(1,349,294)
Net (decrease) in cash and cash equivalents		(20,519)	(112,653)
Cash and cash equivalents at the beginning of the financial year		779,997	899,827
Effects of exchange rate changes on cash and cash equivalents		38,516	(7,177)
Cash and cash equivalents at the end of the financial year	37(a)	797,994	779,997
Financing arrangements	22		
Non-cash financing and investing activities	37(c)		

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

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Notes to the Consolidated Financial Statements

30 JUNE 2023

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 26 September 2023.

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 39 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. This includes repairs and maintenance in FY2022 of \$232,018,000 which is now included within other expenses from operating activities.

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 2023 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 the SHEST are disclosed as treasury shares and deducted from contributed equity.

Notes to the Consolidated Financial Statements

30 JUNE 2023

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.

Notes to the Consolidated Financial Statements

30 JUNE 2023

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.

Notes to the Consolidated Financial Statements

30 JUNE 2023

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.

Notes to the Consolidated Financial Statements

30 JUNE 2023

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 radiology services

Laboratory medicine and radiology 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.

Notes to the Consolidated Financial Statements

30 JUNE 2023

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.

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l) Leases

The Group leases properties, equipment and vehicles under rental contracts which are typically made for fixed periods of between 1 month and 20 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.

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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.

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 2023 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 400% of the FY2023 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.

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 radiology) and country of operation (Australia, New Zealand, UK, USA, Germany, Switzerland and Belgium).

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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.

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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 38. Movements in the hedging reserve in shareholders' equity are shown in Note 27.

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.

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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.

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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 34.

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.

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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. For share buybacks the total cost of purchasing Sonic ordinary shares is deducted from contributed equity.

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.

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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.

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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.

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 34.

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 29, 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 24.

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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 2023. 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.

The Group has applied the exception from recognising and disclosing information regarding deferred tax assets and liabilities related to Pillar Two income taxes.

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ae) Parent Company financial information

The financial information for the Parent Company, Sonic Healthcare Limited, disclosed in Note 39 has been prepared on the same basis as the consolidated financial statements, except as set out below.

i) Investments in subsidiaries

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

ii) Tax consolidation legislation

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

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

iii) Share-based payments

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

Notes to the Consolidated Financial Statements

30 JUNE 2023

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 and Belgium.

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) Radiology

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 from time to time.

The internal reports use a 'Constant Currency' basis for reporting revenue and Net Profit Before Tax (NPBT) with foreign currency elements restated using the relevant prior period average exchange rates. The segment revenue and NPBT have therefore been presented using Constant Currency. NPBT is calculated after lease interest, but excluding interest on debt.

Notes to the Consolidated Financial Statements

30 JUNE 2023

2023	Laboratory	Radiology	Other	Eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue (Constant Currency)					
External sales	6,794,962	795,468	384,756	-	7,975,186
Inter-segment sales	1,303	641	3,402	(5,346)	-
Total segment revenue (Constant Currency)	6,796,265	796,109	388,158	(5,346)	7,975,186
Currency exchange rate movements	180,145	-	-	-	180,145
Total segment revenue (Statutory)	6,976,410	796,109	388,158	(5,346)	8,155,331
Interest income					13,617
Total revenue					8,168,948
Result					
Segment NPBT (Constant Currency)	931,971	102,595	(75,737)	-	958,829
Currency exchange rate movements	19,888	-	-	-	19,888
Segment NPBT (Statutory)	951,859	102,595	(75,737)	-	978,717
Unallocated interest expense					(47,529)
Profit before tax					931,188
Income tax expense					(223,257)
Profit after income tax expense					707,931
Allocated interest expense	29,118	5,300	5,078	-	39,496
Depreciation and amortisation expense	511,880	83,141	107,907	-	702,928
EBITDA	1,484,509	190,833	32,182	-	1,707,524
Other non-cash items	14,441	3,706	15,772	-	33,919

2022	Laboratory	Radiology	Other	Eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue					
External sales	8,197,795	705,730	434,635	-	9,338,160
Inter-segment sales	1,364	557	3,077	(4,998)	-
Total segment revenue	8,199,159	706,287	437,712	(4,998)	9,338,160
Interest income					1,994
Total revenue					9,340,154
Result					
Segment NPBT	2,106,241	77,344	(59,730)	-	2,123,855
Unallocated interest expense					(46,650)
Profit before tax					2,077,205
Income tax expense					(561,739)
Profit after income tax expense					1,515,466
Allocated interest expense	27,748	4,505	916	-	33,169
Depreciation and amortisation expense	505,178	76,567	93,672	-	675,417
EBITDA	2,638,392	158,414	33,641	-	2,830,447
Other non-cash items	(44,790)	7,696	19,637	-	(17,457)

Notes to the Consolidated Financial Statements

30 JUNE 2023

Geographical information

	Revenues from sales to external customers [†]		Non-current assets ^{†^}	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Australia	3,118,451	3,597,509	3,501,397	3,426,719
United States of America	2,114,115	2,169,488	3,315,127	3,171,789
Germany	1,549,544	2,025,115	1,934,401	1,717,789
Other	1,373,221	1,546,048	1,882,359	1,715,593
Total	8,155,331	9,338,160	10,633,284	10,031,890

[†] 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

	2023	2022
	\$'000	\$'000
Services revenue		
Medical services revenue	8,144,998	9,320,626
Other		
Interest received or due and receivable	13,089	1,611
Finance income on net investment in lease	528	383
Income from sub-leasing right-of-use assets	5,009	4,774
Other revenue	5,324	12,760
Total	8,168,948	9,340,154
Disaggregated revenue		
Laboratory		
USA	2,113,808	2,169,227
Australia	1,938,334	2,457,107
Germany	1,549,497	2,024,926
Switzerland	594,677	631,449
UK & Ireland	593,539	706,214
Belgium	154,747	175,218
New Zealand	28,834	31,740
Non-laboratory		
Radiology	795,101	705,423
Other (medical centres, occupational health services etc.)	381,785	432,082
Total	8,150,322	9,333,386

Contract asset balances of \$3,208,000 (2022: \$5,538,000) and \$5,135,000 (2022: \$4,434,000) have been recognised in current receivables and non-current receivables as at 30 June 2023 relating to upfront doctor payments in the medical centre and occupational health businesses.

Notes to the Consolidated Financial Statements

30 JUNE 2023

NOTE 4 | EXPENSES

	2023	2022
	\$'000	\$'000
Profit before income tax includes the following specific expenses		
Finance costs		
Finance charges on capitalised leases	37,595	31,137
Other borrowing costs	49,430	48,682
Total borrowing costs	87,025	79,819
Amortisation of intangibles	71,630	67,990
Depreciation of		
Plant and equipment	252,422	247,672
Buildings	8,721	6,975
Total depreciation	261,143	254,647
Depreciation charge of right-of-use assets		
Buildings	360,450	343,041
Equipment	9,705	9,739
Total right-of-use asset depreciation	370,155	352,780
Lease expense		
Short-term leases	38,059	38,079
Low-value leases	4,033	4,026
Variable leases - Other	19,527	22,518
Total lease expense	61,619	64,623
Defined contribution superannuation expense	168,494	153,180
Bad and doubtful trade debtors	164,747	136,984

Notes to the Consolidated Financial Statements

30 JUNE 2023

NOTE 5 | DIVIDENDS

	2023	2022
	\$'000	\$'000
Total dividends paid on ordinary shares during the year		
Final dividend for the year ended 30 June 2022 of 60 cents (2021: 55 cents) per share paid on 21 September 2022 (2021: 22 September 2021), franked to 100% (2021: 65%)	283,382	263,441
Interim dividend for the year ended 30 June 2023 of 42 cents (2022: 40 cents) per share paid on 22 March 2023 (2022: 23 March 2022), franked to 100% (2022: 100%)	196,971	191,956
	480,353	455,397
Dividends not recognised at year end		
In addition to the above dividends, since year end the Directors declared a final dividend of 62 cents (2022: 60 cents) per ordinary share, franked to 100% (2022: 100%) based on tax paid at 30%. The aggregate amount of the final dividend paid on 21 September 2023 (2022: 21 September 2022) out of retained earnings at the end of the year, but not recognised as a liability is:	293,923	283,382
Franked dividends		
The 2023 final dividend declared after the year end was 100% franked out of franking credits available at year end and those arising from the payment of income tax in the year ending 30 June 2024.		
Franking credits available at the year end for subsequent financial years based on a tax rate of 30%	32,672	17,557

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 FY2023 final dividend, as it was through the 2023 and 2022 financial years.

Notes to the Consolidated Financial Statements

30 JUNE 2023

NOTE 6 | INCOME TAX

a) Income tax expense

	2023	2022
	\$'000	\$'000
Current tax	193,623	493,939
Deferred tax	34,371	68,987
Under/(over) provision in prior years – deferred tax	17,123	(10,690)
(Over)/under provision in prior years – current tax	(21,860)	9,503
Income tax expense	223,257	561,739
Deferred income tax expense included in income tax expense comprises		
(Increase)/decrease in deferred tax assets (Note 15)	(9,373)	1,974
Increase in deferred tax liabilities (Note 23)	60,867	56,323
	51,494	58,297

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

Profit before income tax expense	931,188	2,077,205
Tax at the Australian tax rate of 30% (2022: 30%)	279,356	623,162
Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income		
Difference in overseas tax rates	(27,294)	(54,170)
Potential deductions relating to equity remuneration	(25,457)	(8,417)
(Over) provision in prior years	(4,737)	(1,187)
Other deductible/non-taxable items (net)	1,389	2,351
Income tax expense	223,257	561,739

c) Tax expense relating to items of other comprehensive income

Actuarial gains on retirement benefit obligations	520	5,378
Fair value gain on financial asset	822	-
Tax expense relating to items of other comprehensive income	1,342	5,378

d) Amounts recognised directly in equity

Capital raising costs	4	8
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Notes to the Consolidated Financial Statements

30 JUNE 2023

e) Tax losses

Deferred tax assets of \$14,411,000 (2022: \$3,319,000) on the Group's Balance Sheet at 30 June 2023 relate to income tax losses (Note 15) across the Group. Income tax losses for which no deferred tax asset has been recognised total \$12,591,000 (2022: \$14,693,000).

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

	2023	2022
	\$'000	\$'000
Temporary differences relating to investments in subsidiaries for which deferred tax assets and liabilities have not been recognised		
Foreign currency translation	142,728	50,090
Undistributed earnings	2,660	2,584
	145,388	52,674

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.

Notes to the Consolidated Financial Statements

30 JUNE 2023

NOTE 7 | RECEIVABLES - CURRENT

	2023	2022
	\$'000	\$'000
Trade debtors	941,962	1,105,304
Less: provision for impairment (a)	(170,999)	(174,368)
	770,963	930,936
Accrued revenue	133,499	156,359
Amounts owing from other entities and contract assets	4,702	6,665
Net investment in finance lease receivables	6,481	6,406
Sundry debtors	106,530	117,096
	1,022,175	1,217,462

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 2023 current trade debtors of the Group with a nominal value of \$170,999,000 (2022: \$174,368,000) were impaired.

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

	2023	2022
	\$'000	\$'000
Opening balance at 1 July	174,368	191,568
Provisions on acquisition of controlled entities	20	4,923
Provision for impairment expensed ⁺	152,818	126,099
Foreign exchange movements	7,042	11,226
Receivables written off	(163,249)	(159,448)
Closing balance at 30 June	170,999	174,368

⁺ 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.

Notes to the Consolidated Financial Statements

30 JUNE 2023

b) Ageing analysis

At 30 June 2023, the ageing analysis and expected credit losses of trade debtors are as follows:

	Gross value		Expected credit losses	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Not past due	513,912	649,781	24,674	26,056
30-60 days past due	153,297	156,342	28,976	29,858
60-90 days past due	83,594	61,732	32,646	28,409
90-120 days past due	62,253	66,522	30,142	28,035
120 days+ past due [^]	128,906	170,927	54,561	62,010
Closing balance at 30 June	941,962	1,105,304	170,999	174,368

[^] FY2022 included a \$20 million delayed payment related to a government contract for which no expected credit loss was booked. Payment was received post 30 June 2022.

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 38. 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

	2023	2022
	\$'000	\$'000
Consumable stores at cost	199,201	216,193

NOTE 9 | OTHER ASSETS - CURRENT

	2023	2022
	\$'000	\$'000
Prepayments	113,801	92,258

Notes to the Consolidated Financial Statements

30 JUNE 2023

NOTE 10 | RECEIVABLES - NON-CURRENT

	2023	2022
	\$'000	\$'000
Amounts owing from other entities and contract assets	24,759	23,708
Net investment in finance lease receivables	12,980	14,483
	37,739	38,191

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	6,944	5,360	4,300	2,452	935	572	20,563	(1,102)	19,461
Operating leases	271	99	23	-	-	-	393		
	7,215	5,459	4,323	2,452	935	572	20,956		

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

	2023	2022
	\$'000	\$'000
Investments accounted for using the equity method	61,667	63,170
Other financial assets	114,132	82,052
	175,799	145,222

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. The most significant amount included within other financial assets is the Group's investment into Harrison.ai which is held at cost.

Notes to the Consolidated Financial Statements

30 JUNE 2023

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

	Freehold land & buildings	Plant & equipment	Total
	\$'000	\$'000	\$'000
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
Year ended 30 June 2022			
Opening net book amount	259,346	999,036	1,258,382
Additions	4,210	296,438	300,648
Additions through business combinations	-	22,887	22,887
Disposals	(141)	(4,582)	(4,723)
Depreciation (Note 4)	(6,975)	(247,672)	(254,647)
Foreign exchange movements	1,895	(3,321)	(1,426)
Closing net book amount	258,335	1,062,786	1,321,121
At 30 June 2022			
Cost	351,999	3,079,569	3,431,568
Accumulated depreciation	(93,664)	(2,016,783)	(2,110,447)
Net book amount	258,335	1,062,786	1,321,121
Year ended 30 June 2023			
Opening net book amount	258,335	1,062,786	1,321,121
Additions	54,812	342,873	397,685
Additions through business combinations (Note 29)	-	3,557	3,557
Disposals	(424)	(5,182)	(5,606)
Depreciation (Note 4)	(8,721)	(252,422)	(261,143)
Foreign exchange movements	6,238	49,078	55,316
Closing net book amount	310,240	1,200,690	1,510,930
At 30 June 2023			
Cost	415,624	3,496,813	3,912,437
Accumulated depreciation	(105,384)	(2,296,123)	(2,401,507)
Net book amount	310,240	1,200,690	1,510,930

Non-current assets pledged as security

Refer to Note 32 for information on non-current assets pledged as security by the Group.

Notes to the Consolidated Financial Statements

30 JUNE 2023

NOTE 13 | RIGHT-OF-USE ASSETS - NON-CURRENT

	2023	2022
	\$'000	\$'000
Buildings	1,272,246	1,284,249
Equipment	14,930	19,494
	1,287,176	1,303,743

Additions to the right-of-use assets during the 2023 financial year comprised \$170,927,000 (2022: \$220,481,000) of new leases, including those added through business acquisitions, and \$175,615,000 (2022: \$173,211,000) of remeasured leases (including recognition of option periods).

Notes to the Consolidated Financial Statements

30 JUNE 2023

NOTE 14 | INTANGIBLE ASSETS - NON-CURRENT

	Brand names	Goodwill	Software [†]	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
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
Year ended 30 June 2022					
Opening net book amount	133,940	6,231,847	334,455	12,009	6,712,251
Acquisition of businesses	-	476,461	102	-	476,563
Additions - externally acquired	-	-	20,079	689	20,768
Additions - internally generated	-	-	70,868	-	70,868
Disposals	-	-	(3)	-	(3)
Foreign exchange movements	-	144,654	3,878	497	149,029
Amortisation charge (Note 4)	-	-	(66,909)	(1,081)	(67,990)
Closing net book amount	133,940	6,852,962	362,470	12,114	7,361,486
At 30 June 2022					
Cost	187,769	6,949,409	899,445	21,921	8,058,544
Accumulated amortisation and impairment	(53,829)	(96,447)	(536,975)	(9,807)	(697,058)
Net book amount	133,940	6,852,962	362,470	12,114	7,361,486
Year ended 30 June 2023					
Opening net book amount	133,940	6,852,962	362,470	12,114	7,361,486
Acquisition of businesses (Note 29)	-	64,507	14	-	64,521
Additions - externally acquired	-	-	28,709	2,500	31,209
Additions - internally generated	-	-	76,679	-	76,679
Disposals	-	-	(113)	-	(113)
Foreign exchange movements	-	319,960	7,217	290	327,467
Amortisation charge (Note 4)	-	-	(70,101)	(1,529)	(71,630)
Closing net book amount	133,940	7,237,429	404,875	13,375	7,789,619
At 30 June 2023					
Cost	188,493	7,335,616	1,031,525	24,711	8,580,345
Accumulated amortisation and impairment	(54,553)	(98,187)	(626,650)	(11,336)	(790,726)
Net book amount	133,940	7,237,429	404,875	13,375	7,789,619

[†] Software includes both externally acquired software and capitalised development costs, being an internally generated intangible asset.

Notes to the Consolidated Financial Statements

30 JUNE 2023

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.

2023							
Australia Laboratory	UK Laboratory	USA Laboratory	Germany Laboratory	Switzerland Laboratory	Belgium Laboratory	Radiology	Total
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
1,024,988	133,793	2,844,637	1,405,252	697,231	538,075	593,453	7,237,429

2022							
Australia Laboratory	UK Laboratory	USA Laboratory	Germany Laboratory	Switzerland Laboratory	Belgium Laboratory	Radiology	Total
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
996,171	124,174	2,744,228	1,299,852	609,150	497,249	582,138	6,852,962

The carrying value of brand names of \$133,940,000 at 30 June 2023 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:

- FY2024 Board approved profit and loss and cash flow budgets for each cash-generating unit;
- forecast earnings growth factors (pre-tax) consistent with historical growth rates, current performance and expected changes;
- prevailing market based pre-tax discount rates taking into account the interest rate environment of different geographies; and
- assessments of terminal growth rates, predominantly based on long term inflation rates.

2023	Australia Laboratory	UK Laboratory	USA Laboratory	Germany Laboratory	Switzerland Laboratory	Belgium Laboratory	Radiology
Average earnings growth rate	~7%	~7%	~8%*	~5%	~5%	~6%	~8%
Discount rate	11.8%	11.6%	10.2%	10.8%	6.7%	9.7%	11.8%
Terminal growth rate	2.7%	3.0%	2.6%	2.5%	0.5%	2.5%	2.7%

2022	Australia Laboratory	UK Laboratory	USA Laboratory	Germany Laboratory	Switzerland Laboratory	Belgium Laboratory	Radiology
Average earnings growth rate	~6%	~7%	~7%	~4%	~5%	~5%	~8%
Discount rate	11.3%	10.2%	9.6%	9.9%	7.5%	8.8%	11.3%
Terminal growth rate	2.7%	2.4%	2.5%	1.8%	0.5%	2.3%	3.0%

*The USA Laboratory average earnings growth rate shown above excludes the modelled expected benefits of an enhanced revenue collection system (~US\$60m p.a.) which has been trialled and is now being rolled out nationally and other specific initiatives planned to occur in FY2024 (~US\$30m p.a.).

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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 other than potentially for the Belgium and USA Laboratory CGUs.

Belgium

- An increase in the pre-tax discount rate of 28 basis points, decrease in the terminal growth rate of 25 basis points or decrease in the earnings growth rate of 125 basis points would cause the recoverable amount to be equal to the carrying value for the Belgium Laboratory CGU. Management action would be taken to respond to any adverse changes in assumptions to mitigate the impact of any such change.

USA

- In the circumstance that the majority of the US\$90m p.a. of expected benefits noted above fail to materialise, and other management actions taken and/or business performance do not mitigate the impact of any such change, the carrying value of the US cash-generating unit would be in excess of the recoverable amount under the value in use valuation approach. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In the circumstance described above, the Company would apply the fair value less costs of disposal methodology.

NOTE 15 | DEFERRED TAX ASSETS - NON-CURRENT

	2023	2022
	\$'000	\$'000
Deferred tax assets	72,375	68,991
The balance comprises temporary differences attributable to		
Amounts recognised in profit or loss		
Doubtful debts	50,144	57,383
Employee benefits	90,410	89,541
Sundry accruals	67,868	82,747
Unrealised foreign exchange movements	2,015	(310)
Lease liability	393,869	391,376
Tax losses	14,411	3,319
	618,717	624,056
Amounts recognised directly in equity/other comprehensive income		
Share issue costs incurred in prior years	7	552
Deferred tax assets	618,724	624,608
Less: amounts offset against deferred tax liabilities (Note 23)	(546,349)	(555,617)
Net deferred tax assets	72,375	68,991
Movements		
Opening balance at 1 July	68,991	65,276
Credited/(charged) to the Income Statement (Note 6)	9,373	(1,974)
Foreign exchange movements	(5,666)	3,291
Acquisition/disposal of subsidiaries	(323)	2,398
Closing balance at 30 June	72,375	68,991

Notes to the Consolidated Financial Statements

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NOTE 16 | OTHER ASSETS - NON-CURRENT

	2023	2022
	\$'000	\$'000
Prepayments	7,820	7,349

NOTE 17 | PAYABLES - CURRENT

	2023	2022
	\$'000	\$'000
Trade creditors	255,799	243,800
Sundry creditors and accruals	704,193	774,752
	959,992	1,018,552

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 38.

NOTE 18 | LEASE LIABILITIES

	2023	2022
	\$'000	\$'000
Current	346,791	341,858
Non-current	1,080,228	1,093,945
	1,427,019	1,435,803

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NOTE 19 | TAX LIABILITIES - CURRENT

	2023	2022
	\$'000	\$'000
Income tax	220,608	374,259

NOTE 20 | PROVISIONS - CURRENT

	2023	2022
	\$'000	\$'000
Employee benefits	342,608	328,166
Lease exit costs	114	70
	342,722	328,236

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 2022	20,957
Amounts used during year	(70)
Additional provisions recognised	344
Foreign exchange movements	1,752
Carrying amount at 30 June 2023	22,983
Representing lease exit costs:	
Current	114
Non-current (Note 24)	22,869
	22,983

Notes to the Consolidated Financial Statements

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NOTE 21 | OTHER LIABILITIES - CURRENT

	2023	2022
	\$'000	\$'000
Unsecured		
Amounts owing to vendors	7,817	21,145
Other	413	224
	8,230	21,369

The amounts owing to vendors comprise deferred consideration for business acquisitions made in the current and prior periods (refer Note 29). Amounts owing to vendors and other loans are non-interest bearing. The carrying value of these amounts approximates their fair value.

NOTE 22 | INTEREST-BEARING LIABILITIES - NON-CURRENT

	2023	2022
	\$'000	\$'000
Unsecured		
Bank loans	3,278	-
USPP notes (a)	1,670,183	1,576,934
	1,673,461	1,576,934

Details of the fair values and interest rate risk exposure relating to each of these liabilities are set out in Note 38.

a) USPP notes

In November 2014 Sonic issued €110M of notes with a tenor of 10 years. In June 2016 and November 2016 Sonic issued €45M and €200M of notes with tenors of 10 years. In October 2017 Sonic issued €75M and €85M of notes with tenors of 7 and 15 years respectively. In January 2020 Sonic issued a further US\$300M, US\$150M and US\$100M of notes with tenors of 10,12 and 15 years respectively.

Notes to the Consolidated Financial Statements

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b) Financing facilities available

At 30 June 2023, the following financing facilities were available:

2023	Total facilities at 30 June 2023	Facilities used at 30 June 2023	Facilities unused at 30 June 2023
	000's	000's	000's
Bank overdraft	A\$4,647	A\$0	A\$4,647
Bank loans			
Syndicated facilities multicurrency Euro limits	€343,990	€2,000	€341,990
Syndicated facilities multicurrency CHF limits	CHF125,000	CHF0	CHF125,000
Syndicated facilities multicurrency AUD limits	A\$157,000	A\$0	A\$157,000
Syndicated facilities multicurrency USD limits	US\$100,000	US\$0	US\$100,000
Bilateral facilities multicurrency Euro limits	€165,000	€0	€165,000
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\$15,873	A\$10,873	A\$5,000

2022	Total facilities at 30 June 2022	Facilities used at 30 June 2022	Facilities unused at 30 June 2022
	000's	000's	000's
Bank overdraft	A\$4,220	A\$0	A\$4,220
Bank loans			
Syndicated facilities multicurrency Euro limits	€279,990	€0	€279,990
Syndicated facilities multicurrency CHF limits	CHF125,000	CHF0	CHF125,000
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\$19,866	A\$14,866	A\$5,000

Facilities used at 30 June 2023 total A\$1,684,334,000 (2022: A\$1,591,800,000).

Notes to the Consolidated Financial Statements

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NOTE 23 | DEFERRED TAX LIABILITIES - NON-CURRENT

	2023	2022
	\$'000	\$'000
Deferred tax liabilities	332,731	264,240
The balance comprises temporary differences attributable to		
Amounts recognised in profit or loss		
Prepayments and sundry debtors	21,145	22,681
Inventories	15,291	19,450
Accrued revenue	21,099	22,673
Right-of-use assets	357,585	357,471
Intangibles	346,704	293,008
Property, plant and equipment	115,968	104,488
Capitalised costs	1,288	86
	879,080	819,857
Less: amounts offset against deferred tax assets (Note 15)	(546,349)	(555,617)
Net deferred tax liabilities	332,731	264,240
Movements		
Opening balance at 1 July	264,240	190,505
Charged to the Income Statement (Note 6)	60,867	56,323
Charged to other comprehensive income	1,342	5,233
Amounts recognised directly in equity	(4)	(8)
Foreign exchange movements	6,286	12,187
Closing balance at 30 June	332,731	264,240

Notes to the Consolidated Financial Statements

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NOTE 24 | PROVISIONS - NON-CURRENT

	2023	2022
	\$'000	\$'000
Employee benefits	33,871	33,973
Retirement benefit obligations	47,121	44,385
Lease exit costs	22,869	20,887
	103,861	99,245

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:

	2023	2022
	\$'000	\$'000
Present value of the defined benefit plan obligations	432,768	366,388
Fair value of defined benefit plan assets	(385,647)	(322,003)
Net liability in the Balance Sheet	47,121	44,385

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.

Notes to the Consolidated Financial Statements

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c) Categories of plan assets

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

	2023	2022
	%	%
Cash - quoted	1.4	2.3
Mortgages - quoted	1.4	1.3
Real estate - quoted	16.0	15.7
Bonds - quoted	38.2	35.9
Equities - quoted	37.2	38.4
Alternative investments - quoted	5.8	6.4
	100.0	100.0

d) Reconciliations

	2023	2022
	\$'000	\$'000
Reconciliation of the present value of the defined benefit obligation, which is partly funded		
Balance at the beginning of the year	366,388	380,917
Current service cost	9,840	10,287
Past service cost	1,846	(2,434)
Interest cost	7,972	1,949
Actuarial (gains)	(237)	(52,684)
Benefits paid	(5,274)	(4,339)
Member contributions	10,892	8,687
Additions through business combinations	15,957	-
Other	(14,528)	9,482
Foreign exchange movements	39,912	14,523
Balance at the end of the year	432,768	366,388
Reconciliation of the fair value of plan assets		
Balance at the beginning of the year	322,003	305,675
Interest income	7,471	1,465
Actuarial (losses)	(1,171)	(23,618)
Contributions by Group companies	13,423	10,438
Benefits paid	(4,134)	(3,228)
Member contributions	10,892	8,687
Additions through business combinations	16,008	-
Other	(14,528)	9,482
Foreign exchange movements	35,683	13,102
Balance at the end of the year	385,647	322,003

Notes to the Consolidated Financial Statements

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e) Amounts recognised in Income Statement

	2023	2022
	\$'000	\$'000
Current service cost	9,840	10,287
Past service cost	1,846	(2,434)
Net interest expense	501	484
Total included in the employee benefit expense	12,187	8,337

f) Amounts recognised in Statement of Comprehensive Income

Actuarial (losses)/gains recognised in the year	(1,454)	23,688
Cumulative actuarial (losses) recognised in the Statement of Comprehensive Income	(2,254)	(800)

g) Principal actuarial assumptions

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

	2023	2022
	%	%
Discount rate	2.1	1.5
Future salary increases	1.4	1.2

If the discount rate had increased/decreased by 100 basis points (2022: 25 basis points), the impact on the net defined benefit obligation would have been a decrease of 85.6%/increase of 94.3% (2022: decrease of 19.2%/increase of 20.4%). 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% (2022: 2.4% to 10.3%) of the insured salaries of employees based on the employee age bracket and in accordance with Swiss laws.

Total employer contributions expected to be paid by Group companies for the year ending 30 June 2024 are based on the 2023 rates and are estimated at \$14,780,000 (2022: \$10,118,000).

The weighted average duration of the defined benefit obligation is 13.3 years (2022: 13.4 years).

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i) Experience adjustments

	2023	2022
	\$'000	\$'000
Experience adjustments arising on plan liabilities	(4,130)	(17,740)
Experience adjustments arising on plan assets	(1,171)	(23,618)

NOTE 25 | OTHER LIABILITIES - NON-CURRENT

	2023	2022
	\$'000	\$'000
Unsecured		
Amounts owing to vendors	23,915	4,990
Other	228	211
	24,143	5,201

The amounts owing to vendors comprises deferred consideration for business acquisitions made in current and prior periods (refer Note 29). These amounts are non-interest bearing. The carrying amount approximates their fair value.

NOTE 26 | CONTRIBUTED EQUITY

a) Share capital

	2023	2022	2023	2022
	Shares	Shares	\$'000	\$'000
Fully paid ordinary shares	470,805,824	471,798,972	3,842,423	3,866,850
Other equity securities				
Treasury shares	-	(162,347)	-	(5,902)
	470,805,824	471,636,625	3,842,423	3,860,948

b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	Total
				\$'000
1/7/21	Opening balance of the Group	477,923,301		4,082,121
Various	Own shares acquired during buyback	(8,294,495)		(291,110)
Various	Shares issued following exercise of employee options/rights	2,170,166	Various	67,592
Various	Transfers from equity remuneration reserve	-		8,265
Various	Costs of share transactions net of tax	-		(18)
30/6/22	Balance of the Group	471,798,972		3,866,850

Notes to the Consolidated Financial Statements

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Date	Details	Number of shares	Issue price	Total
2023				\$'000
1/7/22	Opening balance of the Group	471,798,972		3,866,850
Various	Own shares acquired during buyback	(4,288,073)		(134,100)
Various	Shares issued following exercise of employee options/rights	3,294,925	Various	100,763
Various	Transfers from equity remuneration reserve	-		8,917
Various	Costs of share transactions net of tax	-		(7)
30/6/23	Balance of the Group	470,805,824		3,842,423

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 34.

e) Dividend Reinvestment Plan

The Company's DRP remained suspended for the 30 June 2023 final dividend.

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
2022			\$'000
1/7/21	Opening balance	4,754	140
Various	On-market purchase of treasury shares by SHEST	200,000	8,271
29/6/22	Own shares acquired during buyback but not cancelled	95,765	3,167
Various	Subscription for unissued shares by SHEST	947,666	39,628
Various	Transfer of shares to employees to satisfy exercise of options/rights	(1,085,838)	(45,304)
30/6/22	Balance of the Group	162,347	5,902

Date	Details	Number of shares	Total
2023			\$'000
1/7/22	Opening balance	162,347	5,902
29/7/22	Own shares acquired during buyback in FY2022, now cancelled	(95,765)	(3,167)
Various	Subscription for unissued shares by SHEST	1,667,925	57,183
Various	Transfer of shares to employees to satisfy exercise of options/rights	(1,734,507)	(59,918)
30/6/23	Balance of the Group	-	-

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NOTE 27 | RESERVES AND RETAINED EARNINGS

a) Reserves

		2023	2022
		\$'000	\$'000
Equity remuneration reserve	(i)	(123,199)	(113,512)
Foreign currency translation reserve	(ii)	475,760	166,967
Share option reserve	(iii)	16,427	16,427
Revaluation reserve	(iv)	3,272	3,272
Financial assets at FVOCI reserve	(v)	1,921	-
Transactions with minority interests	(vi)	(34,297)	(11,982)
		339,884	61,172
Movements			
Equity remuneration reserve			
Balance 1 July		(113,512)	(98,060)
Share-based payments		18,453	17,240
Employee share scheme issue		(19,223)	(24,427)
Transfer to share capital (options exercised)		(8,917)	(8,265)
Balance 30 June		(123,199)	(113,512)
Foreign currency translation reserve			
Balance 1 July		166,967	70,871
Net exchange movement on translation of foreign subsidiaries		308,793	96,096
Balance 30 June		475,760	166,967
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
Financial assets at FVOCI reserve			
Balance 1 July		-	-
Fair value gain in period		1,921	-
Balance 30 June		1,921	-
Transactions with minority interests			
Balance 1 July		(11,982)	(11,668)
Acquisition of minority interests		(21,125)	-
Net exchange movement		(1,190)	(314)
Balance 30 June		(34,297)	(11,982)

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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) Financial assets at FVOCI reserve

This reserve is used to measure the fair value movements in equity securities which are not held for trading and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be the most appropriate.

vi) 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

	2023	2022
	\$'000	\$'000
Retained earnings at the beginning of the financial year	3,351,020	2,322,163
Net profit attributable to members of Sonic Healthcare Limited	684,984	1,460,566
Dividends paid in the year (Note 5)	(480,353)	(455,397)
Actuarial (losses)/gains on retirement benefit obligations (Note 24)	(1,454)	23,688
Retained earnings at the end of the financial year	3,554,197	3,351,020

NOTE 28 | DEED OF CROSS GUARANTEE

The 'Closed Group' (refer Note 29) are parties to a Deed of Cross Guarantee dated 25 May 2022 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

	2023	2022
	\$'000	\$'000
Revenue	3,561,635	3,969,384
Labour and related costs	(1,661,100)	(1,620,115)
Consumables used	(344,243)	(377,696)
Depreciation	(363,568)	(353,596)
Utilities	(75,678)	(78,349)
Borrowing costs	(52,004)	(57,045)
Amortisation of intangibles	(34,934)	(31,381)
Transportation	(24,159)	(22,836)
Other expenses from ordinary activities	(311,578)	(291,853)
Profit before income tax expense	694,371	1,136,513
Income tax expense	(91,625)	(289,214)
Net profit attributable to members of the Extended Closed Group	602,746	847,299

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

Profit from ordinary activities after income tax expense	602,746	847,299
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	2,279	(873)
Items that will not be reclassified to profit or loss		
Fair value gain on financial asset	1,921	-
Other comprehensive income for the period, net of tax	4,200	(873)
Total comprehensive income for the period	606,946	846,426

c) Reconciliation of retained earnings

Retained earnings at the beginning of the financial year	943,196	551,294
Profit from ordinary activities after income tax expense	602,746	847,299
Dividends paid during the year	(480,353)	(455,397)
Retained earnings at the end of the financial year	1,065,589	943,196

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d) Consolidated Balance Sheet of the Extended Closed Group

	2023	2022
	\$'000	\$'000
Current assets		
Cash and cash equivalents	141,954	245,624
Receivables	1,180,154	1,177,851
Inventories	56,355	65,047
Other	30,010	22,559
Total current assets	1,408,473	1,511,081
Non-current assets		
Receivables	31,289	33,623
Investments	3,255,876	3,113,022
Property, plant and equipment	688,691	648,166
Right-of-use assets	689,617	720,386
Intangible assets	1,888,420	1,856,964
Deferred tax assets	29,807	17,038
Other	63	-
Total non-current assets	6,583,763	6,389,199
Total assets	7,992,236	7,900,280
Current liabilities		
Payables	639,057	546,448
Lease liabilities	234,356	233,138
Current tax liabilities	106,186	240,686
Provisions	266,603	254,606
Other	495	150
Total current liabilities	1,246,697	1,275,028
Non-current liabilities		
Interest-bearing liabilities	1,276,198	1,246,986
Lease liabilities	517,534	545,181
Provisions	24,905	24,759
Deferred tax liabilities	24,954	14,634
Other	605	705
Total non-current liabilities	1,844,196	1,832,265
Total liabilities	3,090,893	3,107,293
Net assets	4,901,343	4,792,987
Equity		
Parent Company interest		
Contributed equity	3,921,317	3,929,866
Reserves	(85,563)	(80,075)
Retained earnings	1,065,589	943,196
Total equity	4,901,343	4,792,987

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NOTE 29 | INVESTMENTS IN SUBSIDIARIES

Details of subsidiaries	Country of incorporation	Class of share	Beneficial interest	Beneficial interest
			2023	2022
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
Lifescree Australia Pty Limited	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 Healthcare Australia Radiology 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				
Canberra X-Ray Pty Limited (i)	Australia	Ord	100	100
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 Healthcare Australia Pathology 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	80
Radiology Victoria Pty Limited	Australia	Ord	100	100
Northern Pathology Pty Limited (i)	Australia	Ord	100	100
Pacific Medical Imaging 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 28.

Notes to the Consolidated Financial Statements

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Details of subsidiaries	Country of incorporation	Class of share	Beneficial interest	Beneficial interest
			2023	2022
			%	%
Paedu Pty Limited (i)	Australia	Ord	100	100
Queensland X-Ray Pty Limited (i)	Australia	Ord	100	100
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 Healthcare (VIC) 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
Vita Group Limited	Australia	Ord	100	-
Artisan Aesthetics Group Pty Limited	Australia	Ord	100	-
Cosmedcloud Pty Limited	Australia	Ord	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 Foreich 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

(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 28.

Notes to the Consolidated Financial Statements

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Details of subsidiaries	Country of incorporation	Class of share	Beneficial interest	
			2023	2022
			%	%
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
MVZ Medizinisches Labor Nord GmbH	Germany	Ord	100	100
MVZ Bioscientia Labor Duisburg 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 Kaeppli 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
Imagerie du Flon SA	Switzerland	Ord	78.8	-
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
Laboratoires 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

(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 28.

Notes to the Consolidated Financial Statements

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Details of subsidiaries	Country of incorporation	Class of share	Beneficial interest	
			2023	2022
			%	%
Sonic Healthcare USA Investments, Inc.	United States	Ord	100	100
Clinical Pathology Laboratories, Inc.	United States	Ord	100	100
Pathology Laboratories, Inc.	United States	Ord	100	100
American Esoteric Laboratories, 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
ProPath Services, LLC	United States		100	100
New England Tissue Issue, PLLC	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
Klinisch Labo Rigo BV	Belgium	Ord	100	100
A.M.L. West BV	Belgium	Ord	100	100

Notes to the Consolidated Financial Statements

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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 and related 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 the 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 the 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	61,375
Less: cash of entities acquired	(7,849)
	53,526
Deferred consideration	8,209
Total consideration	61,735
Fair value of identifiable net assets of businesses acquired	
Debtors and other receivables	5,879
Prepayments	386
Inventory	385
Property, plant and equipment	3,557
Right-of-use assets	3,211
Identifiable intangibles	14
Deferred tax assets	54
Trade creditors	(76)
Sundry creditors and accruals	(10,735)
Lease liabilities	(3,211)
Current tax liabilities	(309)
Deferred tax liabilities	(377)
Provisions	(250)
	(1,472)
Minority interests	1,300
Goodwill	64,507

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

Acquisition related costs of \$883,000 are included in other expenses in the Income Statement.

The fair value of acquired debtors and other receivables is \$5,879,000. The gross contractual amount due is \$5,899,000 of which \$20,000 is expected to be uncollectible.

Notes to the Consolidated Financial Statements

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b) Reconciliation of cash paid to Cash Flow Statement

	2023	2022
	\$'000	\$'000
Cash consideration for acquisitions in the financial year	61,375	489,358
Cash consideration for acquisition of minority interests in the financial year	9,501	-
Acquisition costs	883	3,348
Cash consideration paid to vendors for acquisitions in previous financial years	18,480	68,071
Less: cash of entities acquired	(7,849)	(13,617)
Payment for purchase of controlled entities, net of cash acquired	82,390	547,160

NOTE 30 | COMMITMENTS FOR EXPENDITURE

Capital commitments

	2023	2022
	\$'000	\$'000
Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as liabilities, payable		
Within one year	69,136	39,324

NOTE 31 | CONTINGENT LIABILITIES

Sonic Healthcare Limited and certain subsidiaries, as disclosed in Note 29, 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 \$13,625,000 (2022: \$12,456,000) 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 litigation (including in relation to medical malpractice claims between 2011 and 2019) 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 32 | 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 18 for details of the carrying value of leased assets and liabilities.

Notes to the Consolidated Financial Statements

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NOTE 33 | REMUNERATION OF AUDITORS

	2023	2022
	\$	\$
PricewaterhouseCoopers - Australian firm		
Audit and review of financial reports of Group entities	1,729,777	1,591,756
Other assurance services	-	15,000
Taxation and other services	-	25,300
Total audit, taxation and other services	1,729,777	1,632,056
Related practices of PricewaterhouseCoopers Australian firm (including overseas PricewaterhouseCoopers firms)		
Audit and review of financial reports of Group entities	1,341,485	1,008,244
Taxation and other services	-	43,020
Total audit, taxation and other services	1,341,485	1,051,264
Non-PricewaterhouseCoopers audit firms		
Audit and review of financial reports of Group entities	334,823	316,794

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

Notes to the Consolidated Financial Statements

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NOTE 34 | 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 5 December 2019, 22 May 2020, 19 November 2021, 26 October 2022 and 22 May 2023 are subject to different vesting and expiry periods with 100% becoming 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 performance conditions is shown in the table below.

Grant date	Options	Performance rights ⁺	Earliest vesting date [^]	Performance conditions measurement period	% to vest	Expiry date
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	100.0%	19 November 2024
18 November 2020	527,191	69,624	18 November 2023	3 years to 30 June 2023	84.3%	18 November 2025
18 November 2021	343,367	54,427	18 November 2024	3 years to 30 June 2024	tbd	18 November 2026
17 November 2022	377,504	66,371	17 November 2025	3 years to 30 June 2025	tbd	17 November 2027

⁺ See b) below for details of the Performance Rights Plan.

[^] Options can only vest when the market price of Sonic shares is higher than the exercise price.

Notes to the Consolidated Financial Statements

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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.

2023										
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	\$21.64	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	1,280,000	-	-	(476,000)	-	804,000	804,000	140,000
21/02/19	21/12/23	\$24.30	725,000	-	(105,000)	(212,500)	-	407,500	195,000	246,500
19/11/19	19/11/24	\$29.26	588,894	-	-	-	-	588,894	588,894	588,894
05/12/19	05/12/23	\$28.58	4,286,199	-	(40,000)	(1,673,000)	-	2,573,199	2,573,199	1,532,199
22/05/20	22/05/24	\$27.28	5,120,000	-	(90,000)	(386,500)	-	4,643,500	4,643,500	3,761,500
18/11/20	18/11/25	\$34.21	527,191	-	-	-	-	527,191	-	444,207
18/11/21	18/11/26	\$38.90	343,367	-	-	-	-	343,367	-	343,367
19/11/21	19/11/25	\$39.75	4,656,633	-	(40,000)	-	-	4,616,633	-	4,616,633
26/10/22	26/10/26	\$31.59	-	4,602,206	-	-	-	4,602,206	-	4,592,206
17/11/22	17/11/27	\$32.79	-	377,504	-	-	-	377,504	-	377,504
22/05/23	22/05/27	\$35.93	-	100,000	-	-	-	100,000	-	100,000
Total			18,673,917	5,079,710	(275,000)	(3,226,846)	-	20,251,781	9,472,380	16,743,010
Weighted average exercise price			\$30.33	\$31.76	\$28.15	\$26.12	-	\$31.39	\$26.84	

Notes to the Consolidated Financial Statements

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2022									
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	17/09/21	\$21.62	305,000	-	-	(305,000)	-	-	-
17/11/16	17/09/21	\$22.02	117,500	-	-	(117,500)	-	-	-
17/11/16	17/11/21	\$21.62	237,666	-	-	(237,666)	-	-	-
05/07/17	05/05/22	\$23.34	660,000	-	(15,000)	(615,000)	(30,000)	-	-
22/11/17	22/11/22	\$21.64	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	-	(80,000)	(640,000)	-	1,280,000	800,000
21/02/19	21/12/23	\$24.30	980,000	-	-	(255,000)	-	725,000	235,000
19/11/19	19/11/24	\$29.26	588,894	-	-	-	-	588,894	-
05/12/19	05/12/23	\$28.58	4,336,199	-	(50,000)	-	-	4,286,199	-
22/05/20	22/05/24	\$27.28	5,170,000	-	(50,000)	-	-	5,120,000	-
18/11/20	18/11/25	\$34.21	527,191	-	-	-	-	527,191	-
18/11/21	18/11/26	\$38.90	-	343,367	-	-	-	343,367	-
19/11/21	19/11/25	\$39.75	-	4,656,633	-	-	-	4,656,633	-
Total			16,069,083	5,000,000	(195,000)	(2,170,166)	(30,000)	18,673,917	2,181,633
Weighted average exercise price			\$26.28	\$39.69	\$25.07	\$22.51	\$23.34	\$30.33	\$22.01

The weighted average share price at the date of exercise for options exercised in the 2023 year was \$34.35 (2022: \$40.91).
The weighted average remaining contractual life of share options on issue at the end of the year was 1.9 years (2022: 2.2 years).

Fair value of options granted

The average assessed fair value of options granted during the year ended 30 June 2023 was \$4.75 per option (2022: \$5.35).
The valuation model inputs for options granted during the years ended 30 June 2023 and 30 June 2022 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
18/11/21	18/11/26	\$38.90	\$38.90	4.0	23.1%	1.4%	2.6%
19/11/21	19/11/25	\$39.75	\$39.75	3.5	23.1%	1.0%	2.6%
26/10/22	26/10/26	\$31.59	\$31.59	3.5	22.6%	3.5%	3.2%
17/11/22	17/11/27	\$32.79	\$32.79	4.0	21.0%	3.4%	3.3%
22/05/23	22/05/27	\$35.93	\$35.93	3.5	18.7%	3.3%	3.1%

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

Notes to the Consolidated Financial Statements

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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.

2023										
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
19/11/19	19/11/24	Nil	64,907	-	-	(64,907)	-	-	-	-
18/11/20	18/11/25	Nil	69,624	-	-	-	-	69,624	-	58,665
23/09/21	See below*	Nil	52,911	-	(7,831)	(15,023)	-	30,057	-	14,093
18/11/21	18/11/26	Nil	54,427	-	-	-	-	54,427	-	54,427
21/09/22	01/10/23	Nil	-	63,374	-	(51,559)	-	11,815	11,815	-
17/11/22	01/10/23	Nil	-	3,172	-	(3,172)	-	-	-	-
17/11/22	17/11/27	Nil	-	66,371	-	-	-	66,371	-	66,371
26/09/23	01/10/24	Nil	-	-	-	-	-	-	-	16,080
Total			241,869	132,917	(7,831)	(134,661)	-	232,294	11,815	209,636

2022										
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	Number
21/11/18	21/11/23	Nil	87,560	-	-	(87,560)	-	-	-	-
19/11/19	19/11/24	Nil	64,907	-	-	-	-	64,907	-	-
18/11/20	18/11/25	Nil	69,624	-	-	-	-	69,624	-	-
23/09/21	01/10/22	Nil	-	47,907	-	(47,907)	-	-	-	-
23/09/21	See below*	Nil	-	52,911	-	-	-	52,911	-	-
18/11/21	01/10/22	Nil	-	2,782	(77)	(2,705)	-	-	-	-
18/11/21	18/11/26	Nil	-	54,427	-	-	-	54,427	-	-
Total			222,091	158,027	(77)	(138,172)	-	241,869	-	-

*One third expire on 01/09/22, one third on 01/09/23 and one third on 01/09/24.

The weighted average remaining contractual life of performance rights on issue at the end of the year was 2.9 years (2022: 2.9 years).

Fair value of rights granted

The average assessed fair value of rights granted during the year ended 30 June 2023 was \$25.64 per right (2022: \$32.51).

The valuation model inputs for performance rights granted during the years ended 30 June 2023 and 30 June 2022 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
23/09/21	Various	Nil	\$41.72	1.9	21.7%	0.1%	2.5%
18/11/21	01/10/22	Nil	\$38.90	0.3	23.1%	0.2%	2.6%
18/11/21	18/11/26	Nil	\$38.90	3.0	23.1%	1.0%	2.6%
17/11/22	01/10/23	Nil	\$32.79	0.3	21.0%	3.1%	3.3%
17/11/22	17/11/27	Nil	\$32.79	3.0	21.0%	3.2%	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.

Notes to the Consolidated Financial Statements

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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:

	2023	2022
	\$'000	\$'000
Equity remuneration	18,453	17,240

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 3,226,846 ordinary shares of Sonic were issued during the year ended 30 June 2023 under the Sonic Healthcare Limited Employee Option Plan. 3,415,787 options have been exercised since that date, but prior to the date of this report, resulting in the issue of 3,415,787 ordinary shares. The amounts paid on issue of those shares were:

Number of options exercised	Amounts paid (per share)
478,846	\$21.64
667,787	\$21.69
1,140,000	\$21.83
373,500	\$24.30
2,714,000	\$28.58
1,268,500	\$27.28
6,642,633	

ii) Sonic Healthcare Limited Performance Rights Plan

A total of 134,661 performance rights were exercised during the year ended 30 June 2023 under the Sonic Healthcare Limited Performance Rights Plan, satisfied by 66,582 shares purchased on-market and 68,079 by the issue of ordinary shares of Sonic. 25,898 performance rights have been exercised since 30 June 2023 and up to the date of this report, satisfied by shares purchased on-market. 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 35 | 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 29.

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:

	2023	2022
	\$	\$
Short-term employee benefits	6,615,811	7,926,875
Long-term employee benefits	87,660	59,386
Post-employment benefits	218,846	198,823
Share-based payments	3,936,513	5,047,965
Total compensation	10,858,830	13,233,049

c) Transactions and outstanding balances with associates

	2023	2022
	\$'000	\$'000
Provision of services to associates	99,804	89,562
Provision of services from associates	1,837	3,275
Interest income	146	143
Current payables	7,102	6,144
Current receivables	11,544	11,038
Loans receivable	2,153	3,153

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NOTE 36 | EARNINGS PER SHARE

	2023	2022
	Cents	Cents
Basic earnings per share	145.8	305.5
Diluted earnings per share	145.0	302.5

	2023	2022
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	469,768,140	478,143,904
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	472,443,512	482,880,012

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 34.

	2023	2022
Reconciliations of earnings used in calculating earnings per share	\$'000	\$'000
Net profit	707,931	1,515,466
Net (profit) attributable to minority interests	(22,947)	(54,900)
Earnings used in calculating basic and diluted earnings per share	684,984	1,460,566

NOTE 37 | STATEMENT OF CASH FLOWS

a) Cash at bank and on hand

	2023	2022
	\$'000	\$'000
Cash at bank and on hand	797,994	779,997

Cash balances bear interest rates of between 0.00% – 4.71% (2022: 0.00% – 1.25%).

Notes to the Consolidated Financial Statements

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

	2023	2022
	\$'000	\$'000
Operating profit after income tax	707,931	1,515,466
Add non-cash items	722,389	684,462
Add/(less) changes in assets and liabilities during the financial year		
(Increase)/decrease in sundry debtors and prepayments	2,606	(50,936)
(Increase)/decrease in trade debtors and accrued revenue	244,257	(83,017)
(Increase)/decrease in inventories	27,465	9,882
(Increase)/decrease in deferred tax assets	(2,366)	(7,437)
Increase/(decrease) in trade creditors and accrued expenses	(128,824)	(42,554)
Increase/(decrease) in deferred tax liabilities	55,645	67,284
Increase/(decrease) in current tax liabilities	(165,201)	123,546
Increase/(decrease) in other provisions	333	276
Increase/(decrease) in other liabilities	(394)	(12,088)
Increase/(decrease) in provision for employee entitlements	7,192	20,937
Net cash inflow from operating activities	1,471,033	2,225,821

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 34)

d) Reconciliation of liabilities arising from financing activities

	Balance at 1 July 2022	Cash flows	Acquisition/ (disposal)	Other non-cash movements	Foreign exchange adjustments	Balance at 30 June 2023
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Lease liabilities	1,435,803	(371,204)	3,211	318,692	40,517	1,427,019
Bank loans	-	3,109	-	-	169	3,278
USPP notes	1,576,934	-	-	-	93,249	1,670,183
Total	3,012,737	(368,095)	3,211	318,692	133,935	3,100,480

Notes to the Consolidated Financial Statements

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NOTE 38 | 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; by conducting on-market share buybacks; 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 2022 and 2023 the Group maintained a Net Debt to EBITDA ratio of between 0.3 to 0.6 times. The Company's pre-pandemic 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 times 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.

Notes to the Consolidated Financial Statements

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The ratios calculated using the facility definitions, which exclude the impact of AASB 16, at 30 June 2023 and 30 June 2022 were as follows:

	2023	2022
Net Debt to EBITDA (times)	0.6	0.3
Gearing	9.9%	9.7%
Interest Cover (times)	29.4	47.3

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 (2022: USPP notes) are denominated in the following currencies (amounts in AUD):

	2023	2022
	\$'000	\$'000
USD	826,198	796,986
EURO	847,263	779,948
	1,673,461	1,576,934

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Hedge of net investments in foreign operations

Of the total bank loans and USPP notes (2022: USPP notes) of \$1,673,461,000 (2022: \$1,576,934,000), \$826,198,000 (2022: \$796,986,000) are denominated in USD and qualify as a hedge of the Group's net investment in operations in the United States. 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 (2022: \$nil).

The remaining bank loans and USPP notes (2022: USPP notes) of \$847,263,000 (2022: \$779,948,000) denominated in EUR (2022: EUR) are in the same functional currency as Sonic's operations in Germany and Belgium (2022: Germany and Belgium) and act as a 'natural' balance sheet hedge against foreign currency earnings fluctuations.

Sensitivity analysis

Based on the financial instruments held at 30 June 2023, had the Australian dollar weakened/strengthened by 10% (2022: 10%) against all relevant currencies, the Group's post-tax profit would have been \$nil higher/\$nil lower (2022: \$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 (2022: \$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 2023: \$3,278,000; 2022: \$nil). 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 over 99% of total bank loans and USPP notes in 2023 (2022: 100%), 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 2023 and 2022.

Notes to the Consolidated Financial Statements

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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 2023		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets									
Cash and deposits		-	-	-	-	-	-	26,890	26,890
Trade debtors	7	-	-	-	-	-	-	941,962	941,962
Accrued revenue	7	-	-	-	-	-	-	133,499	133,499
Sundry debtors	7	-	-	-	-	-	-	106,530	106,530
Amounts owing from other entities	7, 10	1,164	1,122	3,109	537	364	493	8,672	15,461
Net investment in finance leases	7, 10	6,481	5,061	4,096	2,357	903	563	-	19,461
Investments	11	-	-	-	-	-	-	175,799	175,799
Total assets		7,645	6,183	7,205	2,894	1,267	1,056	1,393,352	1,419,602
Liabilities									
Trade and other creditors	17	-	-	-	-	-	-	959,992	959,992
Amounts owing to vendors	21, 25	-	-	-	-	-	-	31,732	31,732
Other liabilities	21, 25	-	-	-	-	-	-	641	641
Lease liabilities	18	346,791	275,089	195,880	137,142	104,140	367,977	-	1,427,019
USPP notes	22	-	303,179	73,746	327,761	-	965,497	-	1,670,183
Total liabilities		346,791	578,268	269,626	464,903	104,140	1,333,474	992,365	4,089,567
30 June 2022		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets									
Cash and deposits		15,153	-	-	-	-	-	48,897	64,050
Trade debtors	7	-	-	-	-	-	-	1,105,304	1,105,304
Accrued revenue	7	-	-	-	-	-	-	156,359	156,359
Sundry debtors	7	-	-	-	-	-	-	117,096	117,096
Amounts owing from other entities	7, 10	604	486	425	3,468	193	130	11,067	16,373
Net investment in finance leases	7, 10	6,406	5,214	3,909	3,071	1,260	1,029	-	20,889
Investments	11	-	-	-	-	-	-	145,222	145,222
Total assets		22,163	5,700	4,334	6,539	1,453	1,159	1,583,945	1,625,293
Liabilities									
Trade and other creditors	17	-	-	-	-	-	-	1,018,552	1,018,552
Amounts owing to vendors	21, 25	-	-	-	-	-	-	26,135	26,135
Other liabilities	21, 25	-	-	-	-	-	-	435	435
Lease liabilities	18	341,858	275,374	201,379	139,226	95,713	382,253	-	1,435,803
USPP notes	22	-	-	280,176	68,151	302,892	925,715	-	1,576,934
Total liabilities		341,858	275,374	481,555	207,377	398,605	1,307,968	1,045,122	4,057,859

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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 2023		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
Assets									
Cash and deposits		771,104	-	-	-	-	-	771,104	1.07
Amounts owing from other entities	10	-	-	14,000	-	-	-	14,000	6.31
Total assets		771,104	-	14,000	-	-	-	785,104	
Liabilities									
Bank loans	22	-	-	-	3,278	-	-	3,278	4.67
Total liabilities		-	-	-	3,278	-	-	3,278	
30 June 2022		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
Assets									
Cash and deposits		715,947	-	-	-	-	-	715,947	0.24
Amounts owing from other entities	10	-	14,000	-	-	-	-	14,000	2.27
Total assets		715,947	14,000	-	-	-	-	729,947	

Sensitivity analysis

If interest rates in all relevant currencies applied to financial instruments held at 30 June 2023 had changed by -100/+100 basis points (2022: -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 \$5,441,000/\$5,395,000 lower/higher mainly as a result of lower/higher interest income from cash and deposits (2022: \$511,000/\$5,110,000 lower/higher mainly as a result of lower/higher interest income from cash and deposits). Other components of equity would have been \$5,441,000/\$5,395,000 lower/higher as a result of a decrease/increase in interest income (2022: \$511,000/\$5,110,000 lower/higher as a result of a decrease/increase in interest income). The impacts on profit and equity of either change in rates are higher in 2023 due to the higher balance of floating rate cash and deposits noting that the sensitivity applied to the reduction in the interest rate in the prior year was lower by 90 basis points.

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.

Notes to the Consolidated Financial Statements

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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.

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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 2023		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Liabilities							
Trade and other creditors	17	959,992	-	-	-	959,992	959,992
Amounts owing to vendors	21, 25	7,817	20,979	2,936	-	31,732	31,732
Bank loans	22	156	155	3,562	-	3,873	3,278
USPP notes	22	43,179	342,852	498,128	1,069,705	1,953,864	1,670,183
Other liabilities	21, 25	413	228	-	-	641	641
Lease liabilities	18	384,451	301,770	489,332	424,911	1,600,464	1,427,019
Financial guarantee contracts		13,625	-	-	-	13,625	-
Total liabilities		1,409,633	665,984	993,958	1,494,616	4,564,191	4,092,845
30 June 2022							
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Liabilities							
Trade and other creditors	17	1,018,552	-	-	-	1,018,552	1,018,552
Amounts owing to vendors	21, 25	21,145	461	4,529	-	26,135	26,135
USPP notes	22	40,932	40,932	753,650	1,053,257	1,888,771	1,576,934
Other liabilities	21, 25	224	211	-	-	435	435
Lease liabilities	18	371,082	297,292	481,505	438,299	1,588,178	1,435,803
Financial guarantee contracts		12,456	-	-	-	12,456	-
Total liabilities		1,464,391	338,896	1,239,684	1,491,556	4,534,527	4,057,859

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)).

Notes to the Consolidated Financial Statements

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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 \$1,457,870,000.

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 1 includes an equity investment in a listed Australian entity which has been valued based on a quoted price in an active market. 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 39 | PARENT COMPANY FINANCIAL INFORMATION

a) Summary financial information

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

	2023	2022
Balance sheet	\$'000	\$'000
Current assets	3,994,985	4,080,050
Total assets	7,754,980	7,757,345
Current liabilities	3,178,846	3,240,816
Total liabilities	3,277,762	3,346,136
Shareholders' equity		
Contributed equity	3,961,543	3,968,856
Reserves		
Equity remuneration reserve	(122,202)	(112,515)
Share option reserve	16,427	16,427
Retained earnings	621,450	538,441
Total equity	4,477,218	4,411,209
Profit for the year	563,362	491,561
Total comprehensive income	563,362	491,561

Notes to the Consolidated Financial Statements

30 JUNE 2023

b) Guarantees entered into by the Parent Company

The Parent Company is a party to the Deed of Cross Guarantee as disclosed in Note 28. 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 \$147,183,000 (2022: \$145,083,000) 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 2023 or 30 June 2022 other than as described in (b) above.

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

The Parent Company had contractual commitments for the acquisition of property, plant or equipment as at 30 June 2023 of \$28,821,000.

NOTE 40 | 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 Group, the results of those operations or the state of affairs of the Consolidated Group in subsequent financial years, other than the settlement of the acquisition of Synlab Suisse on 3 July 2023 for a purchase price of CHF150 million (cash and debt free).

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2023

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 2023 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 29 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 28.

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
26 September 2023



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 2023 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 2023
- 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.

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T: +61 2 8266 0000, F: +61 2 8266 9999
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999

Liability limited by a scheme approved under Professional Standards Legislation.

Our audit approach

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

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



Materiality	Audit scope
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$46.5 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. 	<ul style="list-style-type: none"> 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. Accordingly, we structured our audit as follows: <ul style="list-style-type: none"> 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 the consolidated financial statements. Under instruction from and on behalf of the group audit team, component auditors in Germany and Switzerland performed an audit 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 the group audit team kept in regular communication throughout the year. The group audit team undertook the remaining audit procedures to obtain sufficient appropriate audit evidence to express an opinion on the Group's financial report as a whole.

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
<p>Estimated recoverable amount of Goodwill and Brand Names Refer to note 14</p> <p>Goodwill and brand names of \$7.4 billion are recognised on the consolidated balance sheet.</p> <p>Under Australian Accounting Standards, the Group is required to test these indefinite lived intangible assets annually for impairment. This assessment is inherently complex and requires judgement in forecasting the operational cash flows of the cash generating units (“CGU”), and determining discount rates and terminal value growth rates used in the discounted cash flow models used to assess impairment (the ‘models’).</p> <p>The recoverable amount of goodwill and brand names was considered a key audit matter given the:</p> <ul style="list-style-type: none"> • financial significance of the intangible assets on the consolidated balance sheet; and • judgement applied by the Group in completing the impairment assessments. 	<p>We focussed our efforts on developing an understanding and testing the overall calculation and methodology of the Group’s impairment assessment, including identification of the cash generating units (CGUs) of the Group for the purposes of impairment testing, and the attribution of assets, revenues and costs to those CGUs. In obtaining sufficient, appropriate audit evidence, our procedures included, amongst others:</p> <ul style="list-style-type: none"> • assessing the appropriateness of cash flow forecasts included in the model with reference to historical earnings and budget accuracy, Board and/or management approved budgets and forecasts; • testing the mathematical calculations within the models; • assessing the appropriateness of the discount rates and terminal value growth rates, with assistance from PwC valuation experts; • considering the sensitivity of the models by varying key assumptions used in the models to assess any possibility of a reasonably possible change disclosure; 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
<p data-bbox="261 387 584 448">Lease accounting Refer to note 1(l)(ac), 13, 18</p> <p data-bbox="261 477 799 533">Lease accounting was a key audit matter due to the:</p> <ul data-bbox="309 566 783 768" style="list-style-type: none"> • financial significance of lease liabilities and right-of-use assets to the balance sheet; and • significant judgements required by the Group such as determining the appropriate lease term and the incremental borrowing rate. 	<p data-bbox="853 387 1394 416">Our audit procedures included, amongst others:</p> <ul data-bbox="901 450 1426 1008" style="list-style-type: none"> • for a sample of new lease arrangements, we agreed key inputs used in calculating the Group's lease liability and right-of-use asset, to underlying supporting documentation; • evaluating and testing the appropriateness of 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; • testing the mathematical accuracy of the Group's lease calculations; and • 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 2023, 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 through our opinion on the financial report. We have issued a separate opinion on the remuneration report.

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 2023.

In our opinion, the remuneration report of Sonic Healthcare Limited for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Brett Entwistle
Partner

Sydney
26 September 2023



Shareholders' Information

1. INFORMATION RELATING TO SHAREHOLDERS

a) Distribution schedule as at 8 September 2023

		No. of holders ordinary shares
1-1,000		57,522
1,001-5,000		25,303
5,001-10,000		2,120
10,001-100,000		938
100,001 and over		95
		85,978
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		71.6%
Number of holders holding less than a marketable parcel		1,560

b) Substantial shareholders as at 8 September 2023

The Company has received substantial shareholding notices to 8 September 2023 in respect of the following holdings:

	No. of securities	Percentage held
State Street Corporation and its subsidiaries	29,790,944	6.28%
BlackRock Group (including 761,907 American Depositary Receipts)	29,440,945	6.21%
The Vanguard Group, Inc. and its controlled entities (including 18,414 American Depositary Receipts)	24,058,158	5.07%

Shareholders' Information

1. INFORMATION RELATING TO SHAREHOLDERS

c) Names of the 20 largest registered holders of equity securities as at 8 September 2023

	No. of securities	Percentage held
HSBC Custody Nominees (Australia) Limited	176,359,869	37.20%
J P Morgan Nominees Australia Pty Limited	56,798,795	11.98%
Citicorp Nominees Pty Limited	37,973,638	8.01%
Jardvan Pty Ltd	15,109,474	3.19%
BNP Paribas Noms Pty Ltd <DRP>	12,126,944	2.56%
National Nominees Limited	8,143,486	1.72%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	4,266,490	0.90%
Argo Investments Limited	3,726,053	0.79%
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	3,262,081	0.69%
Australian Foundation Investment Company Limited	3,159,672	0.67%
Netwealth Investments Limited <Wrap Services A/C>	3,011,026	0.64%
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd <DRP A/C>	2,586,805	0.55%
Blaise Mentha	2,000,000	0.42%
Polly Pty Ltd <A/C Patterson Family>	1,817,416	0.38%
HSBC Custody Nominees (Australia) Limited - A/C 2	1,688,971	0.36%
Citicorp Nominees Pty Limited <Colonial First State INV A/C>	1,598,882	0.34%
Quintal Pty Ltd <Harken Family A/C>	1,587,908	0.33%
IOOF Investment Services Limited <IPS Superfund A/C>	1,449,230	0.31%
BNP Paribas Nominees Pty Ltd ACF Clearstream	1,384,017	0.29%
HSBC Custody Nominees (Australia) Limited	1,346,103	0.28%
	339,396,860	71.59%

d) On-market share buyback

On 21 February 2022, the Company announced its intention to undertake an on-market share buyback of its shares. The buyback was concluded in FY2023, with shares acquired for a total consideration of \$425 million.

Shareholders' Information

2. UNQUOTED EQUITY SECURITIES AS AT 8 SEPTEMBER 2023

	No. on issue	No. of holders
Options over unissued ordinary shares	16,978,494	370
Performance rights	204,515	126

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.

For Australian and New Zealand shareholders direct payment of dividends into a nominated Australian or New Zealand account must be arranged with the Share Registry. Shareholders should complete a payment instruction form online or advise 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. Unless you have elected to receive a hard copy of our Annual Report or you have not provided us with your email address, you will continue to receive an electronic copy in accordance with the Corporations Act, until Sonic Healthcare receives a written election from you.

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 64% of shareholders receive communications electronically. The result is a reduction in energy and water resources associated with paper production.

4. ANNUAL GENERAL MEETING

The 2023 Annual General Meeting (AGM) will be held at the Intercontinental Sydney Hotel, 117 Macquarie Street, Sydney at 10.00 am on Thursday 16 November 2023. In addition there will be an option to attend virtually.



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Inset

Assoc. Prof. Cristina Vargas,
Histopathologist, Douglass Hanly Moir Pathology,
New South Wales, Australia



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