



SONIC
HEALTHCARE
LIMITED

Tuesday, 18 October 2016

Company Announcements
Australian Stock Exchange
20 Bond Street
SYDNEY NSW 2000

Dear Sir/Madam,

Re: Annual General Meeting Details

The Board of Sonic Healthcare Limited (**Sonic**) is pleased to announce that Sonic's 2016 Annual General Meeting will be held at 10.00am on 17 November 2016 in the Fort Macquarie Room, InterContinental Sydney Hotel, 117 Macquarie Street, Sydney NSW.

The Notice of Meeting and Proxy form will be sent to shareholders today. Sonic's 2016 Concise Annual Report is accessible online at www.sonichealthcare.com/annualreports.aspx. As permitted by the *Corporations Act 2001* (Cth), the report will be sent only to those shareholders who have requested a copy.

Pursuant to ASX Listing Rule 3.17, attached is a copy of the Notice of Meeting, Proxy form and Concise Annual Report.

Yours faithfully

Paul Alexander
Company Secretary

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THIS DOCUMENT IS IMPORTANT

If you do not understand it or are in any doubt about how to act, you should consult your stockbroker, solicitor, accountant or other professional adviser immediately.



SONIC HEALTHCARE LIMITED

ACN 004 196 909

NOTICE OF ANNUAL GENERAL MEETING 2016

AND

EXPLANATORY MEMORANDUM

The Annual General Meeting of shareholders will be held in the Fort Macquarie Room, InterContinental Sydney Hotel, 117 Macquarie Street, Sydney NSW on 17 November 2016, commencing at 10.00am (Sydney time).

If you are unable to attend the meeting, you are encouraged to appoint a proxy to attend and vote on your behalf. Proxies must be appointed in accordance with the instructions set out in the proxy form enclosed with this booklet. Proxy appointments and any authority documents must be received by no later than 10.00am (Sydney time) on 15 November 2016.

A copy of Sonic's concise annual report for the financial year ended 30 June 2016 is accessible on Sonic's website at the following address: www.sonichealthcare.com/annualreports.aspx. As permitted by the *Corporations Act 2001* (Cth) (*Corporations Act*), a physical copy of the concise annual report has been sent only to shareholders who have elected to receive a physical copy.

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Notice of Annual General Meeting 2016

Notice is given that the 2016 Annual General Meeting of Sonic Healthcare Limited (**Sonic** or the **Company**) will be held in the Fort Macquarie Room, InterContinental Sydney Hotel, 117 Macquarie Street, Sydney NSW on Thursday, 17 November 2016, commencing at 10.00am (Sydney time).

AGENDA

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider:

- (a) the financial report of the Company;
- (b) the directors' report; and
- (c) the auditor's report,

for the financial year ended 30 June 2016.

Election of Directors

To consider and, if thought fit, pass each of the following resolutions as an ordinary resolution:

1. **THAT** *Dr Jane Wilson, who retires in accordance with Article 71 of the Company's Constitution and, being eligible, offers herself for re-election, is re-elected as a director of the Company.*
2. **THAT** *Dr Philip Dubois, who retires in accordance with Article 71 of the Company's Constitution and, being eligible, offers himself for re-election, is re-elected as a director of the Company.*

Remuneration Report

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

3. **THAT** *the remuneration report for the financial year ended 30 June 2016 is adopted.*

Note that the vote on this resolution is advisory only and does not bind the Company or its directors.

Please refer to the instructions in the Additional Information – Proxies section on page 4 for details of how to appoint a proxy for this resolution.

VOTING EXCLUSION STATEMENT:

Sonic will disregard any votes cast on Resolution 3 by or on behalf of a member of the key management personnel (being each director of Sonic) or their closely related parties (including as proxy), unless the vote is cast by that person as proxy for a person entitled to vote in accordance with the direction on the Proxy Form, or where there is no specified voting direction, the vote is cast by the Chairman of the meeting as proxy, having been expressly authorised to vote on this resolution, even though it is connected with the remuneration of the directors. A "closely related party" is defined in the Corporations Act and includes a spouse, dependant and certain other close family members, as well as any companies controlled by the directors.

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SPECIAL BUSINESS

Executive Director Remuneration – Approval of long term incentives

To consider, and if thought fit, pass each of the following resolutions as an ordinary resolution:

4. **THAT**, for the purposes of ASX Listing Rules 10.14 and 7.1 and all other purposes, the grant of long term incentives up to a maximum value of \$2,629,971 to Dr Colin Goldschmidt, Managing Director and Chief Executive Officer, under the Sonic Healthcare Limited Employee Option Plan and the Sonic Healthcare Limited Performance Rights Plan and the subsequent allotment of shares in respect of those incentives on the terms summarised in the Explanatory Notes, be approved.
5. **THAT**, for the purposes of ASX Listing Rules 10.14 and 7.1 and all other purposes, the grant of long term incentives up to a maximum value of \$1,168,399 to Mr Chris Wilks, Finance Director and Chief Financial Officer, under the Sonic Healthcare Limited Employee Option Plan and the Sonic Healthcare Limited Performance Rights Plan and the subsequent allotment of shares in respect of those incentives on the terms summarised in the Explanatory Notes, be approved.

VOTING EXCLUSION STATEMENT:

Sonic will disregard any votes cast in respect of Resolutions 4 and 5 by any director of Sonic (including Dr Goldschmidt and Mr Wilks), and any of their associates. However, the Company need not disregard a vote, if it is cast by such persons as proxy for a shareholder who is entitled to vote, in accordance with the directions on the Proxy Form.

In addition, the Company will disregard votes cast by a director (or any of their closely related parties) as proxy, where the appointment does not specify the way the proxy is to vote, unless the proxy is the Chairman of the meeting and has been expressly authorised to vote on behalf of someone entitled to vote on this resolution, even though it is connected with the remuneration of the directors.

Please refer to the instructions in the Additional Information – Proxies section on page 4 for details of how to appoint a proxy for these resolutions.

ADDITIONAL INFORMATION:

This Notice is accompanied by an Explanatory Memorandum which provides an explanation of the business of the meeting, including the proposed resolutions.

Voting Entitlements

1. For the purposes of the 2016 Annual General Meeting, the shares of the Company that are on issue as at 7.00pm on 15 November 2016 will be taken to be held by those persons recorded on the register of shareholders at that time. Accordingly, you will be entitled to vote at the meeting if, and only if, you are a registered shareholder of the Company at 7.00pm (Sydney time) on 15 November 2016. Transfers registered after that time will be disregarded in determining shareholders entitled to attend and vote at the meeting.

Custodian Voting

2. For Intermediary Online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting intentions.

Proxies

3. A shareholder has a right to appoint a proxy, who need not be a shareholder of the Company.
4. If a shareholder is entitled to cast two or more votes, the shareholder may appoint two proxies. Where a proxy has two or more appointments that specify different ways to vote on a resolution, the proxy must not vote on a show of hands in relation to that resolution.
5. Where more than one proxy is appointed and the appointment does not specify the proportion or number of the shareholder's votes each proxy may exercise, each proxy may exercise half of the shareholder's voting rights (disregarding fractions).
6. You may return your proxy form to Sonic's share registry by faxing, posting or delivering it to the relevant address below, or to the registered office of Sonic.

By fax: 1800 783 447 (within Australia) +61 3 9473 2555 (outside Australia)

By mail: Sonic Healthcare Limited
C/o Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

7. To be effective for the scheduled meeting, your proxy form must be received no later than 48 hours before commencement of the Annual General Meeting (i.e. by 10.00am (Sydney time) on 15 November 2016). A proxy form accompanies this Notice.

8. Alternatively, you may appoint a proxy using an electronic facility available at the website www.investorvote.com.au. At the website, shareholders will be able to view an electronic version of the proxy form, which will accept proxy appointments and register them accordingly. A shareholder who wishes to use this facility must register their proxy appointment by no later than 10.00am (Sydney time) on 15 November 2016.

9. **DIRECTED PROXY VOTES**

If you specifically direct the proxy how to vote on a proposed resolution, the proxy may only vote on that item in the way that you have directed. If you appoint someone other than the Chairman of the meeting as your proxy and give them voting instructions, the Chairman of the meeting must cast those proxy votes on your behalf on a poll if your nominated proxy does not do so.

10. **UNDIRECTED PROXY VOTES**

You are encouraged to consider how you wish to direct your proxy to vote. Other than directors of Sonic or their closely related parties voting as a proxy on Resolutions 3, 4 and 5, if a proxy is not directed how to vote on an item of business, the proxy may vote, or abstain from voting, as they think fit. Should any resolution, other than those specified in this Notice, be proposed at the meeting, a proxy may vote on that resolution as they think fit.

If you wish to appoint a director of Sonic (other than the Chairman) or their closely related party as your proxy, you must specify how they should vote on Resolutions 3, 4 and 5 by completing the "For", "Against" or "Abstain" boxes on the proxy form. If you do not do that, your proxy will not be able to exercise your vote on your behalf for that resolution. If you appoint the Chairman (or the Chairman is appointed by default) as your proxy in relation to Resolutions 3, 4 and 5, but do not complete any of the boxes "For", "Against" or "Abstain" opposite that resolution on the proxy form, you expressly authorise the Chairman to exercise your proxy in relation to Resolutions 3, 4 and 5 even though the item is connected directly or indirectly with the remuneration of directors. If you wish to appoint the Chairman as proxy with a direction to vote against, or to abstain from voting on Resolutions 3, 4 and 5, you must specify this by completing the "Against" or "Abstain" boxes on the proxy form.

The Chairman intends to vote undirected proxies in favour of all items of business.

By ORDER of the Board of Directors



Paul Alexander
Company Secretary

Dated: 18 October 2016

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EXPLANATORY MEMORANDUM

ORDINARY BUSINESS

Financial Statements and Reports

The financial report of the Company and the reports of the directors and auditors for the financial year ended 30 June 2016 will be laid before the Annual General Meeting, as required by the Corporations Act. Shareholders can access a copy of the reports (which form part of Sonic's 2016 Annual Report) and a copy of the concise annual report on the Company's website at www.sonichealthcare.com. As permitted by the Corporations Act, a physical copy of the concise annual report has been sent only to shareholders who have elected to receive a physical copy.

During this item of business, shareholders will be provided with a reasonable opportunity to ask questions about, and make comments on, the reports and the management, business and performance of the Company.

Shareholders will also be given a reasonable opportunity to ask a representative of the Company's auditor, PricewaterhouseCoopers, questions relevant to the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements or the independence of the auditor in relation to the conduct of the audit. Shareholders may also submit a written question to PricewaterhouseCoopers if the question is relevant to the content of the auditor's report for the financial year ended 30 June 2016 or the conduct of the audit of the financial report for that year. Questions for the auditor must be received by the Company by no later than Thursday, 10 November 2016. At the meeting, PricewaterhouseCoopers will be given the opportunity to answer, or table written answers to, relevant questions.

Resolutions 1 and 2 – Election of Directors

Under Article 71 of the Constitution of the Company and in accordance with the ASX Listing Rules, no director, other than the Managing Director, may hold office for a continuous period in excess of 3 years or past the third Annual General Meeting following the director's appointment, whichever is the longer, without submitting for re-election. Dr Jane Wilson and Dr Philip Dubois are required to retire as directors at the end of the 2016 Annual General Meeting but, being eligible, offer themselves for re-election. The Board (excluding the relevant directors) recommends the re-election of Dr Jane Wilson and Dr Philip Dubois.

Biographical details of the relevant directors are set out on page 7.

Dr Jane Wilson

M.B.B.S., M.B.A., F.A.I.C.D.

Non-executive, independent Director, appointed July 2010

Dr Wilson is a senior non-executive director with a background in finance, banking and medicine. She is a registered General Medical Practitioner and a Fellow of the Australian Institute of Company Directors (F.A.I.C.D.). Dr Wilson is currently a Guardian of Future Fund, non-executive director of The Winston Churchill Memorial Trust, Deputy Chancellor of the University of Queensland, a member of the University of Queensland Faculty of Health Sciences Board, a member of the Institute for Molecular Bioscience Advisory Board, a non-executive director of Opal Aged Care and a non-executive director of the General Sir John Monash Foundation. Dr Wilson is also on the boards of a number of cultural and charitable institutions. Dr Wilson was a director of Universal Biosensors Ltd (ASX listed, non-executive Director from December 2006 to August 2013). She was named in the inaugural 2012 AFR/Westpac Top 100 Women Awards in the Board/Management category and in 2016 she was awarded the AICD Directors Gold Medal for excellence in directorship and for her contribution to improving governance in the business and wider community. She has a Masters degree in Business Administration from the Harvard Business School and a medical degree from the University of Queensland. Dr Wilson is Chairman of the Risk Management Committee and is a member of the Remuneration and Nomination Committee. Dr Wilson resides in Brisbane, Queensland and currently holds (beneficially) 2,000 Sonic shares. In recommending Dr Wilson's re-election, the Board recognised that she brings over 20 years corporate governance experience across a diverse range of companies and industries to the position, including extensive experience in corporate finance, innovation and the commercialisation of technologies with a focus on the healthcare sector. The Board considers Dr Wilson to be an independent director.

Dr Philip Dubois

M.B., B.S., F.R.C.R., F.R.A.N.Z.C.R., F.A.I.C.D.

Executive Director, appointed July 2001

Dr Dubois is CEO of Sonic's Imaging Division. He is Chairman of the Sonic Imaging Executive Committee and is Chairman and CEO of Queensland X-Ray (Sonic's largest imaging practice, acquired in 2001). A neuroradiologist and nuclear imaging specialist, he is currently an Associate Professor of Radiology at the University of Queensland Medical School. He has served on numerous government and craft group bodies, including the councils of the Royal Australian and New Zealand College of Radiologists and the Australian Medical Association, and as Vice-President of the Australian Diagnostic Imaging Association. He is a non-executive director of Magnetica Limited (since December 2004). Dr Dubois resides in Brisbane, Queensland and currently holds (beneficially) 8,000 Sonic shares. In recommending Dr Dubois' re-election, the Board recognised the value of his strategic input and executive leadership experience in healthcare services, and in particular, his wealth of experience in diagnostic imaging.

The presence of Dr Wilson (a registered General Medical Practitioner) and Dr Dubois (a practicing radiologist) on the Board is evidence of, and reinforces, Sonic's commitment to its unique Medical Leadership culture and operating model, which in turn provides significant competitive advantages in the markets in which Sonic operates.

Resolution 3 – Remuneration Report

Sonic's 2016 Annual Report contains a remuneration report (forming part of the directors' report), which sets out the Board's remuneration policy and reports the remuneration arrangements in place for directors and specified executives for the financial year ended 30 June 2016.

A resolution for adoption of the remuneration report will be put to the vote at the Annual General Meeting, as required by section 250R of the Corporations Act. In accordance with the Corporations Act, the vote on Resolution 3 will be advisory only and will not bind the directors or the Company.

Shareholders will be provided with a reasonable opportunity to ask questions about and make comments on the remuneration report at the Annual General Meeting.

Under the Corporations Act, a 25% or higher "no" vote on the remuneration report resolution at an Annual General Meeting triggers a reporting obligation on a listed company to explain in its next Annual Report how shareholders' concerns are being addressed. If a 25% or higher "no" vote on the subsequent remuneration report occurs at the next Annual General Meeting, a resolution must be put to shareholders (a "spill resolution") that another general meeting be convened to consider the election of certain directors (the "spill meeting"). If the spill resolution is carried by an ordinary majority, the spill meeting must be held within 90 days and all directors that were directors when the 25% "no" vote was passed will cease to hold office immediately before the spill meeting (except for the Managing Director) and the general meeting will vote on whether those directors should be re-elected.

The Board recommends that shareholders vote in favour of Resolution 3.

SPECIAL BUSINESS

Resolutions 4 and 5 - Approval of long term incentives for Dr Colin Goldschmidt, Managing Director and Chief Executive Officer, and Mr Chris Wilks, Finance Director and Chief Financial Officer

Background

Properly designed equity incentives are an important component of senior executive remuneration. The existing equity-based long term incentive (*LTI*) arrangements for Dr Goldschmidt and Mr Wilks provide performance incentives through to the 2018 financial year (having been approved by shareholders at the 2014 and 2015 Annual General Meetings). In 2014, the Remuneration and Nomination Committee conducted a comprehensive review of the remuneration arrangements for Dr Goldschmidt and Mr Wilks. Following the review, it was proposed (conditional on approval by shareholders) that Dr Goldschmidt and Mr Wilks receive annual grants of equity-based remuneration, subject to performance conditions with measurement periods of three years. Annual grants have a number of benefits versus the less frequent, larger grants used in the past, including allowing the Company to determine the appropriate performance hurdles each year for the grant being made, adjust the mix between type of instruments for changes in circumstances (e.g. tax law), and / or select different measures to take into account changes in the Company's strategy or context. It also provides the opportunity for shareholders to vote on the proposed grants each year, taking into account recent Company performance.

The Remuneration and Nomination Committee has designed the current proposed grant of options and performance rights to these key executives to ensure their remuneration is in line with market and appropriate to retain their services, after taking into consideration their other remuneration components. Dr Goldschmidt and Mr Wilks have been in their current roles since 1993. Their knowledge, experience, and the reputation they have in the market are considered extremely valuable to the Company. Under their leadership Sonic Healthcare has been one of the best performing stocks on the ASX for the period from January 1993 to September 2016, with a return of over 34,000% (Total Shareholder Return, assuming reinvestment of dividends).

Benchmarking performed by Ernst & Young in July 2016 showed that target remuneration levels for the executives had once again fallen below the appropriate levels in the relevant comparator groups of companies. The executives did not seek the maximum target remuneration suggested by the benchmarking, and the following increases (above the 2016 levels) in target remuneration for the year ending 30 June 2017 were agreed:

| Remuneration Component | Dr Goldschmidt | Mr Wilks |
|-----------------------------|----------------|--------------|
| Fixed remuneration | 3.0% | 0.0% |
| Target short term incentive | 13.3% | 5.3% |
| Target long term incentive | <u>3.0%</u> | <u>14.8%</u> |
| Total Target Remuneration | 6.3% | 6.5% |

Rather than significantly increasing fixed remuneration, it was agreed instead to weight the increase in target remuneration to the performance based elements. The revised weightings remain within market norms.

Short term and long term incentive amounts are targets, subject to challenging performance hurdles and may not ever be received by the executives. In the past 3 years, the executives have achieved, on average, 60% of their target short term incentives and only 42% of available LTI options and performance rights achieved vesting.

Following a recommendation by the Remuneration and Nomination Committee, the Board has approved the proposed LTI grants.

The Remuneration and Nomination Committee has negotiated these arrangements with Dr Goldschmidt and Mr Wilks, subject to shareholders' approval. Should shareholders not approve the issue of the options and performance rights, the Remuneration and Nomination Committee will need to negotiate alternative arrangements.

Approval under ASX Listing Rule 10.14

Shareholder approval of the issue of the securities proposed under Resolutions 4 and 5 is required under ASX Listing Rule 10.14, which prohibits the Company from permitting any director of the Company to acquire newly issued securities under an employee incentive scheme, such as the Option Plan and the Performance Rights Plan, without the approval of shareholders.

Resolutions 4 and 5 seek shareholders' approval to the grant of LTIs to provide performance incentives through to the 2019 financial year with a value of:

- Dr Goldschmidt – a maximum of \$2,629,971; and
- Mr Wilks – a maximum of \$1,168,399,

on the terms set out in this notice. 50% of this value will be issued as options over ordinary shares in Sonic under the Option Plan, and the remaining 50% will be issued as performance rights over ordinary shares in Sonic under the Performance Rights Plan. No consideration will be payable for the options or performance rights (however, an exercise price will be payable for the exercise of any options).

The proposed LTI options and performance rights will vest three years from grant date, if challenging performance conditions (detailed below) are met for the period of three years to 30 June 2019. They will expire 5 years from grant date. Options can only vest when the market price of Sonic shares is higher than the exercise price.

If shareholder approval is obtained under Resolutions 4 and 5, it is intended that the options and performance rights will be granted to Dr Goldschmidt or Mr Wilks on the date of the 2016 Annual General Meeting or shortly after that date (but not later than 3 years after the Annual General Meeting or any adjournment of it).

No loans have or will be made in respect of the directors' proposed acquisition of options or performance rights under Resolutions 4 and 5.

Details of any securities issued under the Option Plan or the Performance Rights Plan will be published in each annual report of the Company relating to the period in which securities have been issued, including that approval for the issue of such securities was obtained under ASX Listing Rule 10.14.

Any other directors, or associates of such directors, of the Company who become entitled to participate in the Option Plan or the Performance Rights Plan after Resolutions 4 and 5 are approved, who are not named in this Notice, will not participate until approval is obtained under Listing Rule 10.14.

Performance conditions

Vesting of the options and performance rights is subject to two challenging performance conditions that are designed to align the interests of the executive directors with those of shareholders.

Each performance condition will be applied separately to the options and performance rights as follows:

- 50% of the options and 50% of the performance rights are subject to the first performance condition (**PC1**); and
- 50% of the options and 50% of the performance rights are subject to the second performance condition (**PC2**).

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The performance conditions are as follows:

(a) PC1 – Total Shareholder Return (**TSR**)

Under PC1, Sonic's performance will be ranked by percentile according to its TSR relative to the TSR of the companies comprising the S&P ASX 100 Accumulation Index (excluding Banks and Resource companies). Relative TSR has been chosen as a performance hurdle as it provides a direct link between executive remuneration and shareholder return relative to the Company's peers. A relative measure is important, as it removes from the assessment broad market share price movements which are out of the control of the executives. The executive directors will not derive any value from the LTI subject to PC1 unless Sonic's performance exceeds the median of the benchmark group.

The percentage of options and performance rights subject to PC1 that vest will be as follows:

| TSR Ranking achieved | Percentage of Options and Rights that vest |
|---|--|
| Below the 51st percentile | Nil options and rights to which PC1 applies |
| 51st percentile | 50% of options and rights to which PC1 applies |
| Greater than 51st and less than 75th percentile | Pro rata between 50% and 100% of options and rights to which PC1 applies |
| 75th percentile and above | 100% of options and rights to which PC1 applies |

(b) PC2 – Earnings Per Share (**EPS**) Growth

This hurdle will be measured by comparing the Company's aggregate EPS over 3 years against an aggregate EPS target. EPS is calculated as Net Profit after Tax divided by the fully diluted weighted average number of ordinary shares on issue during a year. Growth in EPS has been chosen as a hurdle as it is a direct measure of Company performance and maintains a strong correlation with long term shareholder return. The percentage of options and performance rights subject to PC2 that vest will be as follows:

| Aggregate EPS for FY2017 to FY2019 | Percentage of Options and Rights that vest |
|--|--|
| Less than 355 cents | Nil options and rights to which PC2 applies |
| 355 cents | 40% of options and rights to which PC2 applies |
| Greater than 355 cents and less than 398 cents | Pro rata between 40% and 100% of options and rights to which PC2 applies |
| 398 cents or greater | 100% of options and rights to which PC2 applies |

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

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Whilst the general intention is to use statutory reported numbers for transparency in measuring performance under PC2, given the three year period into the future involved, should the statutory numbers cause an anomalous result, adjustments to the statutory numbers may be made by the Board to ensure the intent of the incentive plan is maintained.

Options and performance rights for which the performance conditions are not satisfied will be forfeited immediately after the performance measurement is finalised. There will be no retesting.

Following vesting of options and/or performance rights, ordinary shares in Sonic may be provided either by way of an issue of new shares or the purchase of existing shares on market by the trustee of the Sonic Healthcare Employee Share Trust (the **Trust**) in accordance with the relevant Plan rules. Options and performance rights are not eligible for dividends.

Should Dr Goldschmidt or Mr Wilks cease employment before their options and/or performance rights vest, such unvested awards will generally lapse. However, where the Board determines that the executive director is a "good leaver" the Board has the discretion to enable the executive director to retain the portion of the options and performance rights which vest (subject to the performance conditions) within two years of cessation of employment.

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 and 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.

For the proposed LTIs, 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.

Valuation

The number of options to be issued to each executive will be calculated based on a Black Scholes methodology valuation at the date of issue (proposed to be the date of the 2016 Annual General Meeting or shortly after), and the exercise price of the options will be determined using the Volume Weighted 5 day Average Market Price (**5 day VWAP**) for Sonic shares preceding the date of issue. The valuation will not allow for any discount relating to the performance conditions.

For example, using a date of issue of 22 September 2016, the number of options and performance rights would be calculated as follows:

| | |
|--|-------------------|
| Notional valuation date | 22 September 2016 |
| Sonic 5 day VWAP share price | \$21.17 |
| Exercise price of options | \$21.17 |
| Share price volatility | 21.8% |
| Estimated dividend yield | 3.55% |
| Maximum life of the options (grant date to expiry assuming vesting) | 5 years |
| Risk free rate (based on Australian Government bonds) | 1.81% |
| Average value of options | \$2.819 |
| Percentage of maximum value of LTI to be issued as options | 50% |
| Options that would be issued to Dr Goldschmidt using these assumptions | 466,472 |
| Options that would be issued to Mr Wilks using these assumptions | 207,236 |

The number of performance rights to be issued to each executive will be calculated at the date of issue by dividing 50% of the maximum value of LTI by the 5 day VWAP for Sonic shares preceding the date of grant. For example, based on a 5 day VWAP of A\$21.17, Dr Goldschmidt would be issued 62,115 performance rights (50% of \$2,629,971, divided by \$21.17) and Mr Wilks would be issued 27,595 performance rights (50% of \$1,168,399, divided by \$21.17).

The options and performance rights will not be listed on the ASX. Upon exercise, the shares issued or acquired will be held on trust by the trustee of the Trust until withdrawn in accordance with the terms of the applicable Plan.

Issues of securities since the last approval by shareholders

1. Options

At the 2015 Annual General Meeting, shareholders approved the issue of LTIs resulting in the issue of options for nil consideration under the Option Plan as follows:

- Dr Goldschmidt – 548,404 options (exercise price: \$19.41) issued on 20 November 2015; and
- Mr Wilks – 218,565 options (exercise price: \$19.41) issued on 20 November 2015.

These options will vest three years from grant date, if challenging performance conditions are met for the period of three years to 30 June 2018. They will expire five years from grant date.

2. *Performance Rights*

At the 2015 Annual General Meeting, shareholders approved the issue of LTIs resulting in the issue of performance rights for nil consideration under the Performance Rights Plan as follows:

- Dr Goldschmidt – 65,774 performance rights (nil exercise price) issued on 20 November 2015; and
- Mr Wilks – 26,214 performance rights (nil exercise price) issued on 20 November 2015.

These performance rights will vest three years from grant date, if challenging performance conditions are met for the period of three years to 30 June 2018. They will expire five years from grant date.

There have been no other securities issued to directors or their associates under the Option Plan or Performance Rights Plan since the last approval by shareholders.

The Board (other than Dr Goldschmidt or Mr Wilks, given their interest) recommend that shareholders vote in favour of Resolutions 4 and 5.

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Lodge your vote:

Online:
www.investorvote.com.au

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1300 556 161
(outside Australia) +61 3 9415 4000

Proxy Form

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Vote and view the annual report online

- Go to www.investorvote.com.au or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number:

SRN/HIN:

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10:00am (Sydney time) Tuesday 15 November 2016

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item. Refer to the Additional Information section of the Notice of Meeting and Step 1 of this form for information on appointing proxies.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

If you wish to appoint a member of Sonic's key management personnel (being its Directors) or their closely related parties (other than the Chairman) as your proxy, you must specify how they should vote on Items 3, 4 & 5 by marking the appropriate box. If you do not, your proxy will not be able to vote for Items 3, 4 & 5.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a sole Director who is also the sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form** ➔

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Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Sonic Healthcare Limited hereby appoint

the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Sonic Healthcare Limited to be held in the Fort Macquarie Room, InterContinental Sydney Hotel, 117 Macquarie Street, Sydney NSW on Thursday, 17 November 2016 at 10:00am (Sydney time) and at any adjournment or postponement of that Meeting.

I/we acknowledge that the Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

Chairman authorised to exercise undirected proxies on remuneration related resolutions: If I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman of the Meeting to exercise my/our proxy on Items 3, 4 & 5 (except where I/we have indicated a different voting intention below) even though the Chairman is, and those items are connected directly or indirectly with the remuneration of, a member of Sonic's key management personnel.

Important Note: If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman of the Meeting to vote for or against or abstain from voting on Items 3, 4 & 5 by marking the appropriate box in step 2 below.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

ORDINARY BUSINESS

| | For | Against | Abstain |
|---|--------------------------|--------------------------|--------------------------|
| Item 1 Re-election of Dr Jane Wilson as a Director of the Company | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Item 2 Re-election of Dr Philip Dubois as a Director of the Company | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Item 3 Adoption of the Remuneration Report | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

SPECIAL BUSINESS

| | | | |
|---|--------------------------|--------------------------|--------------------------|
| Item 4 Approval of long term incentives for Dr Colin Goldschmidt, Managing Director and Chief Executive Officer | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Item 5 Approval of long term incentives for Mr Chris Wilks, Finance Director and Chief Financial Officer | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

SIGN

Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date / /



SONIC
HEALTHCARE

Quality is in our DNA



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CONCISE ANNUAL REPORT 2016

CORPORATE DIRECTORY

Directors

Prof M.R. Compton
Chairman

Dr C.S. Goldschmidt
Managing Director

Mr C.D. Wilks
Finance Director

Dr P.J. Dubois

Mr L.J. Panaccio

Ms K.D. Spargo

Dr E.J. Wilson

Company Secretary

Mr P.J. Alexander

Principal registered office in Australia

14 Giffnock Avenue, Macquarie Park
New South Wales, 2113, Australia

Phone: 61 2 9855 5444

Fax: 61 2 9878 5066

Web: www.sonichealthcare.com

Share registry

Computershare Investor Services
Pty Limited

Level 5, 115 Grenfell Street, Adelaide,
South Australia, 5000, Australia.

Phone: 1300 556 161
(Within Australia)

Phone: 61 3 9415 4000
(Outside Australia)

Fax: 1300 534 987
(Within Australia)

Fax: 61 3 9473 2408
(Outside Australia)

Email: www.investorcentre.com/contact

Auditor

PricewaterhouseCoopers

Solicitors

Allens

Bankers

Australia and New Zealand Banking Group

BNP Paribas

Citibank

Commerzbank

Commonwealth Bank of Australia

Crédit Industriel et Commercial

DNB Asia

HSBC

JPMorgan Chase Bank

Mizuho Corporate Bank

National Australia Bank

The Bank of Tokyo-Mitsubishi UFJ

Westpac Banking Corporation

Stock exchange listings

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

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please refer to the Sonic Healthcare website at:
www.sonichealthcare.com/media/3038/soniccorpresponsibility_2016.pdf



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CHAIRMAN'S LETTER



Dear Fellow Shareholders,

On behalf of the Board of Sonic Healthcare, it gives me great pleasure to present the company's 2016 Annual Report. It has been a very good year for Sonic, both financially and strategically.

One of the benefits of our success this year is the ability to continue to pursue our progressive dividend policy and pass on to shareholders a 5.7% increase in total dividends per share for the year. The chart opposite sets out our full year dividend per share history. This paints a very positive picture for shareholders over an extended period, and we look forward to continuing this positive trend.

Sonic reported a net profit for the year of A\$451 million, on revenues of A\$5,052 million, an increase of 30% and 20% respectively. Strong organic growth was augmented by value enhancing acquisitions, including the acquisition of the Medisupport group in Switzerland. Our already strong market positions in other jurisdictions have been further strengthened during the year. Importantly, both our infrastructure and our balance sheet are superbly positioned for future growth.

Sonic has spent many years creating, consolidating and internally communicating the key to our difference - a firmly embedded corporate culture of Medical Leadership. This unique culture provides Sonic with a competitive advantage which translates to delivering the highest quality in all that we do. This strong culture combined with dedicated and experienced management teams and staff around the world means that Sonic is very well placed to continue to deliver value for shareholders into the future as a consequence of delivering the highest quality care and service to all those who use or benefit from Sonic's services.

In previous Annual Reports we have included a Company Conscience report, which described the ways in which Sonic and its people contribute positively to the communities we serve. Starting this year, we have instead included a Corporate Responsibility report on our website, reflecting our ongoing commitment and activities to advance our environmental, social and governance reporting and practices. During the year we also published on the Sonic website a number of already existing global policies relevant to these areas. Sonic's very good standing as a socially responsible company continues to be evidenced by our inclusion again this year in the FTSE4Good Index Series. Sonic has been included in this index each year since March 2008. Sonic has been independently assessed against the FTSE4Good criteria and has been shown to have met stringent environmental, social and governance criteria.

The Sonic Board has a strong belief that Sonic should contribute positively to the global community. Whilst this happens in many ways, our major initiatives are captured under the banner of our Catalyst program, where we use our medical expertise and resources to directly address the dire medical needs in some of the most disadvantaged regions in the world, particularly in Africa. Since 1996 Sonic has worked with local hospitals, often in war-torn areas, to establish and make self-reliant pathology and imaging departments that provide

the vital diagnostic services and skills required by modern medicine. We do this by providing on-the-ground senior Sonic staff for the purpose of training, equipping and supporting the hospitals and their staff. We also provide funding, materials and support for related community projects. All of us on the Board are immensely proud of the efforts of the Sonic staff who work in this program in order to improve the lives of others. I encourage you to read more about our Catalyst program on the Sonic website.

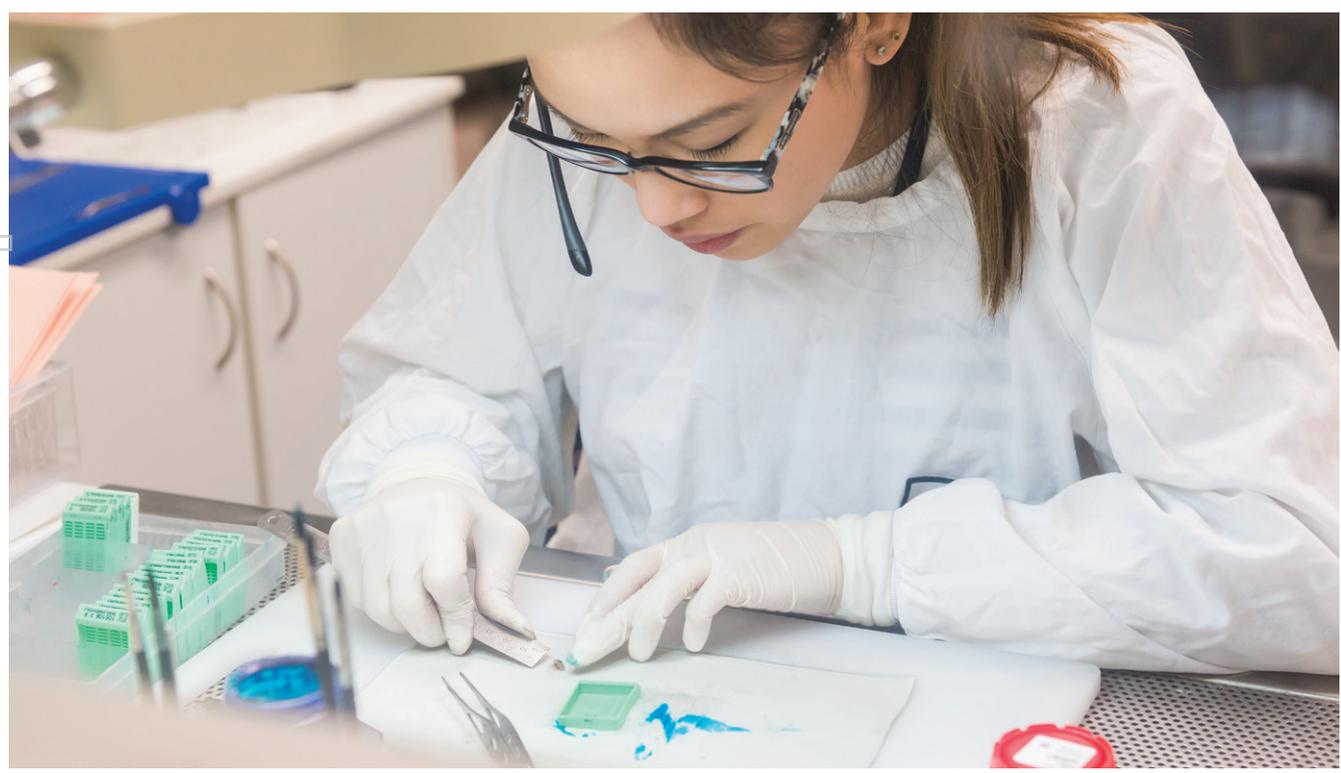
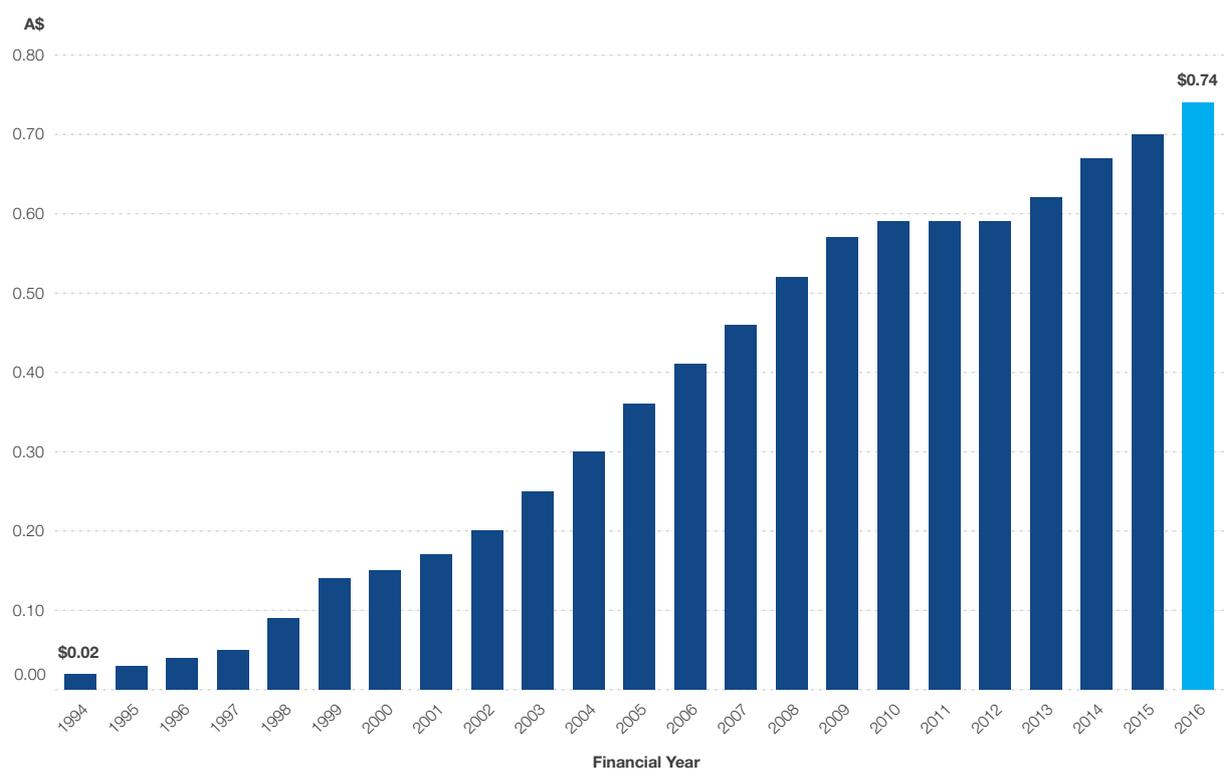
It is almost a year since I was appointed to the role of Chairman of the company. It is an honour to work in this role and to work with a talented and hardworking board and senior executive team to drive the company's success. I sincerely thank my colleague directors and our immediate past Chairman Peter Campbell for their support during the transition. I would also like to acknowledge our highly skilled management team superbly led by our Managing Director Dr Colin Goldschmidt. Together board and management set and deliver upon the strategy of the company. I would also like to acknowledge the over 31,000 Sonic staff in 8 countries who all work tirelessly to deliver upon the strategies we formulate. We are what we are due to the combined skills, talents and drive of all who work in the company. As shareholders we not only benefit from this but importantly we can stand very proud to be supporting such a fine company and its people, all dedicated to delivering medical services that make a difference to peoples' lives.

I reserve my final thanks for Sonic's shareholders. Your support of the board and the whole company is instrumental in providing the opportunity to make a difference to the lives of so many people across the world.

A handwritten signature in black ink, appearing to read 'Mark Compton'. The signature is fluid and includes a circular flourish at the end.

Prof Mark Compton AM
Chairman

DIVIDENDS DECLARED PER SHARE



CEO REPORT



Sonic Healthcare's Medical Leadership culture, the Sonic Core Values, our federated structure and uncompromising commitment to quality have delivered a strong financial performance in fiscal year 2016. These key Sonic Healthcare attributes continue to drive the unity, purpose and passion of our people, our high standards of clinical care and our ongoing organic and acquisitional growth.

2016 was a banner year for Sonic Healthcare, breaking through the dual milestones of A\$5 billion in annual revenues and A\$1 in earnings per share ("EPS"). Revenue growth of 20% and EPS growth of 27% (14% and 21% respectively, excluding currency movements) were extremely pleasing, with strong organic growth in our laboratory division, augmented by value enhancing acquisitions.

The benefits of our diversified international expansion were very obvious in this year's results, with both our European and US businesses showing significant earnings growth, whilst our Australian businesses experienced some headwinds, which now appear to be abating. The revenue growth of our international businesses, which represented 59% of the year's total revenue, is demonstrated in the chart opposite.

Sonic's strategy to lead the consolidation of fragmented international laboratory markets continues, with a number of synergistic acquisition and contract opportunities realised in 2016, and with more in our pipeline.

The acquisitions we completed in the year, including Medisupport in Switzerland, KLD in Belgium, and Adelaide Pathology Partners in Australia, have delivered as expected and have been smoothly integrated into the Sonic group – a credit to the local management teams - with further synergies to be realised in fiscal 2017. The acquisition of the largest of these, the Geneva-based Medisupport, was a significant milestone in Sonic's development, taking Sonic (together with our existing Zurich-based Medica business) into the number one position in the attractive Swiss laboratory market. As with most of our acquisitions, it is a fact that Medisupport was attracted to Sonic's culture, despite the attentions of other suitors. As evidence of their support and belief in Sonic, Medisupport's management team asked to take a significant portion of the acquisition price in Sonic shares, which they continue to hold.

Our UK joint venture, Health Services Laboratories ("HSL"), continues to exceed expectations and won new contracts worth around £5 million per annum during the year. HSL is well positioned to gain further (including significantly larger) NHS outsourcing contracts.

Sonic is now the laboratory market leader in four major Western countries (Australia, Germany, Switzerland and the UK), and with strong positions in our other markets. The company is therefore well placed to continue to benefit from strong underlying industry growth drivers, including population growth and ageing, new tests, and the ever-increasing focus on preventative medicine and chronic disease management.

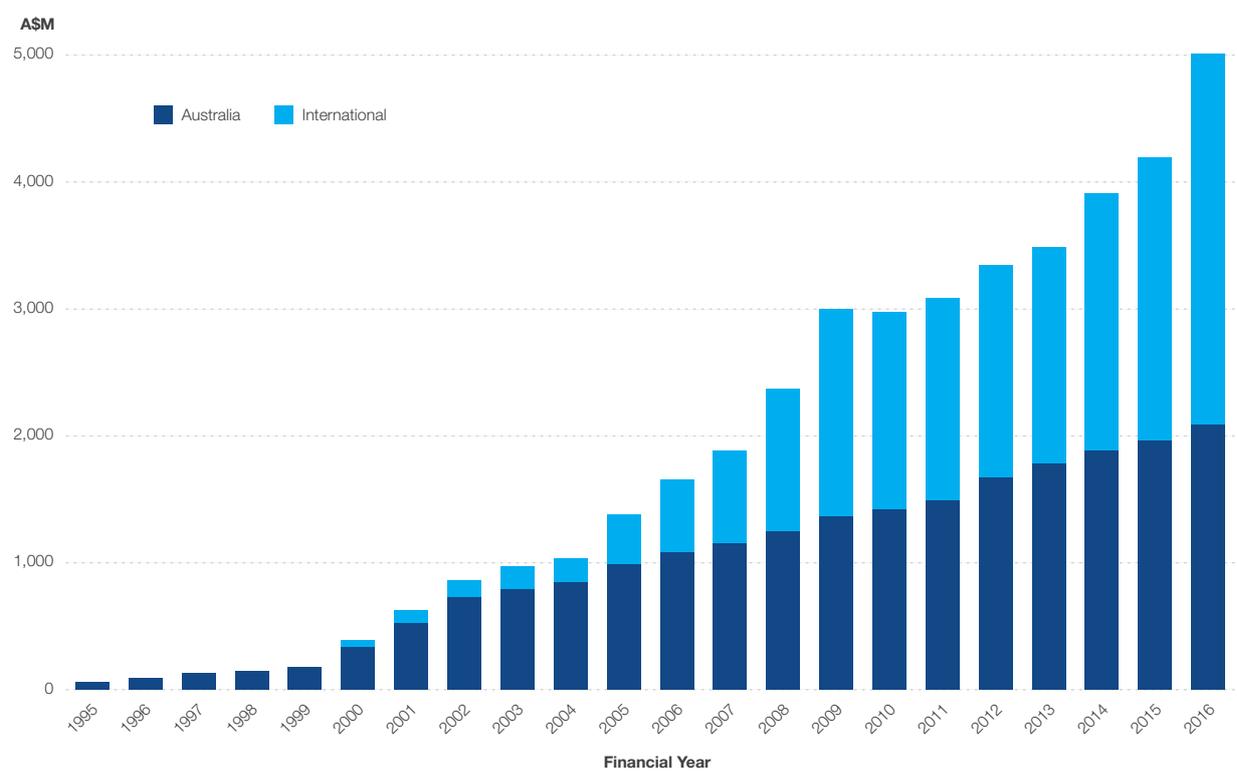
To accommodate this ongoing growth and to facilitate synergy capture, we have invested heavily over the last five years in new, state-of-the-art laboratories around the world, greenfield imaging practices and in equipment platforms and automation systems, creating ultra-modern facilities. Major projects include new laboratories in Brisbane, Perth, Canberra, London, Moers, New York, Memphis, and Hawaii, and major extensions of laboratories in Austin, Berlin and Ingelheim. Although this investment phase is now slowing, we continue to invest in information technology, and in our people, to ensure that our services and quality remain consistently at cutting-edge levels, for the benefit of our thousands of referring clinicians and the tens of millions of patients we serve each year.

In summary, Sonic Healthcare is in a very strong and stable position, ready to benefit from future growth.

I wish to thank the entire global Sonic team, now more than 31,000 strong, for their ongoing dedication and expertise to improve Sonic and the healthcare systems in which we operate.

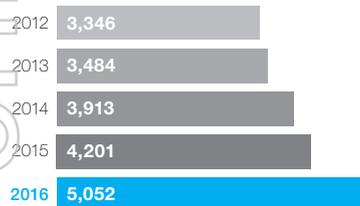
Dr Colin Goldschmidt
CEO and Managing Director

REVENUE



FINANCIAL HIGHLIGHTS

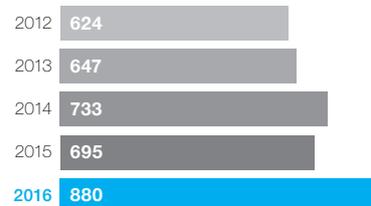
REVENUE \$M



NET PROFIT \$M



EBITDA \$M



DIVIDENDS PAID PER ORDINARY SHARE ¢



NET CASH FLOW FROM OPERATIONS \$M



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FINANCIAL HISTORY

| As at 30 June | 2016 \$'000 | 2015 \$'000 | 2014 \$'000 | 2013 \$'000 | 2012 \$'000 |
|---|----------------|----------------|----------------|----------------|----------------|
| Revenue | 5,052,486 | 4,200,525 | 3,913,475 | 3,484,073 | 3,345,616 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 880,404 | 694,649 | 733,020 | 646,819 | 624,129 |
| Net profit after tax | 451,374 | 347,698 | 384,984 | 334,998 | 315,996 |
| Net cash flow from operations | 707,708 | 512,084 | 556,358 | 459,459 | 486,758 |
| Total assets | 7,370,619 | 6,348,705 | 5,797,606 | 5,518,226 | 4,928,805 |
| Total liabilities | 3,637,910 | 3,022,707 | 2,688,612 | 2,600,125 | 2,318,606 |
| Net assets | 3,732,709 | 3,325,998 | 3,108,994 | 2,918,101 | 2,610,199 |
| Net interest bearing debt | 2,284,247 | 1,975,989 | 1,738,790 | 1,738,848 | 1,571,081 |
| Statistics | | | | | |
| Diluted earnings per share (cents) | 109.3 | 86.0 | 95.5 | 84.3 | 80.7 |
| Dividends paid per ordinary share (cents) | 71.0 | 69.0 | 64.0 | 60.0 | 59.0 |
| Dividend payout ratio | 64.0% | 79.7% | 66.6% | 70.6% | 72.8% |
| Gearing ratio | 38.0% | 37.3% | 35.9% | 37.3% | 37.6% |
| Interest cover (times) ¹ | 11.5 | 10.8 | 10.7 | 8.6 | 7.0 |
| Debt cover (times) ¹ | 2.6 | 2.7 | 2.4 | 2.4 | 2.5 |
| Net tangible asset backing per share (\$) | (3.44) | (2.74) | (2.43) | (2.51) | (2.40) |
| Return on invested capital | 9.1% | 7.2% | 9.2% | 8.9% | 9.8% |
| Return on equity | 12.8% | 10.8% | 12.8% | 12.1% | 12.3% |

¹ Calculated using bank debt facility covenant definitions

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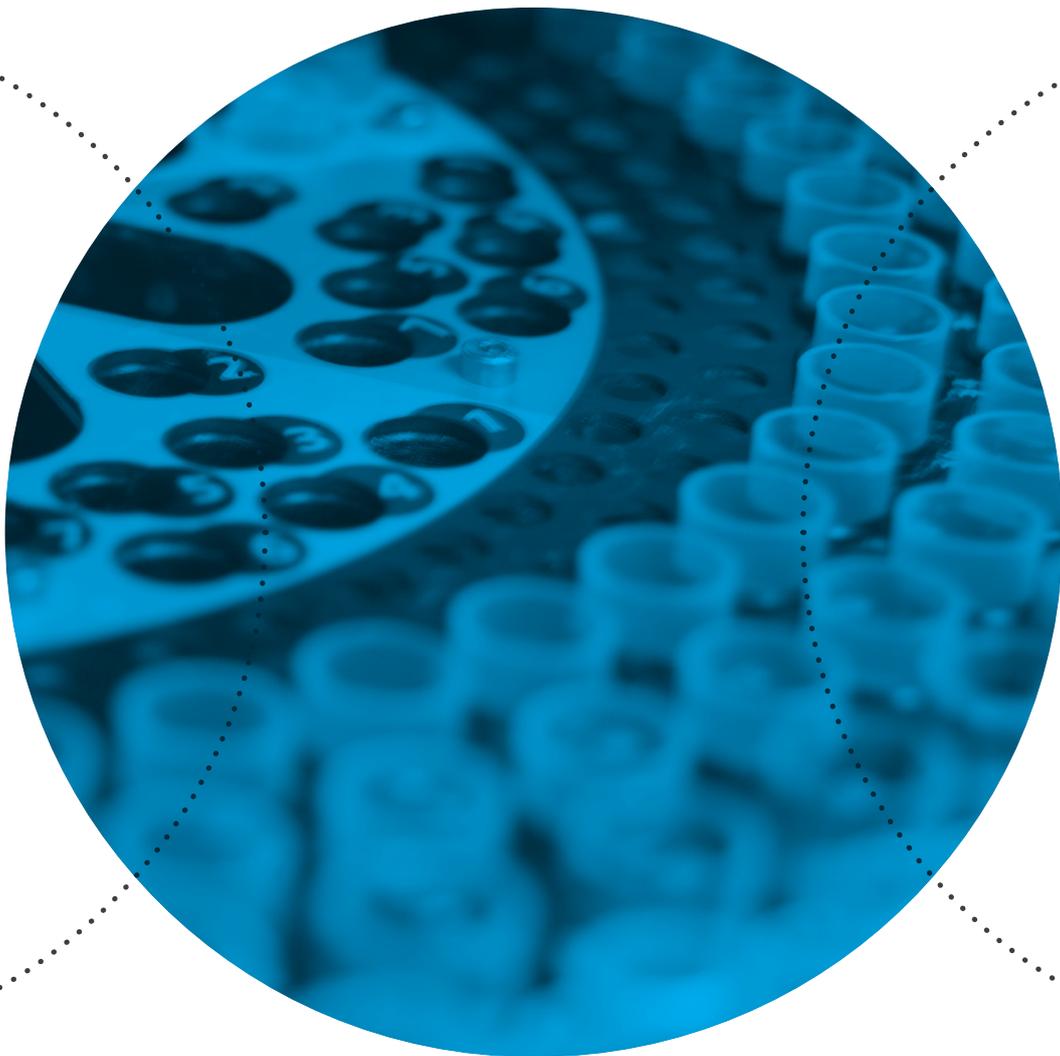


SONIC HEALTHCARE LIMITED
ABN 24 004 196 909

CONCISE ANNUAL REPORT

30 JUNE 2016

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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 2016.

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 | <i>Chairman</i> |
| Dr C.S. Goldschmidt | <i>Managing Director</i> |
| Mr C.D. Wilks | <i>Finance Director</i> |
| Dr P.J. Dubois | |
| Mr L.J. Panaccio | |
| Ms K.D. Spargo | |
| Dr E.J. Wilson | |

Mr R.P. Campbell and Mr C.J. Jackson retired as Directors at the Company's Annual General Meeting held on 19 November, 2015. Prof M.R. Compton was appointed Chairman from that date.

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:

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Interim dividend paid on 6 April 2016 (2015: 25 March 2015) | 124,008 | 116,568 |
| Final dividend payable on 27 September 2016 (2015: 22 October 2015) | 182,963 | 164,908 |
| Total dividend for the year | 306,971 | 281,476 |

On 16 August 2016, the Board declared a final dividend in respect of the year ended 30 June 2016 of 44 cents per ordinary share, 30% franked (at 30%), payable on 27 September 2016 with a record date of 9 September 2016. An interim dividend of 30 cents per ordinary share, 30% franked (at 30%), was paid on 6 April 2016. These dividends included no conduit foreign income.

A final dividend of 41 cents per ordinary share was paid on 22 October 2015 in respect of the year ended 30 June 2015, out of profits of that year as recommended by the Directors in last year's Directors' Report. The interim dividend in respect of the year ended 30 June 2015 was 29 cents per ordinary share, paid on 25 March 2015. These dividends included no conduit foreign income.

DIVIDEND REINVESTMENT PLAN ("DRP")

The Company's Dividend Reinvestment Plan has been suspended for the FY2016 final dividend.

OPERATING AND FINANCIAL REVIEW

Operations

Sonic Healthcare is one of the world's leading global providers of medical diagnostic services. The Group provides highly specialised pathology/clinical laboratory and diagnostic imaging services to clinicians (GPs and specialists), hospitals, community health services, and their patients. Sonic is the world's third largest provider of pathology/clinical laboratory services (referred to in some markets as "laboratory medicine") and was the first company to do so on a global basis. Employing approximately 31,000 people, Sonic enjoys strong positions in the laboratory markets of eight countries, being the largest private operator in Australia, Germany, Switzerland and the UK, the second largest in Belgium and New Zealand and within the top 5 in the USA. In addition Sonic is the largest operator of medical centres and the largest occupational health provider in Australia, and the second largest participant in the Australian diagnostic imaging market. These strong market positions allow Sonic to leverage existing infrastructure to realise synergies and to grow earnings.

Pathology is the study and diagnosis of disease through examination of organs, tissues, cells and bodily fluids. It is a broadly defined and complex scientific field which seeks to understand the mechanisms of disease and abnormality of cells and tissues, as well as the body's means of responding to and repairing abnormalities. Pathology and laboratory tests are an essential component in the delivery of modern healthcare services and are estimated to influence approximately 70% of healthcare decisions and 100% of cancer diagnoses. Laboratory medicine is a unique medical specialty, in that pathologists and laboratory technicians typically do not see patients directly, but rather serve as consultants to other physicians.

The clinical laboratory process is depicted below:



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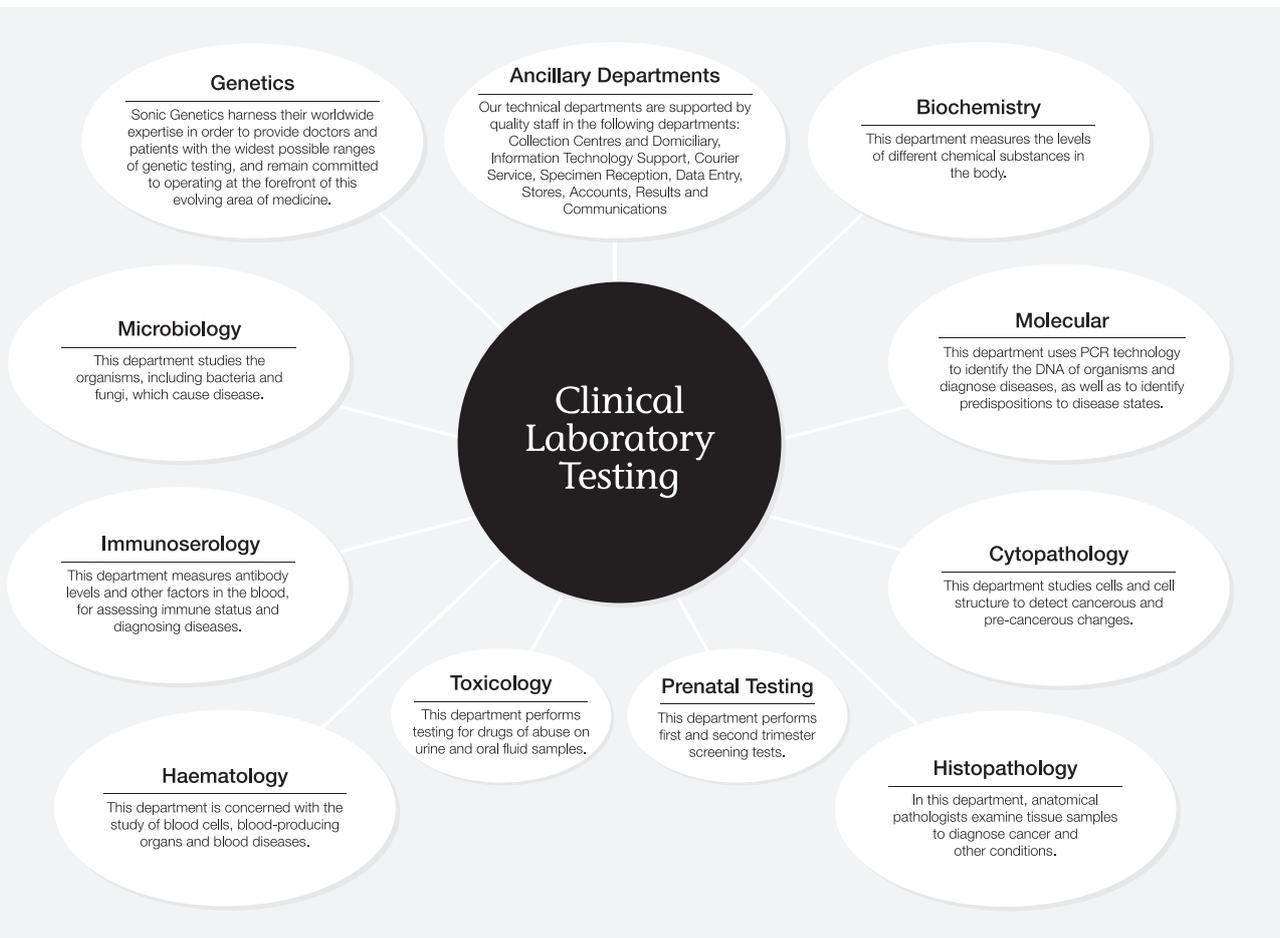
DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Operations (continued)

In some countries in which Sonic operates, laboratories offer specimen collection services, although referring doctors still do some collections themselves. In Australia, approximately 24% of specimens are collected by the referring doctor. In Germany, Belgium and Switzerland laboratories generally do not offer specimen collection services.

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



Histopathology and cytopathology (“Anatomical Pathology”) mainly involve the diagnosis of cancers by the examination of tissue and cells. The testing of other body specimens (blood, urine, sputum etc.) is usually referred to as clinical laboratory testing. In some international markets such as Australia and New Zealand, it is usual for laboratories to provide both anatomical pathology and clinical laboratory testing as part of the one service. In other markets, anatomical pathology can be seen as a separate service. Sonic therefore does not offer comprehensive anatomical pathology services in all markets, e.g. Germany, the UK and some regions within the USA.

Sonic’s laboratories are today highly sophisticated, providing broad menus of complex tests, in addition to state-of-the-art automation for accurate and rapid turnaround of routine tests. Sonic offers a range of more than 3,000 different tests. Many of Sonic’s large laboratories reach or exceed tertiary teaching hospital laboratory standards and are recognised for their esoteric testing expertise, for example, in anatomical pathology, genetic and molecular testing.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Operations (continued)

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

In addition to clinical laboratories and diagnostic imaging, Sonic conducts a number of smaller complementary businesses, collectively referred to as Sonic Clinical Services (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 240 primary care clinics across Australia providing facilities and administrative services to approximately 2,150 General Practitioners. 70% of all Australians live within 10 kilometres of an IPN/Sonic HealthPlus clinic.

Financial results

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

| \$'000 | 2016 Constant Currency* | 2016 Statutory | 2015 Statutory | % Change 2016 Constant Currency v 2015 Statutory | % Change 2016 Statutory v 2015 Statutory |
|---|-------------------------------|-------------------|-------------------|---|--|
| Revenue | 4,789,218 | 5,052,486 | 4,200,525 | 14.0% | 20.3% |
| Earnings before interest, tax, depreciation and intangibles amortisation (EBITDA) pre non-recurring items (Underlying EBITDA) | 831,400 | 876,298 | 730,700 | 13.8% | 19.9% |
| Non-recurring items (net) (Refer Note (c)) | 5,942 | 4,106 | (36,051) | | |
| EBITDA | 837,342 | 880,404 | 694,649 | | |
| Depreciation and lease amortisation | (158,081) | (165,224) | (135,971) | 16.3% | |
| Earnings before interest, tax and intangibles amortisation (EBITA) | 679,261 | 715,180 | 558,678 | 21.6% | |
| Amortisation of intangibles | (52,291) | (54,528) | (43,231) | 21.0% | |
| Net interest expense | (56,239) | (63,007) | (52,132) | 7.9% | |
| Income tax attributable to operating profit | (127,174) | (131,644) | (109,278) | 16.4% | |
| Net (profit) attributable to minority interests | (13,751) | (14,627) | (6,339) | | |
| Net profit attributable to shareholders of Sonic Healthcare Limited | 429,806 | 451,374 | 347,698 | 23.6% | 29.8% |
| Cash generated from operations (Refer Note (h)) | | 707,708 | 512,084 | | 38.2% |
| Earnings per share | | | | | |
| Basic earnings per share | 104.7¢ | 110.0¢ | 86.6¢ | | |
| Diluted earnings per share | 104.1¢ | 109.3¢ | 86.0¢ | 21.0% | 27.1% |

* For an explanation of "Constant Currency" refer to (a) on the following page.

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

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial results (continued)

Explanation of results

(a) Constant currency

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

The average currency exchange rates for the year to 30 June 2016 for the Australian dollar ("A\$", "AUD" or "\$") versus the currencies of Sonic's offshore earnings varied from those in the comparative period, impacting Sonic's AUD reported earnings ("Statutory" earnings). The underlying earnings in foreign currency are not affected.

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

In preparing the Constant Currency reporting, the foreign currency elements of each line item in the Income Statement (including net interest expense and tax expense) are restated using the relevant prior period average exchange rate. There is only this one adjustment to each line item so no reconciliation is required.

The average exchange rates used were as follows:

| | 2016 Statutory | 2015 and Constant Currency |
|---------|-------------------|-------------------------------|
| AUD/USD | 0.7285 | 0.8362 |
| AUD/EUR | 0.6564 | 0.6963 |
| AUD/GBP | 0.4921 | 0.5304 |
| AUD/CHF | 0.7137 | 0.7880 |
| AUD/NZD | 1.0903 | 1.0758 |

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 (CONTINUED)

Financial results (continued)

Explanation of results (continued)

(b) Revenue

Total revenue growth for the year was 14% at Constant Currency exchange rates (i.e. applying the average rates for the 2015 year to the current year results) and 20.3% including exchange rate impacts.

| Revenue breakdown AUD M | 2016 Statutory Revenue | % of 2016 Statutory Revenue | 2016 Constant Currency Revenue | 2015 Revenue | Growth 2016 Constant Currency v 2015 |
|-------------------------------------|------------------------------|-----------------------------------|---|-----------------|--|
| Laboratory – Australia | 1,254 | 25% | 1,254 | 1,185 | 5.8% |
| Laboratory – USA | 1,088 | 22% | 948 | 930 | 1.9% |
| Laboratory – Europe | 1,815 | 36% | 1,692 | 1,272 | 33.0% |
| Laboratory – NZ | 26 | 1% | 26 | 34 | (23.5)% |
| Imaging – Australia | 421 | 8% | 421 | 414 | 1.7% |
| Sonic Clinical Services – Australia | 409 | 8% | 409 | 362 | 13.0% |
| Revenue – underlying | 5,013 | 100% | 4,750 | 4,197 | 13.2% |
| Non-recurring gain on property sale | 35 | | 35 | - | |
| Interest income | 4 | | 4 | 4 | |
| Total revenue | 5,052 | | 4,789 | 4,201 | 14.0% |

The Laboratory division enjoyed revenue growth of 22.2% in the year, including strong organic growth of ~7% (on a Constant Currency basis), augmented by synergistic acquisitions. Organic growth included the revenue of the joint venture with Sonic's National Health Service hospital partners, University College London Hospital and Royal Free. The joint venture, called Heath Services Laboratories ("HSL"), commenced 1 April 2015.

Sonic's Australian Laboratory revenue growth of 5.8% included organic growth of 4% plus growth related to acquisitions completed in the current and prior year. Fees and volumes were negatively impacted by Medicare changes from 1 November 2014. Sonic's organic growth was in line with market growth (as indicated by Medicare statistics).

US reported revenue growth was 17%. Organic revenue growth was 2% on a Constant Currency basis. This was impacted by negative revenue growth in the CBLPath business, which was planned as part of the successful restructure of that business in FY2015. Sonic's largest US business, CPL (based in Texas), grew organically at over 6%.

Sonic's European operations experienced strong revenue growth in the UK (46% organic growth, including HSL), Switzerland (9% organic growth), Germany (6% organic growth) and Belgium (3% organic growth), with Swiss, German and Belgian growth augmented by acquisitions, including Medisupport and KLD.

Imaging revenue growth of 1.7% was impacted by an unprecedented and unexpected fall in total market growth, likely due to negative government and media publicity regarding potential patient co-payments and other issues. Sonic's and the market's growth improved in the second half of the year.

Revenue growth for Sonic Clinical Services ("SCS"), Sonic's medical centre and occupational health businesses, was 13.0% for the year, augmented by acquisitions and successful doctor recruitment.

Revenue was impacted by currency exchange rate movements, which increased reported (Statutory) revenue by A\$263M compared to the comparative period.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial results (continued)

Explanation of results (continued)

(c) EBITDA

Underlying EBITDA (pre non-recurring items) grew 19.9% (13.8% at Constant Currency exchange rates) versus the prior year. The net A\$4.1M of non-recurring items included:

- a gain of A\$34.8M on the sale and lease back of two Australian laboratory properties (Melbourne and Perth)
- A\$16.3M of costs related to acquisitions and restructuring which occurred in the 2016 year (A\$9.2M expensed in the first half)
- A\$14.4M of provisions for committed restructuring programs predominantly related to relocations to new laboratories in London and Hawaii in 2017

In the previous year non-recurring costs included the provision for €15M of "KV" debtors in Germany, as well as acquisition and restructure costs.

EBITDA growth for the period was strong in Sonic's international operations. Sonic's UK earnings were enhanced by the formation of HSL, which is performing ahead of expectation. Swiss and Belgian earnings were augmented by significant acquisitions in July 2015. Sonic's US EBITDA growth included a major contribution from the restructured CBLPath business, along with procurement benefits and other restructuring and efficiency initiatives.

EBITDA declined in the Australian Laboratory and Imaging businesses. The Australian Laboratory business was impacted by Government fee cuts (in November 2014) and specimen collection infrastructure costs in Australia. The fee cuts have now cycled and a project to better manage collection costs is in progress. Imaging earnings were impacted by unexpected low revenue growth (described above). Both businesses demonstrated stronger performance in the second half of the year.

EBITDA growth in Sonic Clinical Services was impacted by the Medicare fee indexation freeze for general practice and by reduced demand for occupational health services resulting from the resources sector downturn.

Consumables cost increased slightly as a percentage of revenue as a result of changes in both geographic (different markets have different cost structures such that the percentage varies by market) and test mix in Sonic's total business. Underlying prices generally reduced due to the ongoing success of procurement initiatives.

(d) Depreciation and lease amortisation

Depreciation and leased asset amortisation has increased 16.3% on the comparative period (at Constant Currency rates) as a result of business acquisitions and growth of the Company, including significant laboratory building projects in recent periods and the formation of HSL in the UK.

The increase in capital expenditure on property, plant and equipment in the year versus the comparative period relates to spend on laboratory building projects in London, Brisbane, Hawaii and Ingelheim.

(e) Intangibles amortisation

Intangibles amortisation relates to software (both internally developed and purchased) and contract costs (including doctor contracts in SCS). Substantial investments into innovative software tools have been made over recent periods, leading to a 21% (at Constant Currency rates) increase in amortisation expense.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial results (continued)

Explanation of results (continued)

(f) *Interest expense*

Net interest expense has increased 7.9% on the prior year (at Constant Currency rates) due to increased debt relating to acquisitions, partially offset by lower margins on debt facilities.

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

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

(g) *Tax expense*

The effective tax rate of 22% is lower than previous guidance (~25%), largely due to the non-recurring gain on sale of properties being offset by previously unrecognised capital losses (resulting from termination of contracts in New Zealand in 2009).

(h) *Cashflow from operations*

Cash generated from operations grew 38% over the previous year, significantly higher than earnings growth, mainly due to the timing of tax payments. Gross operating cashflow equated to 98% of EBITDA. Adjusting for the non-recurring items that are not classified as operating cashflows, the percentage becomes 101%.

Financial position

Net assets at 30 June 2016 of A\$3,733M increased by A\$407M, or 12%, on the prior year. The main components of this increase were:

- A\$239M from the issue of ordinary Sonic shares to part fund the Medisupport acquisition and to fine tune the capital structure, and from exercise of employee options and rights.
- A\$163M due to retained earnings (operating profit less dividends paid).
- A\$11M related to movements in currency exchange rates, with both assets (including intangibles) and liabilities denominated in USD, EUR and NZD being inflated by a weakened Australian dollar.

Net (of cash) interest bearing debt increased A\$308M (16%) from the prior year level to A\$2,284M. A\$56M of this increase related to currency exchange rate impacts, with A\$475M relating to payments for business acquisitions, offset by cash generated during the year.

The main business acquisition completed in the year was of the Swiss laboratory group, Medisupport S.A. in July 2015. The consideration for this acquisition was approximately CHF270M in cash (including deferred components and net debt assumed), and the issue of 3,834,086 Sonic Healthcare ordinary shares, equating to an FY2016 EBITDA multiple of approximately 8 times, pre-synergies. Other business acquisitions included the Belgian KLD Laboratory (July 2015), and Adelaide Pathology Partners in Australia (December 2015). A number of other small healthcare businesses were also acquired.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial position (continued)

Sonic's net interest bearing debt at 30 June 2016 comprised:

| | Facility Limit M | Drawn M | AUD \$M Available |
|------------------------------------|------------------|-----------|-------------------|
| Notes held by USA investors – USD | US\$500 | US\$500 | – |
| Notes held by USA investors – Euro | €155 | €155 | – |
| Bank debt facilities | | | |
| - USD limits | US\$425 | US\$361 | 86 |
| - Euro limits | €630 | €513 | 174 |
| - GBP limits | £40 | £40 | – |
| - AUD (Multicurrency) limits | A\$250 | A\$209* | 41 |
| - CHF limits | CHF100 | CHF100 | – |
| Minor debt/leasing facilities | n/a | A\$8 | – |
| Cash | n/a | A\$(290)* | 290 |
| Available funds at 30 June 2016 | | | 591 |

Debt drawn in CHF

* Various currencies

Sonic's credit metrics were as follows:

| | 30.6.16 | 31.12.15 | 30.6.15 |
|------------------------|---------|----------|---------|
| Gearing ratio | 38.0% | 40.7% | 37.3% |
| Interest cover (times) | 11.5 | 10.5 | 10.8 |
| Debt cover (times) | 2.6 | 3.0 | 2.7 |

Definitions:

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

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial position (continued)

As at 30 June 2016, Sonic's senior debt facility limits were due to expire as follows (note that the figures shown are the facility limits, not drawn debt):

| Calendar Year | AUD M | USD M | Euro M | GBP M | CHF M |
|---------------|----------|----------|-----------|----------|----------|
| 2016 | – | – | – | 40 | 100 |
| 2017 | 200 | 95 | 130 | – | – |
| 2018 | 50 | 65 | 230 | – | – |
| 2019 | – | 230 | 145 | – | – |
| 2020 | – | 285 | 125 | – | – |
| 2021 | – | 250 | – | – | – |
| 2024 | – | – | 110 | – | – |
| 2026 | – | – | 45 | – | – |
| | 250 | 925 | 785 | 40 | 100 |

In July 2016, Sonic entered into a 5 year CHF325M bank debt facility and repaid the CHF100M facility that was due to expire in September 2016. The new facility was arranged in the European syndicated bank debt market, Sonic's debut facility in that market. Sonic also priced an issue of notes into the United States Private Placement ("USPP") market for €200M at a fixed coupon of 1.75% for 10 years in July. The note issue is expected to fund in November 2016. Sonic intends to repay the GBP40M facility from existing headroom on its expiry in September 2016.

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

There were no significant changes in the state of affairs of the Group during the course of the financial year other than those noted in the financial result and financial position sections above.

Business model and strategies

For over two decades, Sonic Healthcare has pursued and promoted a management and operational philosophy of Medical Leadership. The impact of this approach has been to develop a company whose services are optimally aligned with the needs of physicians and their patients. Medical Leadership encompasses a management commitment to the maintenance of professionalism and "good medicine" at all times. It fosters an understanding of the doctor-patient relationship and it puts quality first.

Sonic's operations are structured as a "federation", implying that individual subsidiaries or geographical divisions work in a synergistic network to achieve best practice outcomes in terms of service and business excellence. The structure reinforces the identity and management autonomy of each local operation. Each operation has its own CEO or President and management team. When Sonic acquires businesses, they generally maintain their management autonomy, brand, and consequently their local "flavour". This is the structure which is most resonant with local medical communities and which best preserves acquired goodwill. However, Sonic's operations work in a collaborative way within the structure, via central executives and widespread inter-company communication, to achieve synergies. Detailed benchmarking leading to best practice, group purchasing, IT, E-health, quality system sharing and centralisation of testing are all examples of continuous synergy activity within the Group.

DIRECTORS' REPORT

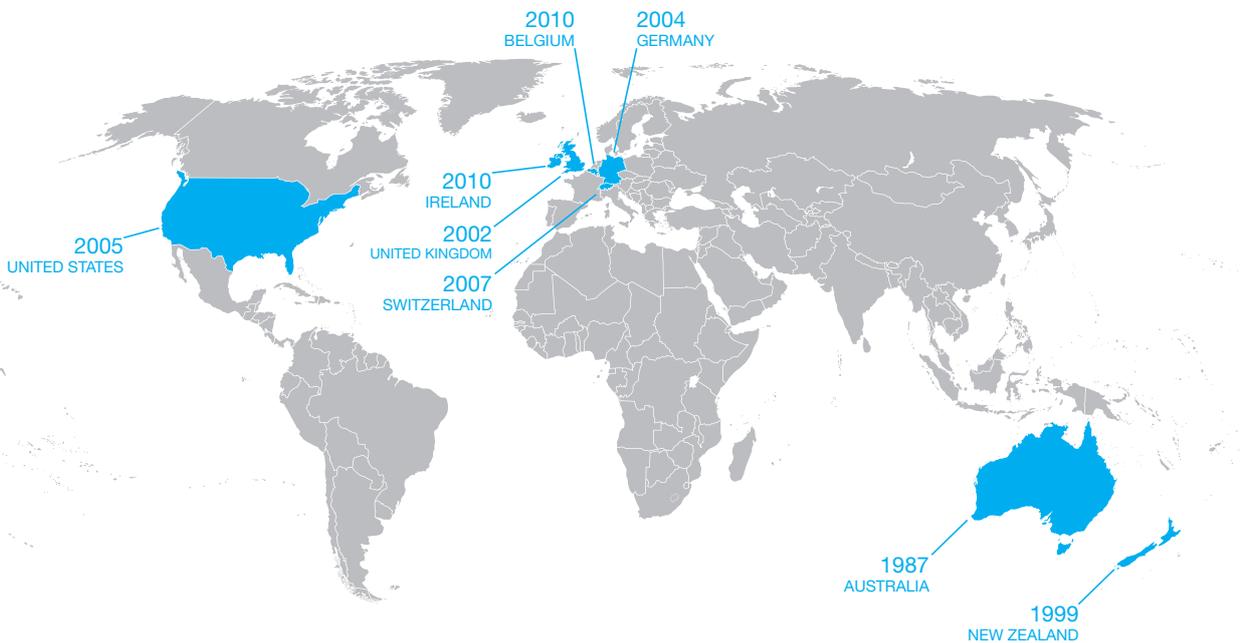
OPERATING AND FINANCIAL REVIEW (CONTINUED)

Business model and strategies (continued)

Sonic's Medical Leadership philosophy and federation structure have resulted in significant "brand" differentiation in the market place. The Company's operations are viewed as specialist medical practices, rather than as "businesses". This market differentiation has not only fostered strong organic revenue growth (including hospital pathology outsourcing contracts) over the years but has often made Sonic the preferred acquirer when laboratory or imaging practice founders and owners wish to realise the value of their practices without seeing their focus on the medical nature of the business lost to a more "corporatised" acquirer. Sonic's culture and structure have also served to attract and retain top pathologists, radiologists, scientific staff and managers, with staff turnover at this important senior level consistently at very low levels.

Sonic's strategy is to utilise its unique culture, values and structure to grow revenue organically and to make value enhancing acquisitions, so as to achieve and build upon leading positions in targeted geographic laboratory markets. These positions provide sufficient size and infrastructure to facilitate synergies and economies of scale to drive margin improvements, earnings growth and increasing returns on capital invested. Sonic has a successful track record of consolidating fragmented markets in Australia, Europe and the USA, using its market differentiation to drive both organic revenue growth and to attract like-minded laboratories for acquisition. Sonic is also well placed to benefit from the increasing trend for governments and others to outsource their diagnostic testing to the private sector in order to address growing healthcare costs.

Countries of operation (Year Sonic entered the market)



DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Prospects for future years

Sonic operates in attractive and growing global healthcare markets, carefully chosen based on a range of factors including political, legal and financial stability, reliable and stable healthcare funding systems, fragmentation of the market, and cultural understanding. Within these markets there is increasing demand for diagnostic services arising from growing and ageing populations, new tests and preventative medicine. Against this favourable backdrop Sonic expects to continue for the foreseeable future to grow revenue, earnings and returns on investment organically, including through outsourcing contracts, and further enhanced by synergistic business acquisitions. Laboratory operations offer many levers which can be adjusted to optimise individual processes and Sonic's managers are constantly seeking efficiency gains within their businesses, aided by the early adoption of new technologies and the sharing of experiences with colleagues from around the globe.

Whilst the present focus for acquisitions is on Sonic's existing markets, further prudent and strategic international laboratory expansion is likely in the medium to long term. Sonic has no current intention to expand its diagnostic imaging or other businesses outside Australia.

Sonic intends to maintain a solid investment grade profile with conservative leverage, to preserve Sonic's culture and Core Values, and to ensure the attraction and retention of the best people to drive the business forward, including retaining key staff from acquisitions.

With regard to more short term prospects, on 17 August 2016 Sonic provided guidance in relation to forecast results for the 2017 financial year as follows:

- Sonic expects EBITDA growth of approximately 5% for 2017 on a Constant Currency basis (applying 2016 average currency exchange rates to 2017) over the 2016 underlying EBITDA of A\$876M, excluding potential upside from any future business acquisitions and Australian regulatory reform. The guidance allows for A\$5M of new rent expense for the properties sold and leased back in 2016.
- Net interest expense is expected to increase by 5-10% from the 2016 level of A\$63M on a Constant Currency basis (excluding future business acquisitions), mainly as a result of higher margins on CHF debt, which in 2016 was drawn from a low margin short term bridge facility. From July 2016 this debt is drawn from a new 5 year CHF bank debt facility. In addition, favourable interest rate swaps expired in 2016. Underlying floating interest rates are assumed to remain constant at current levels.
- The effective tax rate is expected to be approximately 25%.

Given Sonic's size and global market presence, opportunities present themselves from time to time that are not necessarily in accordance with Sonic's core strategies. These opportunities are assessed by management and the Board to determine whether their pursuit is in the best interests of shareholders. Further information on likely strategic developments has not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the interests of the Group.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Risks

The major risks to consider in assessing Sonic's future prospects are:

- Sonic's reported revenue and earnings will fluctuate with changes in the currency exchange rates between the Australian dollar (Sonic's reporting currency) and the currencies of Sonic's offshore operations. As previously noted, Sonic uses foreign currency borrowings as a partial (natural) hedge.
- In most of Sonic's markets the majority of revenue is priced based on fee schedules set by government or quasi government bodies and, especially in the USA, insurance companies. As a result of the strong underlying volume growth drivers, healthcare funders will sometimes use fee cuts or other adjustments to curb growth in their outlays. Sonic mitigates this risk through its geographic and line of business diversification, by seeking diversified sources of revenue for its services within markets, and by being one of the largest, more efficient operators and therefore less impacted by adverse market changes than smaller, less efficient players. In general, fee pressures drive further market consolidation, feeding into Sonic's core strategy of growth both organically and by acquisition, with attendant synergy capture and economies of scale.
- Healthcare businesses are subject to significant levels of regulation. Changes in regulation can have the impact of increasing costs or reducing revenue (through volume reductions). Sonic attempts to mitigate this risk by using its market leadership positions to help shape the healthcare systems in which it operates. Sonic takes active roles in industry associations, and encourages its people to take leadership positions in colleges and other professional and craft organisations. In addition, Sonic's size and efficiency allows it to benefit from market consolidation driven by the impacts of regulatory changes on smaller players.
- Loss of a licence or accreditation required to operate one or more of Sonic's businesses could impact revenue both directly and through damage to Sonic's reputation. The likelihood of this risk having a material impact is considered low given the focus on quality within Sonic.
- Sonic's strategies include the acquisition of businesses and entering into long term contracts to provide diagnostic testing. There is a risk that an acquisition or contract may not achieve its expected financial performance, or give rise to an unexpected liability. Sonic seeks to mitigate these risks through thorough due diligence, and through warranties and indemnities in acquisition and contract documentation.
- There is always the risk of heightened competition in Sonic's markets, whether from more aggressive behaviour of an existing competitor, or from a new competitor. This could include a competitor introducing a new development in testing or introducing new tests that result in less demand for Sonic's services. A change in competition could impact revenue and/or costs. Sonic's leadership is alert to potential changes in the market place and reacts swiftly when threats are perceived. Technological changes in diagnostic testing tend to happen more slowly than in industries such as consumer goods, as for a testing technology to reach the point of widespread use, it must first be proven to be "good medicine", including obtaining regulatory approvals and through peer review, and secondly, healthcare funders must be willing to pay for it (for example, by inclusion on government or quasi-government fee schedules). These inherent delays allow competitors and other market participants to revise their own strategies to address the competitive threat.
- Relationships with referring practitioners (including general practitioners, surgeons and other specialists), hospital groups and other parties with whom Sonic contracts to provide services are important to Sonic's businesses. If, for any reason, Sonic failed to maintain strong relationships with these parties, there would be a risk that it could lose business to competitors.
- Sonic's businesses rely on information technology systems. A disruption to a core IT platform, including as a result of a cyber security breach, could have significant operational, financial and/or reputational impacts, particularly if confidential patient data were to be obtained by unauthorised persons. Sonic has implemented strategies which management believes significantly reduce this risk.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Risks (continued)

- Sonic uses prudent levels of debt to reduce its cost of capital and to increase earnings per share. It is therefore subject to the risk of rising interest rates (either on floating rate debt or when existing facilities expire), the future availability of funding, and potential breach of a term or condition of its debt facilities. Sonic has a sophisticated Treasury Policy in place to manage these risks, developed and overseen by Sonic's Treasury Management Committee, which includes a renowned expert external consultant.
- With operations in eight jurisdictions, Sonic is potentially exposed to changes in taxation legislation or interpretation which could increase its effective tax rate.

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

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

Matters subsequent to the end of the financial year

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

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DIRECTORS' REPORT

INFORMATION ON DIRECTORS

(a) Directors' profiles



Professor Mark Compton, AM
Chairman

B.Sc., M.B.A., F.A.I.C.D., F.A.I.M., A.F.C.H.S.M.

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

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

M.B.B.Ch., F.R.C.P.A., F.A.I.C.D.

Executive Director, appointed January 1993

Dr Goldschmidt is the CEO and Managing Director of Sonic Healthcare. He is a qualified medical doctor who then undertook specialist pathology training in Sydney, before gaining his qualification as a specialist pathologist in 1986. Dr Goldschmidt became CEO of Sonic in 1993 and has led Sonic's global expansion by committing the Company to a model of Medical Leadership, which incorporates unique operational and cultural attributes. He is a member of Sonic's Risk Management Committee and holds memberships with numerous industry, medical and laboratory associations. He was a non-executive Director of Silex Systems Limited (from 1992 until May 2014), a listed company divested by Sonic in 1996.



Christopher Wilks
Finance Director

B.Comm. (Univ Melb), F.A.I.C.D.

Executive Director, appointed December 1989

Mr Wilks became Finance Director and Chief Financial Officer of Sonic Healthcare Limited 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 also a non-executive Director of Silex Systems Limited (since 1988).

DIRECTORS' REPORT

INFORMATION ON DIRECTORS

(a) Directors' profiles (continued)



Dr Philip Dubois

*M.B., B.S., F.R.C.R., F.R.A.N.Z.C.R., F.A.I.C.D.
Executive Director, appointed July 2001*

Dr Dubois is CEO of Sonic's Imaging Division. He is Chairman of the Sonic Imaging Executive Committee and is Chairman and CEO of Queensland X-Ray (acquired by Sonic in 2001). A neuroradiologist and nuclear imaging specialist, he is currently an Associate Professor of Radiology at the University of Queensland Medical School. He has served on numerous government and craft group bodies, including the councils of the Royal Australian and New Zealand College of Radiologists and the Australian Medical Association, and as Vice-President of the Australian Diagnostic Imaging Association. He is a non-executive Director of Magnetica Limited (since December 2004).



Lou Panaccio

*B.Ec., C.A., M.A.I.C.D.
Non-executive, independent Director, appointed June 2005*

Mr Panaccio is a Chartered Accountant with strong management experience in business and healthcare services. Mr Panaccio is currently on the boards of ASX listed companies Genera Biosystems Limited (non-executive Chairman from July 2011, non-executive Director from November 2010) and Avita Medical Limited (non-executive Chairman from July 2014). He is also executive Chairman of Health Networks Australia, non-executive Chairman of Urban Communities Ltd and non-executive Deputy Chairman of Yarra Community Housing Limited. Mr Panaccio was the Chief Executive Officer and executive Director of Melbourne Pathology (acquired by Sonic in 1999) for ten years to 2001. Mr Panaccio is Chair of the Audit Committee, a member of the Remuneration and Nomination Committee, and a member of the Risk Management Committee.



Kate Spargo

*L.L.B. (Hons), B.A., F.A.I.C.D.
Non-executive, independent Director, appointed July 2010*

Ms Spargo has gained broad business experience as both a legal advisor, having worked in private practice and government, and as a Director. Ms Spargo has been a director of both listed and unlisted companies over the last twenty years and her current directorships include the ASX listed companies Fletcher Building Limited (non-executive Director from March 2012), UGL Limited (non-executive Chairman from October 2014, non-executive Director from October 2010), Adairs Limited (non-executive Director from May 2015) and Sigma Pharmaceuticals Limited (non-executive Director from December 2015). She is also a non-executive Director of SMEC Limited, Colinvest Limited and Geelong Football Club Limited. Ms Spargo is Chair of the Remuneration and Nomination Committee and is a member of the Audit Committee.

DIRECTORS' REPORT

INFORMATION ON DIRECTORS

(a) Directors' profiles (continued)



Dr Jane Wilson

M.B.B.S., M.B.A., F.A.I.C.D.

Non-executive, independent Director, appointed July 2010

Dr Wilson is an independent non-executive Director with a background in finance, banking and medicine. She is a registered General Medical Practitioner and a Fellow of the Australian Institute of Company Directors (F.A.I.C.D.). Dr Wilson is currently a Guardian of the Future Fund, non-executive Director of The Winston Churchill Memorial Trust, Deputy Chancellor of the University of Queensland, a member of the University of Queensland Faculty of Health Sciences Board, a member of the Institute for Molecular Bioscience Advisory Board, a non-executive Director of Opal Aged Care and a non-executive Director of the General Sir John Monash Foundation.

Dr Wilson's previous directorships include inaugural Chairman of Horticulture Australia, Chairman of IMBcom Ltd, Universal Biosensors Ltd (ASX listed, non-executive Director from December 2006 to August 2013), Energex Ltd, Sun Retail Ltd, WorkCover Qld, and other smaller biotechnology companies. She served on the Prime Minister's Business Advisory Council, the Premier's Smart State Council in Queensland and was a member of the Biotechnology Task Force. Dr Wilson is also on the boards of a number of cultural and charitable institutions.

She was named in the inaugural 2012 AFR/Westpac Top 100 Women Awards in the Board/Management category. She has a Masters degree in Business Administration from the Harvard Business School and a medical degree from the University of Queensland. Dr Wilson is Chairman of the Risk Management Committee and is a member of the Remuneration and Nomination Committee.

(b) Company Secretary



Paul Alexander

B.Ec., C.A., F.Fin.

Mr Alexander has been the Deputy Chief Financial Officer of Sonic Healthcare Limited since 1997 and Sonic's Company Secretary since 2001. Prior to joining Sonic, Mr Alexander gained 10 years experience in professional accounting practice, mainly with Price Waterhouse, and was also Financial Controller and Company Secretary of a subsidiary of a UK headquartered multinational company for two years.

DIRECTORS' REPORT

INFORMATION ON DIRECTORS

(c) Directors' interests in shares, options and performance rights as at 22 September 2016

| Director's name | Class of shares | Number of shares | Interest | Number of options | Number of performance rights |
|---------------------|-----------------|------------------|--------------|-------------------|------------------------------|
| Dr C.S. Goldschmidt | Ordinary | 976,534 | Personally | 1,885,269* | 181,432* |
| | Ordinary | 30,243 | Beneficially | – | – |
| C.D. Wilks | Ordinary | 794,390 | Personally | 835,775* | 76,782* |
| | Ordinary | 88,122 | Beneficially | – | – |
| Prof M.R. Compton | Ordinary | 437 | Personally | – | – |
| | Ordinary | 3,782 | Beneficially | – | – |
| Dr P.J. Dubois | Ordinary | 8,000 | Beneficially | – | – |
| L.J. Panaccio | Ordinary | 5,000 | Beneficially | – | – |
| K.D. Spargo | Ordinary | 3,000 | Personally | – | – |
| | Ordinary | 10,000 | Beneficially | – | – |
| Dr E.J. Wilson | Ordinary | 2,000 | Beneficially | – | – |

* Vesting of the options and performance rights is subject to challenging performance conditions designed to align the interests of the executives with those of shareholders. None of the performance rights have vested to date. 434,084 of Dr C.S. Goldschmidt's and 217,042 of C.D. Wilks' options have vested to date.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2016, and the numbers of meetings attended by each Director were:

| | 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 |
| R.P. Campbell | 4 | 4 | – | – | 2 | 2 | – | – |
| Dr C.S. Goldschmidt | 9 | 9 | – | – | – | – | 2 | 2 |
| C.D. Wilks | 9 | 9 | – | – | – | – | – | – |
| Prof M.R. Compton | 9 | 9 | 4 | 4 | 1 | 1 | – | – |
| Dr P.J. Dubois | 9 | 9 | – | – | – | – | – | – |
| C.J. Jackson | 4 | 4 | – | – | – | – | – | – |
| L.J. Panaccio | 9 | 9 | 4 | 4 | 3 | 3 | 2 | 2 |
| K.D. Spargo | 9 | 9 | 4 | 4 | 3 | 3 | – | – |
| Dr E.J. Wilson | 9 | 9 | – | – | 3 | 3 | 2 | 2 |

DIRECTORS' REPORT

INSURANCE OF OFFICERS

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

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

ENVIRONMENTAL REGULATION

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

NON-AUDIT SERVICES

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

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

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001*. In the opinion of the Directors none of the services provided 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 45.

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

| | 2016 \$ | 2015 \$ |
|---|------------|------------|
| PricewaterhouseCoopers – Australian firm and related practices (including overseas PricewaterhouseCoopers firms) | | |
| Taxation and accounting services | 139,669 | 117,975 |

DIRECTORS' REPORT

SHARE OPTIONS

Information on share options is detailed in Note 7 - Share options.

ROUNDING OF AMOUNTS

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

REMUNERATION REPORT

The Directors of Sonic Healthcare Limited present the Remuneration Report for the year ended 30 June 2016 in accordance with section 300A of the *Corporations Act 2001*.

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

Remuneration of Non-executive Directors is determined by the Board within the maximum amount approved by the shareholders. At the Annual General Meeting ("AGM") on 19 November 2015 shareholders approved a maximum amount of \$1,500,000 for remuneration of Non-executive Directors, of which \$1,021,680 was paid in 2016. Since 1 July 2015 the Chairman's annual remuneration is \$380,000 inclusive of all Board Committee work and the base Non-executive Director fee is \$150,000. Board Committee fees are as follows:

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

Options or performance rights are not issued and bonuses are not payable to Non-executive Directors.

The Remuneration and Nomination Committee, consisting of four non-executive independent Directors, makes specific recommendations to the Board on remuneration packages and other terms of employment for the Managing Director, Finance Director and non-executive Directors and advises the Board in relation to equity-based incentive schemes for other employees. The Remuneration and Nomination Committee and Board also seek and consider advice from independent remuneration consultants where appropriate. Remuneration consultants are engaged by and report directly to the Remuneration and Nomination Committee, after consideration of any potential conflicts.

Sonic Healthcare's remuneration policy links the remuneration of the Managing Director and the Finance Director to Sonic's performance through the award of conditional entitlements. These conditional entitlements relate to the performance of the Group and thus align reward with the creation of value for shareholders.

Remuneration and other terms of employment for other executives are reviewed annually by the Managing Director having regard to performance against goals set at the start of the year, performance of the entity or function of the Group for which they have responsibility, and relevant comparative information. As well as a base salary, remuneration packages may include superannuation, fringe benefits, performance related bonuses and share and option grants. These bonuses and equity grants reward the creation of value for shareholders.

Other than contributions to superannuation funds during employment periods and notice periods under applicable employment laws and in certain executive service contracts, the Group does not contract to provide retirement benefits to Directors or executives.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(a) Key management personnel

(i) Directors

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

Non-executive Directors

Prof M.R. Compton *Chairman*
R.P. Campbell (until his retirement from the Board at the Annual General Meeting on 19 November 2015)
L.J. Panaccio
K.D. Spargo
Dr E.J. Wilson

Executive Directors

Dr C.S. Goldschmidt *Managing Director*
C.D. Wilks *Finance Director*
Dr P.J. Dubois
C.J. Jackson (until his retirement from the Board at the Annual General Meeting on 19 November 2015)

Other than Prof M.R. Compton, who joined the Board on 7 October 2014, all of the above persons were also key management personnel through the year ended 30 June 2015.

(ii) Other key management personnel

The Sonic Group operates via a decentralised federated structure whereby the Chief Executive Officers of individual operating entities have delegated authority for their local operations (each of which is not material to the Group as a whole). The Group's Australian laboratory and imaging activities are co-ordinated and controlled through the Pathology Sonic Executive Committee and the Imaging Sonic Executive Committee ("PSEC" and "ISEC" respectively). Dr C.S. Goldschmidt is Chairman of PSEC and a member of ISEC, Dr P.J. Dubois is Chairman of ISEC and CEO of the Imaging division, and C.D. Wilks is a member of both PSEC and ISEC. A German Sonic Executive Committee ("GSEC") co-ordinates the Group's German operations. Dr C.S. Goldschmidt is Chairman of GSEC and C.D. Wilks is also a member. Dr C.S. Goldschmidt and C.D. Wilks also oversee Sonic's businesses in the USA, the UK, Ireland, Switzerland, Belgium and New Zealand, and the medical centre and occupational health businesses in Australia.

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

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

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

The table below summarises Sonic Healthcare's performance over the last five years and the changes in remuneration of key management personnel (but excluding Non-executive Directors who do not receive bonuses or equity-based remuneration):

| | 2012 | 2013 | 2014 | 2015 | 2016 | Compound Average Annual Growth Rate ¹ |
|--|-----------|-----------|-----------|------------|-------------------|--|
| Growth in EBITDA (on a constant currency basis) | 12.1% | 4.5% | 5.4% | (6.2)% | 20.5% | 6.7% |
| Net profit attributable to members (\$'000) | 315,996 | 334,998 | 384,984 | 347,698 | 451,374 | 8.9% |
| Ordinary earnings per share (cps) | 80.7 | 84.3 | 95.5 | 86.0 | 109.3 | 7.7% |
| Dividends paid per share (cps) | 59 | 60 | 64 | 69 | 71 | |
| Enterprise value ² (\$'000) | 6,536,398 | 7,620,761 | 8,684,854 | 10,566,549 | 11,229,432 | |
| Total shareholder return ³ | 19.2% | 64.6% | 54.1% | 90.0% | 63.0% | |
| Change in total cash remuneration of executives ⁴ | 5.3% | (21.4)% | 28.6% | (1.2)% | 44.3% | 8.7% |
| Change in total remuneration of executives ⁵ | (3.0)% | (11.8)% | (1.4)% | (9.8)% | 34.4% | 0.5% |

¹ The compound average annual growth rate is calculated over the five year period shown with 2011 as the base year.

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

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

⁴ Change in total cash remuneration of executives is the percentage increase/(decrease) over the prior year of total cash remuneration of all key management personnel in place for all five years (but excluding Non-executive Directors).

⁵ Change in total remuneration of executives is the percentage increase/(decrease) over the prior year of total remuneration (cash plus long service leave accrued plus the calculated value of equity remuneration) of all key management personnel in place for all five years (but excluding Non-executive Directors).

The table above demonstrates the relationship between the performance of the Group and the remuneration of its key management personnel. Cash remuneration has fluctuated from year to year, largely dependent on whether the annual performance hurdle related to EBITDA growth which applies to 70% of the target short term incentives (STI) for the Managing Director and Finance Director was met. Over the five year period cash remuneration has increased broadly in line with the Company's earnings growth. Total remuneration has been flat over the five years due to elements of equity based remuneration not meeting challenging (non-market based) performance conditions, in particular the hurdle based on growth of Return on Invested Capital ("ROIC"). This result does not correlate with the strong returns generated for shareholders over the period and therefore use of the ROIC hurdle for future equity based remuneration remains under review.

The chart below shows the Company's share price (SHL) performance over the 5 years to 30 June 2016, versus the relative performance of the ASX 200.



DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(c) Remuneration of key management personnel

Details of the nature and amount of each element of the remuneration of the key management personnel of the Group are set out below in the tables (for cash remuneration) and text (non-cash remuneration):

12 months to 30 June 2016

| Name | Short-term employee benefits | | | Post-employment benefits | Total cash remuneration ² \$ |
|---|------------------------------|-----------------------------------|-----------------------------------|--------------------------|--|
| | Salary & fees \$ | Other benefits ¹ \$ | Short term incentives (STI) \$ | Superannuation \$ | |
| Dr C.S. Goldschmidt <i>Managing Director</i> | 2,308,492 | – | 2,094,463 | 19,308 | 4,422,263 |
| C.D. Wilks <i>Finance Director</i> | 1,070,432 | – | 980,505 | 19,308 | 2,070,245 |
| Dr P.J. Dubois <i>Director</i> | 747,142 | 6,925 | – | 141,218 | 895,285 |
| C.J. Jackson ³ <i>Director</i> | 107,298 | – | – | 7,797 | 115,095 |
| R.P. Campbell ³ <i>Non-executive Director</i> | 140,269 | – | – | 9,654 | 149,923 |
| Prof M.R. Compton <i>Chairman and Non-executive Director</i> | 279,022 | – | – | 17,735 | 296,757 |
| L.J. Panaccio <i>Non-executive Director</i> | 182,647 | – | – | 17,353 | 200,000 |
| K.D. Spargo <i>Non-executive Director</i> | 173,516 | – | – | 16,484 | 190,000 |
| Dr E.J. Wilson <i>Non-executive Director</i> | 168,950 | – | – | 16,050 | 185,000 |

¹ Other benefits include fringe benefits tax.

² Excludes long service leave accruals and equity-based remuneration.

³ Remuneration up to retirement date of 19 November 2015.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(c) Remuneration of key management personnel (continued)

12 months to 30 June 2015

| Name | Short-term employee benefits | | | Post-employment benefits | Total cash remuneration ² |
|---|------------------------------|-----------------------------------|-----------------------------------|--------------------------|--------------------------------------|
| | Salary & fees \$ | Other benefits ¹ \$ | Short term incentives (STI) \$ | Superannuation \$ | |
| Dr C.S. Goldschmidt <i>Managing Director</i> | 2,241,217 | – | 678,000 | 18,783 | 2,938,000 |
| C.D. Wilks <i>Finance Director</i> | 1,039,217 | – | 317,400 | 18,783 | 1,375,400 |
| Dr P.J. Dubois <i>Director</i> | 617,741 | 7,313 | 150,000 | 31,051 | 806,105 |
| C.J. Jackson <i>Director</i> | 266,217 | – | – | 18,783 | 285,000 |
| R.P. Campbell <i>Chairman and Non-executive Director</i> | 271,217 | – | – | 18,783 | 290,000 |
| Prof M.R. Compton <i>Non-executive Director</i> | 102,740 | – | – | 9,760 | 112,500 |
| L.J. Panaccio <i>Non-executive Director</i> | 153,044 | – | – | 14,540 | 167,584 |
| K.D. Spargo <i>Non-executive Director</i> | 146,119 | – | – | 13,881 | 160,000 |
| Dr E.J. Wilson <i>Non-executive Director</i> | 141,553 | – | – | 13,447 | 155,000 |

¹ Other benefits include fringe benefits tax.

² Excludes long service leave accruals and equity-based remuneration.

In addition to the cash remuneration disclosed above, the value of long service leave accrued for each relevant executive for the 12 months to 30 June 2016 was: Dr C.S. Goldschmidt \$70,240 (2015: \$36,781), C.D. Wilks \$24,396 (2015: \$17,048), and C.J. Jackson \$1,658 (2015: \$4,040).

(i) Equity-based remuneration

The calculated remuneration value of options and performance rights for Dr C.S. Goldschmidt for the 12 month period to 30 June 2016 was \$192,760 (2015: \$382,784), and for C.D. Wilks it was \$11,173 (2015: \$161,371). The options and performance rights are subject to challenging vesting conditions and only 35% (2015: 50%) of the options and performance rights with a performance measurement period for 5 years (2015: 4 years) to 30 June 2016 satisfied the vesting conditions.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(c) Remuneration of key management personnel (continued)

(i) Equity-based remuneration (continued)

The equity-based remuneration amounts disclosed for 2016 relate to options and performance rights issued under the Sonic Healthcare Limited Employee Option Plan and the Performance Rights Plan, and represent the assessed fair values at the date they were granted, allocated equally over the service periods up to the vesting dates. Fair values for these options and performance rights have been determined using a pricing model consistent with the Black Scholes methodology that takes into account the exercise price, the term of the option, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield, and risk-free interest rate for the term of the option. The fair value of the options and performance rights granted is adjusted to reflect market vesting conditions (using a Monte Carlo simulation) but excludes the impact of non-market vesting conditions.

No options or performance rights are issuable in future years to Dr C.S. Goldschmidt and C.D. Wilks relating to remuneration arrangements for periods to 30 June 2016.

During the financial year the following performance rights over ordinary shares in the Company were exercised by key management personnel (no options were exercised). No key management personnel exercised options or performance rights during the 2015 year.

| | Dr C.S. Goldschmidt | C.D. Wilks |
|--|---------------------|------------|
| Performance rights issued in November 2011 as remuneration for periods to 30 June 2014 (having vested after satisfying challenging performance conditions which caused 58% of the total rights issued to be forfeited) with a nil exercise price | 39,685 | 9,842 |
| Performance rights issued in November 2011 as remuneration for periods to 30 June 2015 (having vested after satisfying challenging performance conditions which caused 50% of the total rights issued to be forfeited) with a nil exercise price | 47,244 | 23,622 |
| Total intrinsic value of the rights at the date of exercise | \$1,724,766 | \$862,373 |

(ii) Performance related components of remuneration

Cash bonuses, options and performance rights over unissued ordinary shares of Sonic Healthcare Limited are performance related components of Dr C.S. Goldschmidt's and C.D. Wilks' remuneration. In aggregate, these components made up 49% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2016 (2015: 32%), and 47% of C.D. Wilks' remuneration for the 12 months to 30 June 2016 (2015: 31%). Within these components, the calculated value of options and performance rights over unissued ordinary shares in Sonic Healthcare Limited accounted for 4% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2016 (2015: 11%) and 1% of C.D. Wilks' remuneration for the 12 months to 30 June 2016 (2015: 10%). Dr P.J. Dubois' remuneration in 2015 included cash bonuses as performance related components. These components made up 19% of Dr P.J. Dubois' remuneration for the 12 months to 30 June 2015.

The total value for remuneration disclosure purposes (to be allocated over the three year vesting period) of the options and performance rights that were issued in 2016 as part of remuneration was \$1,651,775 for Dr C.S. Goldschmidt and \$658,400 for C.D. Wilks.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(d) Service agreements

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

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

Remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks were revised in 2014 following a comprehensive review by the Remuneration and Nomination Committee. As part of this review the Committee directly engaged Ernst & Young as independent remuneration consultants to provide market benchmarking analysis and information on possible remuneration arrangements. Ernst & Young considered the level of total and individual components of remuneration and made detailed comparisons by percentile band against two ASX listed comparator groups, being:

- Market Capitalisation comparator group: includes companies with market capitalisation of 50% to 200% of Sonic's 12-month average market capitalisation, excluding Financials and Metals and Mining companies. This resulted in a group of 34 companies.
- Geographic comparator group: includes companies included in the Market Capitalisation comparator group, but excluding companies where less than a quarter of annual revenue can be attributed to overseas operations. This resulted in a group of 16 companies.

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

The Remuneration and Nomination Committee concluded from the benchmarking analysis that the existing levels of remuneration (particularly the Fixed and STI components) required adjustment given Sonic's market capitalisation, the complexity of its operations (including the significant percentage of revenue sourced offshore, from seven other countries) and, in particular, the value to the Company of the two executives. Dr C.S. Goldschmidt and C.D. Wilks have been in their current roles since 1993. Their knowledge, experience, and the reputation they have in the market are considered extremely valuable to the Company. Under their leadership Sonic Healthcare has been one of the best performing stocks on the ASX for the period from January 1993 to September 2016, with a return of over 34,000% (Total Shareholder Return, assuming reinvestment of dividends). The Committee therefore determined that Total Target Remuneration ("TTR") for Dr C.S. Goldschmidt should be positioned at the 75th percentile of the Market Capitalisation comparator group (between the median and the 75th percentile of the Geographic comparator group) and total target remuneration for C.D. Wilks should be positioned at the 80th percentile of both comparator groups reflecting the broader than usual role he performs as Finance Director and CFO.

Target remuneration for 2015 and 2016 comprised the following percentage components (mix in line with market norms):

| | FR % of TTR | STI % of TTR | LTI % of TTR |
|---------------------|-------------|--------------|--------------|
| Dr C.S. Goldschmidt | 32% | 32% | 36% |
| C.D. Wilks | 34% | 34% | 32% |

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(d) Service agreements (continued)

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

| | Actual STI Paid \$ | % of Target STI Actually Paid | Target STI \$ | Fixed Remuneration (FR) \$ | Target LTI \$ |
|----------------------------|-----------------------|-------------------------------|------------------|-------------------------------|------------------|
| Dr C.S. Goldschmidt | | | | | |
| 2015 | 678,000 | 30.0% | 2,260,000 | 2,260,000 | 2,479,000 |
| 2016 | 2,094,463 | 90.0% | 2,327,800 | 2,327,800 | 2,553,370 |
| C.D. Wilks | | | | | |
| 2015 | 317,400 | 30.0% | 1,058,000 | 1,058,000 | 988,000 |
| 2016 | 980,505 | 90.0% | 1,089,740 | 1,089,740 | 1,017,640 |

(i) Fixed remuneration

The fixed remuneration component comprises base salary and employer superannuation contributions, but excludes long service leave accruals. The executives may take part of their base salary as other benefits, such as motor vehicles, including any associated fringe benefits tax. Fixed remuneration is reviewed annually, taking into account the executives' performance, Company performance and comparative market data. The 2014 detailed review set the fixed remuneration from 1 January 2014. The Board then approved a 3% (broadly in line with inflation) increase in fixed remuneration with effect from 1 July 2015.

(ii) Short Term Incentives ("STI")

The executives are eligible for an annual cash bonus based on achievement of pre-determined goals. The target level of STI is a set proportion (100% for 2015 and 2016) of the executives' fixed remuneration.

Up to 70% of the target STI is based on the Company achieving year on year growth (using Constant Currency exchange rates to translate offshore earnings) in Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA"). EBITDA growth is used as a performance criterion as it is consistent with the way Sonic gives earnings guidance to the market, and it is a clearer measure of operational performance than net profit or earnings per share as it is not distorted by changes in income tax, interest rates, or exchange rates. Hurdles are set at the beginning of each year.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(d) Service agreements (continued)

(ii) Short Term Incentives ("STI") (continued)

The table below sets out the EBITDA growth targets and hurdles for 2015 and 2016.

| | 2015 | 2016 |
|----------------------|------|------|
| Target EBITDA Growth | 5% | 19% |

| % of Target EBITDA Growth Achieved | % of 70% of Target STI payable |
|---|--------------------------------|
| Less than 60% | 0% |
| 60% | 40% |
| Between 60% and 100%, pro rata between 100% | 40% and 80% |
| Between 100% and 200%, pro rata between 200% or greater | 80% and 150% |
| | 150% |

The growth targets allow for the contributions from acquisitions that are known when the targets are set. From 2015 the potential contribution to EBITDA growth of acquisitions that were not known in setting the target growth rate has been capped at a maximum of 2% for the purpose of the performance assessment. The Board ensures the growth calculation is performed on a consistent basis.

Up to 30% of the target STI is awarded after an assessment of performance based on qualitative factors including:

- Promotion of and adherence to Sonic's Core Values and Foundation Principles.
- Medical Leadership.
- Federation model.
- Risk management.
- External standing and reputation (including stakeholder management, brand and quality).
- Financial leadership and innovation (for C.D. Wilks).

In the same way that it is possible for the executives to earn more than 100% of the quantitative portion of the Target STI, since 1 July 2015 it has been possible for the executives to earn up to 150% of the qualitative portion if, in the Board's view, they have been instrumental in specific events occurring within the year that have very significantly enhanced Sonic's value and/or its brands, reputation or standing without necessarily having impacted on Sonic's profit in the year. An annual assessment of each executive's performance is made by the Remuneration and Nomination Committee and a recommendation made to the Board for final determination. The table above shows the total STI amounts awarded by year. For the 2016 financial year the full 30% of target STI was awarded under the qualitative factors (but none of the potential additional 50% of the 30%), as the Board is satisfied that the executives performed strongly in the areas of assessment during 2016, and no issues have arisen during the year that would suggest anything to the contrary. EBITDA growth of 20.5% was achieved in 2016, exceeding the target level, resulting in 85.7% of the relevant 70% of target STI being paid.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(d) Service agreements (continued)

(iii) Long Term Incentives ("LTI")

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

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

Since the 2014 remuneration review Dr C.S. Goldschmidt and C.D. Wilks receive annual grants of equity-based remuneration (conditional on approval by shareholders), subject to performance conditions with measurement periods of three years. Annual grants have a number of benefits versus the less frequent, larger grants used in the past, including allowing the Company to determine the appropriate performance hurdles each year for the grant being made, adjust the mix between type of instruments for changes in circumstances (e.g. tax law), and/or select different measures to take into account changes in the Company's strategy or context. It also provides the opportunity for shareholders to vote on the proposed grants each year, taking into account recent Company performance.

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

| | FY2015 Issue | | FY2016 Issue | |
|--|---------------------|------------|---------------------|------------|
| | Dr C.S. Goldschmidt | C.D. Wilks | Dr C.S. Goldschmidt | C.D. Wilks |
| Options over shares in Sonic Healthcare Limited | 504,887 | 201,221 | 548,404 | 218,565 |
| Performance rights over shares in Sonic Healthcare Limited | 71,564 | 28,521 | 65,774 | 26,214 |

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

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(d) Service agreements (continued)

(iii) Long Term Incentives ("LTI") (continued)

For all tranches of options and performance rights described above:

- options can only vest when the market price of Sonic shares is higher than the exercise price.
- the exercise price of the options was determined using the Volume Weighted five day Average market Price ("5 day VWAP") for Sonic shares preceding the date of grant.
- the number of options issued was determined based on a Black Scholes methodology valuation at the time of grant. The valuation did not allow for any discount relating to performance conditions.
- the number of performance rights issued was determined by dividing 50% of the maximum value of LTI by the 5 day VWAP for Sonic shares preceding the date of grant.
- the options and performance rights are subject to challenging performance conditions designed to align the interests of the executives with those of shareholders.

The performance conditions are as follows:

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

| TSR Ranking achieved | Percentage of Options and Rights that vest |
|--|--|
| Below the 51st (FY2012 Issue: 50th) percentile | Nil options and rights to which PC1 applies |
| 51st (FY2012 Issue: 50th) percentile | 50% of options and rights to which PC1 applies |
| Greater than 51st (FY2012 Issue: 50th) and less than 75th percentile | Pro rata between 50% and 100% of options and rights to which PC1 applies |
| 75th percentile and above | 100% of options and rights to which PC1 applies |

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

Relative TSR is used as a performance hurdle as it provides a direct link between executive remuneration and shareholder return relative to the Company's peers. A relative measure is important, as it removes from the assessment broad market share price movements which are out of the control of the executives. The executives will not derive any value from the relevant portion of the LTI unless the Company's performance is at least at the median of the benchmark group.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(d) Service agreements (continued)

(iii) Long Term Incentives ("LTI") (continued)

PC1 (TSR) Results

| Performance measurement period | TSR Rank Achieved | % Eligible to Vest | Vesting Options | Vesting Performance Rights | Forfeited Options | Forfeited Rights |
|--------------------------------|-------------------|--------------------|-----------------|----------------------------|-------------------|------------------|
| 1 July 2011 to 30 June 2014 | 67% | 84% | 584,406 | 59,527 | 86,123 | 11,339 |
| 1 July 2011 to 30 June 2015 | 76% | 100% | 651,126 | 70,866 | – | – |
| 1 July 2011 to 30 June 2016 | 60% | 70% | 596,841 | 66,141 | 255,791 | 28,347 |

Of the Issues and tranches described above, only the first two (2015: first) tranches of the options or performance rights issued in November 2011 had vested or been forfeited at 30 June 2016.

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

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

ROIC is calculated as Earnings before Interest and Tax ("EBIT") less related tax and minority interests divided by capital employed (see below for detailed calculation). It is expressed as a percentage and the hurdle growth rates are growth in this percentage. Growth in ROIC was chosen as a performance hurdle in FY2012 and FY2015 as the Board believed that a primary focus should be improvement in the return from the substantial investments the Company had made in its offshore markets. Use of a ROIC related hurdle remains under review as the Board is concerned that the measure has proven too volatile to be an effective incentive, and that it could be a disincentive for the executives to pursue acquisitions that are value enhancing for shareholders in the medium and long term (once growth and synergies are achieved). Under the FY2015 Issue ROIC remains a hurdle until 30 June 2017.

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

¹ EBIT is statutory EBIT per the Annual Report.

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

³ Cash taxes paid are as per the Cash Flow Statement disclosure in the Annual Report adjusted for the tax impact of interest (using the Australian Corporate Tax Rate, currently 30% i.e. 30% of Net Interest Expense).

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

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

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(d) Service agreements (continued)

(iii) Long Term Incentives ("LTI") (continued)

PC2 (ROIC) Results

| Performance measurement period | Actual CAGR ROIC | % Eligible to Vest | Vesting Options | Vesting Performance Rights | Forfeited Options | Forfeited Rights |
|--------------------------------|------------------|--------------------|-----------------|----------------------------|-------------------|------------------|
| 1 July 2011 to 30 June 2014 | 1.1% | – | – | – | 670,529 | 70,866 |
| 1 July 2011 to 30 June 2015 | (5.2)% | – | – | – | 651,124 | 70,866 |
| 1 July 2011 to 30 June 2016 | 0.4% | – | – | – | 852,631 | 94,488 |

Performance Condition 3 ("PC3") - Compound Average Growth Rate ("CAGR") in Earnings Per Share ("EPS") Weighting: FY2012 Issue: 0%, FY2015 Issue: 25%, FY2016 Issue: 50%

| CAGR EPS | Percentage of Options and Rights that vest |
|--|--|
| Less than 4% p.a. | Nil options and rights to which PC3 applies |
| 4% p.a. | 40% of options and rights to which PC3 applies |
| Greater than 4% and less than 10% p.a. | Pro rata between 40% and 100% of options and rights to which PC3 applies |
| 10% p.a. or greater | 100% of options and rights to which PC3 applies |

EPS is calculated as Net Profit after Tax divided by the fully diluted weighted average number of ordinary shares on issue during a year. Growth in EPS has been chosen as a hurdle as it is a direct measure of Company performance and maintains a strong correlation with long term shareholder return.

Whilst the general intention is to use statutory reported numbers for transparency in measuring performance under PC2 and PC3, given the period into the future involved, should the statutory numbers cause an anomalous result, adjustments to the statutory numbers may be made by the Board to ensure the intent of the incentive plan is maintained.

Options and performance rights for which the performance conditions are not satisfied are forfeited immediately after the performance measurement is finalised. There is no retesting.

Should one of the executives cease employment with the Group prior to vesting of some or all of their LTI, the Board will have discretion based on whether the executive is judged to be a "good leaver" to enable the executive to retain the portion of the LTI which vests (subject to the performance conditions) within two years of cessation of employment. To be judged a "good leaver" the executive would need to provide sufficient notice, assist with succession planning and transition and make themselves reasonably available to assist/answer queries of their replacement for a period post-employment. The Board views this arrangement to be in the best interests of the Company and its shareholders, as the executives will be incentivised to minimise disruption/loss of value associated with their departure. Cessation of employment in all other circumstances will trigger forfeiture of all unvested entitlements.

If a takeover bid or other public proposal is made for voting shares in the Company which the Board reasonably believes is likely to lead to a change of control unvested options and rights may vest at the Board's discretion, having regard to pro rata performance and the circumstances leading to the potential change of control.

Sonic Healthcare ordinary shares to be awarded on exercise/conversion of the options and performance rights may be satisfied by the issue of new shares or the purchase of shares on-market. Options and performance rights are not eligible for dividends.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(e) Equity disclosures relating to key management personnel

(i) Option holdings

The number of options over ordinary shares held beneficially or personally during the current financial year by the key management personnel of the Group in relation to remuneration arrangements are set out below.

| 2016 Name | Balance at 1 July 2015 | Issued during the 2016 year | Forfeited during the 2016 year | Exercised during the 2016 year | Balance at 30 June 2016 | Forfeited since year end | Vested and exercisable at 30 June 2016 |
|---------------------|------------------------|-----------------------------|--------------------------------|--------------------------------|-------------------------|--------------------------|--|
| Dr C.S. Goldschmidt | 2,899,501 | 548,404 | (434,083) | – | 3,013,822 | 738,948 | 823,689 |
| C.D. Wilks | 1,398,526 | 218,565 | (217,041) | – | 1,400,050 | 369,474 | 411,843 |

(ii) Performance rights

The number of performance rights held personally or beneficially during the current financial year by the key management personnel of the Group in relation to remuneration arrangements are set out below.

| 2016 Name | Balance at 1 July 2015 | Issued during the 2016 year | Forfeited during the 2016 year | Exercised during the 2016 year | Balance at 30 June 2016 | Forfeited since year end | Vested and exercisable at 30 June 2016 |
|---------------------|------------------------|-----------------------------|--------------------------------|--------------------------------|-------------------------|--------------------------|--|
| Dr C.S. Goldschmidt | 331,721 | 65,774 | (47,244) | (86,929) | 263,322 | 81,890 | – |
| C.D. Wilks | 158,599 | 26,214 | (23,622) | (43,464) | 117,727 | 40,945 | – |

(iii) Share holdings

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

| 2016 Name | Balance at 1 July 2015 | Issued during the 2016 year on the exercise of options or rights | Shares provided as remuneration during the 2016 year | Other changes during the 2016 year | Balance at 30 June 2016* |
|---------------------|------------------------|--|--|------------------------------------|--------------------------|
| Dr C.S. Goldschmidt | 530,243 | 86,929 | – | – | 617,172 |
| C.D. Wilks | 644,247 | 43,464 | – | – | 687,711 |
| Dr P.J. Dubois | 8,000 | – | – | – | 8,000 |
| C.J. Jackson* | 456,371 | – | – | – | 456,371* |
| R.P. Campbell* | 10,271 | – | – | 229 | 10,500* |
| Prof M.R. Compton | 2,013 | – | – | 956 | 2,969 |
| L.J. Panaccio | – | – | – | – | – |
| K.D. Spargo | 8,000 | – | – | 3,000 | 11,000 |
| Dr E.J. Wilson | 2,000 | – | – | – | 2,000 |

* For C.J. Jackson and R.P. Campbell the closing balance shown is at the date they retired from the Sonic Healthcare Board (19 November 2015).

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(f) Transactions with key management personnel

During the financial year rental expense payments totalling \$228,452 (2015: \$579,523) have been made by the Group to Director related entities, including unit trusts, private companies and spouses. The rental transactions were based on normal terms and conditions and at market rates. No balance was outstanding at the end of the current or preceding year. The Director, who retired from the Board on 19 November 2015, who had an interest in the rental transactions in the current and preceding financial year was C.J. Jackson.

(g) Amounts receivable from/payable to other key management personnel

There were no amounts receivable from/payable to other key management personnel at 30 June 2016 (2015: \$nil).

(h) Doubtful debts

No provision for doubtful debts has been raised in relation to any receivable or loan balance with key management personnel, nor has any expense been recognised.

(i) Securities trading policy

Under the Sonic Securities Trading Policy, all Sonic Healthcare employees are prohibited from buying or selling Sonic Healthcare securities (including shares, options, debt securities) at any time they are aware of any material price sensitive information that has not been made public, and are reminded of the laws against "insider trading".

Certain "Designated Officers", including all Directors and senior executives (and specified related parties), are also prohibited from trading in periods other than in 8 week windows following the release of half year and full year results, and 2 week periods following Sonic Healthcare's provision to the market at any time of definitive guidance regarding the next annual result to be released. The Sonic Board of Directors must specifically consider and approve the opening of the "trading window" in each instance. Exceptions to this prohibition can be approved by the Chairman (for Directors) or the Managing Director (for all other employees) in circumstances of severe financial hardship (as defined in the Policy). Sonic's Chair or Managing Director may impose other periods when Designated Officers are prohibited from trading because price sensitive, non-public information may exist. All trading by Designated Officers must be notified to the Company Secretary. Prohibitions also apply to trading in financial instruments related to Sonic Healthcare shares and to trading in the shares of other entities using information obtained through employment with Sonic. In addition the Managing Director and Finance Director are required to obtain approval from the Chair of the Sonic Board of Directors before selling any shares.

Designated Officers are prohibited from entering into transactions in products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes and from short-term trading and short selling arrangements in relation to Sonic securities. Designated Officers are required to commit to these prohibitions by signing the Securities Trading Policy and will forfeit their equity reward should they be found to be in breach. Directors of Sonic Healthcare Limited are also prohibited from entering into margin lending or other secured financing arrangements in relation to Sonic securities without the prior approval of the Chair and disclosure of such arrangements to the Board.

All Sonic Healthcare securities dealings by Directors are promptly notified to the Australian Securities Exchange (ASX) in accordance with Sonic's Continuous Disclosure obligations.

(j) Use of remuneration consultant

Sonic Healthcare Limited did not employ the services of a remuneration consultant during the 2016 financial year.

(k) Voting at the Company's 2015 Annual General Meeting

Over 89% of votes cast on a poll on Sonic Healthcare Limited's Remuneration Report for the 2015 financial year were in favour.

DIRECTORS' REPORT

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



Dr C.S. Goldschmidt
Director



C.D. Wilks
Director

Sydney
22 September 2016

AUDITOR'S INDEPENDENCE DECLARATION



As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'Mark Dow', is written over a light blue horizontal line.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
22 September 2016

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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 well-being and success. There are two elements to the governance of companies: performance and conformance. Both are important, but it is critical that focus on conformance does not detract from the principal function of a business, which is to undertake prudent activities to:

- generate rewards for shareholders who invest their capital,
- provide services of value to customers, and
- provide meaningful employment for employees,

and to do so in a way that contributes positively to the community.

The principal features of Sonic's corporate governance framework are set out in this statement, which is current as at 22 September 2016 and has been approved by the Board.

Sonic's Board and management are committed to governance which recognises that all aspects of the Group's operations are conducted ethically, responsibly and with the highest standards of integrity. The Board has adopted practices and policies designed to achieve these aims. Sonic supports the ASX Corporate Governance Council Corporate Governance Principles and Recommendations ("the Recommendations") in advancing good corporate governance, and has applied the third edition during the 2016 financial year. Sonic's Board continues to review and improve Sonic's compliance with the Recommendations, implementing change in a prudent manner. Sonic's website (www.sonichealthcare.com) includes a Corporate Governance section which sets out the information required by the Recommendations plus other relevant information, including copies of all Policies, Charters and Codes referred to in this report.

Sonic's Code of Ethics and Core Values (listed below) set out the fundamental principles that govern the way that all Sonic people conduct themselves. Sonic's Core Values apply equally to every employee of Sonic and were formulated with significant input from Sonic's staff. They have been embraced throughout the Group. Sonic's Core Values are:

- **Commit to Service Excellence**
To willingly serve all those with whom we deal; with unsurpassed excellence.
- **Treat each other with Respect & Honesty**
To grow a workplace where trust, team spirit and equity are an integral part of everything we do.
- **Demonstrate Responsibility & Accountability**
To set an example, to take ownership of each situation to the best of our ability and to seek help when needed.
- **Be Enthusiastic about Continuous Improvement**
To never be complacent, to recognise limitations and opportunities for ourselves and processes; and to learn through these.
- **Maintain Confidentiality**
To keep all information pertaining to patients, as well as professional and commercial issues, in strict confidence.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place throughout the 2016 financial year. Any issues of non-compliance with the Recommendations are specifically noted and explained.

CORPORATE GOVERNANCE STATEMENT

1. BOARD OF DIRECTORS

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

(a) Role of the Board

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

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

The Board's overall responsibilities include:

- providing strategic direction and approving corporate strategies,
- monitoring management and financial performance and reporting,
- appointing the Chair and Managing Director, and assessing the performance of Directors,
- monitoring and ensuring the maintenance of adequate risk management identification, control and reporting mechanisms, and
- ensuring the business is conducted ethically and transparently.

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

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

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

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

CORPORATE GOVERNANCE STATEMENT

1. BOARD OF DIRECTORS (CONTINUED)

(b) Composition of the Board

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

| Name | Age | Term of office (Years) | Position | Expertise | Committees |
|----------------------|-----|------------------------|---|--|---|
| Prof Mark Compton | 55 | 2 | Chairman, Non-executive, independent Director | Healthcare industry and company management | Member of Audit Committee and Remuneration and Nomination Committee |
| Dr Colin Goldschmidt | 62 | 23 | Managing Director, Chief Executive Officer | Healthcare industry and company management. Pathologist | Member of Risk Management Committee |
| Mr Chris Wilks | 58 | 26 | Finance Director, Chief Financial Officer | Finance, strategy, accounting, banking, secretarial and company management | |
| Dr Philip Dubois | 70 | 15 | Executive Director | Diagnostic imaging industry and company management. Radiologist | |
| Mr Lou Panaccio | 59 | 11 | Non-executive, independent Director | Finance, healthcare industry and company management | Chair of Audit Committee, and member of Remuneration and Nomination Committee and Risk Management Committee |
| Ms Kate Spargo | 64 | 6 | Non-executive, independent Director | Law, governance and company oversight | Chair of Remuneration and Nomination Committee and member of Audit Committee |
| Dr Jane Wilson | 58 | 6 | Non-executive, independent Director | Medicine, finance, governance and company oversight. General Practitioner | Chair of Risk Management Committee and member of Remuneration and Nomination Committee |

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

Dr Dubois was appointed to the Board following the acquisition of Queensland X-Ray (Sonic's largest imaging practice), where he was (and remains) the practice leader. His presence on the Board has played an important role in consolidating Sonic's imaging businesses into a cohesive group.

In addition, the Sonic Board comprises members with a diverse mix of business skills, including industry specific management skills and experience, broader management experience including senior leadership positions in listed companies, finance and legal skills, expertise in corporate governance, and expertise in acquiring and merging healthcare businesses. The Board considers that it currently has an appropriate mix of skills, expertise, tenure and diversity.

Sonic's Non-executive Directors, including the Chairman, are considered independent and perform major roles in the Board Committees.

CORPORATE GOVERNANCE STATEMENT

1. BOARD OF DIRECTORS (CONTINUED)

(b) Composition of the Board (continued)

The Board has resolved that the position of Chairman of the Board is to be held by an independent Director. The independence of each of the Non-Executive Directors is assessed annually, and it is the view of the Board that each should continue to be regarded as independent. The tenure of Mr Panaccio was specifically addressed in his assessment and the Board was satisfied that he has not become too close to management such that his capacity to bring independent judgement to bear or to act in the best interests of all shareholders is compromised.

(c) Board renewal

The size and composition of the Board is determined by the full Board acting on recommendations of the Remuneration and Nomination Committee. Sonic's constitution requires that the Board comprise no more than 12 and no fewer than 3 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. From July 2014, the Board Charter requires that Non-executive Directors who have already served for four three year terms must then offer themselves for re-election at each AGM.

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

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

Before appointing a Director, Sonic undertakes comprehensive reference checks including education, employment, character reference, criminal record, and bankruptcy checks. Potential existing or foreseeable future conflicts of interest are also considered.

Directors receive a letter of appointment and a deed of access and indemnity. The letter of appointment outlines Sonic's expectations of directors with respect to their participation, time commitment and compliance with Sonic policies. An induction process for incoming directors is coordinated by the Company Secretary. To assist Directors to understand relevant developments, the Board receives regular updates at Board meetings, workshops, and site visits, along with timely relevant reading materials.

CORPORATE GOVERNANCE STATEMENT

1. BOARD OF DIRECTORS (CONTINUED)

(d) Board meetings

The Board meets formally at least 6 times a year to consider a broad range of matters, including strategy, financial performance reviews, capital management and acquisitions. Details of meetings (both full Board and Committees) and attendances are set out in the Directors' Report.

(e) Independent professional advice and access to information

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

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

(f) Conflicts of interest of Directors

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

(g) Securities trading

Under Sonic's Securities Trading Policy Sonic employees are prohibited from buying or selling or otherwise trading Sonic Healthcare securities (including shares, options, debt securities) at any time they are aware of any material price sensitive information that has not been made public, and are reminded of the laws against "insider trading". Certain "Designated Officers", including all Directors and senior executives (and specified related parties), are also prohibited from trading in periods other than in 8 week windows following the release of half year and full year results, and 2 week periods following the provision to the market at any time by Sonic of definitive guidance regarding the next annual result to be released. The Sonic Board of Directors must specifically consider and approve the opening of the "trading window" in each instance. Exceptions to this prohibition can be approved by the Chair (for other Directors) or the Managing Director (for all other employees) in circumstances of severe financial hardship (as defined in the Policy). Sonic's Chair or Managing Director may impose other periods when Designated Officers are prohibited from trading because price sensitive, non-public information may exist. All trading by Designated Officers must be notified to the Company Secretary. Prohibitions also apply to short-term trading, short selling, trading in financial instruments related to Sonic's securities, including products which limit the economic risk of unvested rights, options or share holdings in Sonic, and to trading in the securities of other entities using information obtained through employment with Sonic. Directors of Sonic Healthcare Limited are also prohibited from entering into margin lending or other secured financing arrangements in relation to Sonic securities without the prior approval of the Chair and disclosure of such arrangements to the Board. In addition, the Managing Director and Finance Director are required to obtain approval from the Chair before selling any shares. All Sonic securities dealings by Directors are promptly notified to the Australian Securities Exchange (ASX).

(h) Remuneration of Non-executive Directors

The current maximum total remuneration that may be paid to all Non-executive Directors is \$1,500,000 per annum, as approved by shareholders in November 2015. The total amount paid to Non-executive Directors in the 2016 financial year was \$1,021,680. Equity-based remuneration is not issued and bonuses are not payable to Non-executive Directors. No retirement benefit schemes (other than statutory superannuation) apply to Non-executive Directors. Further details of Sonic's remuneration policies for Executive Directors and senior executives of the Company, and the relationship between such policy and the Company's performance are provided in the Directors' Report.

CORPORATE GOVERNANCE STATEMENT

2. BOARD COMMITTEES

To assist the Board in fulfilling its duties, there are currently three Board Committees whose terms of reference and powers are determined by the Board. Details of Committee meetings and attendances are set out in the Directors' Report.

(a) Audit Committee

Members of the Audit Committee are:

Mr L.J. Panaccio (Chair)
Prof M.R. Compton
Ms K.D. Spargo

The Committee operates under a formal Charter. The Charter requires that the Audit Committee comprises between three and six members, all of whom must be independent Directors, and that the Chair of the Committee is not to be the Chair of the Board.

The principal role of the Audit Committee is to provide the Board, investors, and other stakeholders with confidence that the financial reports for the Company represent a true and fair view of the Company's financial condition and operational results in all material respects, and are in accordance with relevant accounting standards.

The responsibilities of the Audit Committee are set out in its Charter and include:

- assisting the Board in its oversight responsibilities by monitoring and advising on:
 - the integrity of the financial statements of the Company,
 - the Company's accounting policies and practices in accordance with current and emerging accounting standards,
 - the external auditors' independence and performance,
 - compliance with legal and regulatory requirements and related policies,
 - compliance with the policy framework in place from time to time, and
 - internal controls, and the overall efficiency and effectiveness of financial operations.
- oversight of the Company's internal audit function (known as the Sonic Business Assurance Program).
- providing a forum for communication between the Board, executive management and external auditors.
- providing a conduit to the Board for external advice on audit and internal controls.

The external auditors, the Managing Director and the Finance Director are invited to Audit Committee meetings at the discretion of the Committee.

In fulfilling its responsibilities, the Audit Committee receives regular reports from management, the head of the Business Assurance Program, and the external auditors. It also meets with the external auditors at least twice a year, and more frequently if necessary, and reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved. The external auditors have a clear line of direct communication at any time to either the Chair of the Audit Committee or the Chair of the Board.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

CORPORATE GOVERNANCE STATEMENT

2. BOARD COMMITTEES (CONTINUED)

(b) Risk Management Committee

Members of the Risk Management Committee are:

Dr E.J. Wilson (Chair)
Dr C.S. Goldschmidt
Mr L.J. Panaccio

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

The Risk Management Committee's responsibilities are set out in its Charter and include:

- assisting the Board in its oversight responsibilities by monitoring and advising on:
 - the identification and management of risks, including but not limited to:
 - › business risks, including financial and strategic risks,
 - › operational risks, including business continuity and practice management risks,
 - › insurable risks, including legal liability claims and property losses,
 - › environmental, social and governance risks.
 - internal controls and treatments for identified risks including the Company's insurance program.
 - the Company's overall risk management program.
- providing a forum for communication between the Board, management and external risk management advisors.
- providing a conduit to the Board for external advice on risk management.

The Committee meets at least twice per year.

(c) Remuneration and Nomination Committee

Members of the Remuneration and Nomination Committee are:

Ms K.D. Spargo (Chair)
Mr R.P. Campbell (until his retirement from the Board on 19 November 2015)
Prof M.R. Compton (from 19 November 2015)
Mr L.J. Panaccio
Dr E.J. Wilson

The Remuneration and Nomination Committee operates under a formal Charter. The Charter requires that the Remuneration and Nomination Committee comprises at least three members, all of whom are to be independent Directors.

The Remuneration and Nomination Committee's role, as set out in its Charter, is to:

- review and make recommendations to the Board on remuneration packages and policies applicable to the Managing Director, Finance Director and Non-executive Directors,
- advise the Board in relation to equity-based incentive schemes for other employees,
- ensure appropriate disclosure is provided to shareholders in relation to remuneration policies and that equity-based remuneration is within plans approved by shareholders,
- review the Board and Board Committee structures,
- advise the Board on the recruitment, appointment, retirement and removal of Directors,

CORPORATE GOVERNANCE STATEMENT

2. BOARD COMMITTEES (CONTINUED)

(c) Remuneration and Nomination Committee (continued)

- 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.

3. APPROACH TO DIVERSITY

As a medical diagnostic company, Sonic Healthcare's business relies on the services provided to referrers and patients by thousands of Sonic staff every day. In addition, in seeking to continually improve Sonic's services and financial performance, the Company relies on the input and expertise of its Directors, managers, pathologists, radiologists, other medical practitioners and staff. It is therefore critical that Sonic's workforce brings a broad range of experiences, talents and viewpoints to the business. Diversity is valued as it assists the Company to meet its objectives, and ensures that Sonic's people at all levels of the Company reflect our customers and the communities we serve.

Sonic Healthcare strives to maintain a healthy, safe and productive environment which is free from discrimination and harassment based on race, colour, religion, gender, sexual orientation, age, national origin or disability. In addition, the Company is committed to the continued development and implementation of initiatives to remove barriers that disadvantage any person or group such that everyone is able to compete on equal terms. Within Sonic, recruitment, development, promotion and remuneration are based on merit. These principles are an integral part of Sonic's corporate culture, and are encapsulated in the Sonic Core Values and the Company's Diversity Policy.

The Remuneration and Nomination Committee of the Sonic Board recommends annually measurable objectives for promoting and maintaining gender diversity and measures and reports on progress towards achievement of those objectives. The CEO has discretion with regard to the specific initiatives to be implemented by management to achieve the objectives.

The proportion of female employees to total employees within the Group at 30 June 2016 was:

| | 2016 | 2015 |
|---|------|------|
| Non-executive Directors of Sonic Healthcare Limited | 50% | 40% |
| Directors of Sonic Healthcare Limited | 29% | 22% |
| Executive staff of the Group* | 32% | 34% |
| Other senior leadership positions | 55% | 54% |
| Total senior leadership positions* | 50% | 50% |
| All employees | 76% | 77% |

* Includes Executives to the "CEO-2" level, plus, if not already included, direct reports to the heads of each of Sonic's operating subsidiaries.

* Includes Directors, executive staff and other senior leadership positions.

The Company's current objective in relation to gender diversity is to monitor and maintain the percentage of females in senior leadership positions at a level greater than 40%. This objective was achieved in 2016.

CORPORATE GOVERNANCE STATEMENT

4. IDENTIFYING AND MANAGING BUSINESS RISKS

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

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

Sonic's material business risks are described in the operating and financial review section of the Directors' Report. Information on Sonic's impact on society and the environment can be found in the 2016 Corporate Responsibility Report available on Sonic's website.

(a) Responsibilities

The Board determines the overall risk profile of the business and is responsible for monitoring and ensuring the maintenance of adequate risk management policies, controls and reporting mechanisms.

To assist the Board in fulfilling its duties, it is aided by the Audit Committee and the Risk Management Committee. The Board has delegated to these Committees responsibility for ensuring:

- the Company's material business risks, including strategic, financial, operational, compliance, environmental and social sustainability risks, are identified,
- systems are in place to assess, manage, monitor and report on those risks, and that those systems are operating effectively,
- management compliance with Board approved policies,
- internal controls are operating effectively across the business, and
- all Group companies are in compliance with laws and regulations relating to their activities.

The Audit Committee and Risk Management Committee update the Board on all relevant matters.

Management is responsible for the identification, assessment and management of business risks. During the year, management reported on these matters, including the effectiveness of the management of Sonic's material business risks, to the Audit Committee and Risk Management Committee, who then reported these matters to the Board. The Risk Management Committee reviewed the Company's risk management framework and reported on that review to the Board.

(b) Risk management policies, systems and processes

Sonic's activities across all of its operating entities are subject to regular review and continuous oversight by executive management and the Board Committees. The Chief Executive Officers of the individual operating companies are responsible for the identification and management of risk within their business. To assist in this, executive management has developed an effective control environment to help manage the significant risks to its operations. This environment includes the following components:

- clearly defined management responsibilities, management accountabilities and organisational structures,
- established policies and procedures that are widely disseminated to, and understood by, employees,
- regular internal review of policy compliance and the effectiveness of systems and controls,
- comprehensive training programs for staff in relation to operational practices and compliance requirements,

CORPORATE GOVERNANCE STATEMENT

4. IDENTIFYING AND MANAGING BUSINESS RISKS (CONTINUED)

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

- strong management reporting framework for both financial and operational information,
- creation of an open culture to share risk management information and to continuously improve the effectiveness of Sonic's risk management approach,
- benchmarking across operations to share best practice and further reduce the operational risk profile,
- Sonic Core Values, a unifying code of conduct embraced by Sonic employees,
- centrally administered Group insurance program ensuring a consistent and adequate approach across all operating areas, and
- the ongoing engagement of a professional Risk Manager to co-ordinate the Company's approach to material business risk management.

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

(c) Regulatory compliance

Sonic's laboratory, imaging and medical centre activities are subject to Commonwealth and State law in Australia, and similar regulatory control in offshore locations. These laws cover such areas as laboratory and collection centre operations, workplace health and safety, radiation safety, privacy of information and waste management.

Sonic's network of pathology laboratories, collection centres and imaging centres are required to meet and remain compliant with set performance criteria determined by government and industry bodies.

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

In addition, practising pathologists and radiologists are required to be registered and licensed in accordance with Medical Board and Government regulations. The accreditation and licensing of locations, equipment and personnel 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.

CORPORATE GOVERNANCE STATEMENT

4. IDENTIFYING AND MANAGING BUSINESS RISKS (CONTINUED)

(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 2016 financial year, the Managing Director and Finance Director made the following certifications:

- that the financial records of the Company have been properly maintained,
- that the financial statements and notes comply in all material respects with the relevant accounting standards,
- that the financial statements and notes give a true and fair view, in all material respects, of the Company's financial condition and operational results, and
- that the statements above are founded on a sound system of risk management and internal control which operates effectively in all material respects in relation to financial reporting risks.

5. ETHICAL STANDARDS

The Company has a Code of Ethics policy that outlines the standards required so that the Directors and management conduct themselves with the highest ethical standards. All employees of the Company and its controlled entities are informed of the Code. The Directors regularly review this Code to ensure it reflects best practice in corporate governance. The Code is further supported by the Sonic Core Values.

To augment the Code of Ethics and Core Values, in August 2015 the Company formally implemented and disclosed the following global policies:

- Anti-bribery and Corruption Policy
- Labour Standards and Human Rights Policy, and
- Supplier Code of Conduct

Sonic's approach to taxation governance, including a commitment to compliance, was formally documented and disclosed in September 2016.

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 co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

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

All information disclosed to the ASX is then immediately posted on the Company's website. Presentations to analysts on aspects of the Company's operations are released to the ASX and posted on the Company's website.

The Company's investor relations program facilitates effective two-way communication with investors and analysts. All investor relations discussions are conducted or monitored by the Managing Director, Finance Director or Company Secretary and are limited to discussion of non-price sensitive information and material previously announced on the ASX platform.

CORPORATE GOVERNANCE STATEMENT

7. THE ROLE OF SHAREHOLDERS

The Board aims to provide access and communicate openly with shareholders and to ensure that shareholders are informed of all major developments affecting the Group's state of affairs. Information is communicated to shareholders as follows:

- via the Company's website (available at www.sonichealthcare.com), which includes electronic and other contact details;
- the Annual Report is available to all shareholders on the Company's website and is distributed to those shareholders who elect to receive it. The Board ensures that the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of likely future developments, in addition to the other disclosures required by law; and
- proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders.

To further facilitate communication with shareholders, the Company has established electronic shareholder communication processes via its Share Registry. Shareholders are able to access online Annual Reports, notices of meetings, proxy forms and voting, and receive electronic statements (e.g. holding statements) by email.

Where possible the Company provides advance notice of significant group briefings, including for the half and full year results announcements, by publishing details on the Company website and extending open invitations. Telephone dial-in details are generally made available. Records are kept of group and one-on-one briefings with investors and analysts.

The Board encourages full participation of shareholders at the AGM to ensure a high level of accountability and identification with the Group's strategy and goals. AGMs are held at readily accessible locations and advance notice is provided on the Investor Calendar page of the Company's website. Ample opportunity is provided for shareholders to question the Board and the external auditor at the AGM. Important issues are presented to the shareholders as single resolutions.

The shareholders are responsible for voting on the appointment of Directors. The Company ensures that the relevant Notice of Meeting contains all material information in its possession relevant to a decision on whether to elect a Director.

8. EXTERNAL AUDITORS

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

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

(a) The Board and its Committees

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

- the Chairman discusses with each Director their individual performance and ideas for improvement based on surveys completed by each Director, and
- 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.

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.

CORPORATE GOVERNANCE STATEMENT

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

(a) The Board and its Committees (continued)

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.

(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 2016 year. The performance criteria include:

- economic results of the Group,
- fulfilment of objectives and duties,
- personnel and resource management,
- promotion of and adherence to Sonic Core Values, Foundation Principles, Federation model and the concept of Medical Leadership,
- corporate governance and compliance,
- risk management,
- external standing and reputation (including stakeholder management, brand and quality), and
- additionally for the Finance Director, financial leadership and innovation.

Performance evaluation results are considered by the Remuneration and Nomination Committee in determining the level and structure of remuneration for the Managing Director and Finance Director.

(c) Key management personnel

The Managing Director evaluates key management personnel at least annually (including during the 2016 year) with qualitative and quantitative measures against agreed business and personal objectives. These business and personal objectives are consistent with those used in the performance reviews for the Managing Director and Finance Director.

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

SONIC HEALTHCARE LIMITED
ABN 24 004 196 909

CONCISE FINANCIAL REPORT

30 JUNE 2016

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The Concise Financial Report is an extract from the full Financial Report for the year ended 30 June 2016. The financial statements and specific disclosures included in the Concise Financial Report have been derived from the full Financial Report.

The Concise Financial Report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Sonic Healthcare Limited and its controlled entities as the full Financial Report. Further financial information can be obtained from the full Financial Report.

The full Financial Report and auditor's report can be accessed via the internet on our website: www.sonichealthcare.com. Alternatively, members can call +61 2 9855 5444 and request a copy of the full Financial Report and auditor's report, which will be sent free of charge.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

| | Notes | 2016 \$'000 | 2015 \$'000 |
|---|-------|--------------------|----------------|
| Revenue from other operations | 3 | 5,017,720 | 4,200,525 |
| Other income | 3 | 34,766 | – |
| Total revenue | | 5,052,486 | 4,200,525 |
| Labour and related costs | | (2,304,796) | (1,951,456) |
| Consumables used | | (811,666) | (650,956) |
| Operating lease rental expense | | (314,327) | (260,455) |
| Depreciation and amortisation of physical assets | | (165,224) | (135,971) |
| Transportation | | (129,668) | (111,785) |
| Repairs and maintenance | | (123,532) | (99,630) |
| Utilities | | (114,353) | (101,353) |
| Borrowing costs expense | | (67,137) | (55,928) |
| Amortisation of intangibles | | (54,528) | (43,231) |
| Other expenses from ordinary activities | | (369,610) | (326,445) |
| Profit from ordinary activities before income tax expense | | 597,645 | 463,315 |
| Income tax expense | | (131,644) | (109,278) |
| Profit from ordinary activities after income tax expense | | 466,001 | 354,037 |
| Net (profit) attributable to minority interests | | (14,627) | (6,339) |
| Profit attributable to members of Sonic Healthcare Limited | | 451,374 | 347,698 |
| | Notes | Cents | Cents |
| Basic earnings per share | 6 | 110.0 | 86.6 |
| Diluted earnings per share | 6 | 109.3 | 86.0 |

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 2016

| | 2016 \$'000 | 2015 \$'000 |
|---|-----------------|----------------|
| Profit from ordinary activities after income tax expense | 466,001 | 354,037 |
| Other comprehensive income | | |
| <i>Items that may be reclassified to profit or loss</i> | | |
| Exchange differences on translation of foreign operations | 6,636 | 114,754 |
| Cash flow hedges | - | 164 |
| <i>Items that will not be reclassified to profit or loss</i> | | |
| Actuarial (losses) on retirement benefit obligations | (16,791) | (8,803) |
| Other comprehensive income for the period, net of tax | (10,155) | 106,115 |
| Total comprehensive income for the period | 455,846 | 460,152 |
| Total comprehensive income attributable to: | | |
| Members of Sonic Healthcare Limited | 444,960 | 453,703 |
| Minority interests | 10,886 | 6,449 |
| | 455,846 | 460,152 |

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

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CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2016

| | 2016 \$'000 | 2015 \$'000 |
|--------------------------------|------------------|------------------|
| Current assets | | |
| Cash and cash equivalents | 290,436 | 249,393 |
| Receivables | 703,909 | 648,716 |
| Inventories | 89,052 | 76,066 |
| Other | 53,356 | 45,527 |
| Total current assets | 1,136,753 | 1,019,702 |
| Non-current assets | | |
| Receivables | 21,882 | 17,710 |
| Other financial assets | 56,275 | 62,384 |
| Property, plant and equipment | 958,382 | 791,119 |
| Intangible assets | 5,158,984 | 4,427,381 |
| Deferred tax assets | 37,781 | 30,318 |
| Other | 562 | 91 |
| Total non-current assets | 6,233,866 | 5,329,003 |
| Total assets | 7,370,619 | 6,348,705 |
| Current liabilities | | |
| Payables | 493,800 | 402,468 |
| Interest bearing liabilities | 475,883 | 1,397 |
| Current tax liabilities | 42,013 | 11,546 |
| Provisions | 186,228 | 168,954 |
| Other | 22,515 | 3,941 |
| Total current liabilities | 1,220,439 | 588,306 |
| Non-current liabilities | | |
| Interest bearing liabilities | 2,098,800 | 2,223,985 |
| Deferred tax liabilities | 111,572 | 112,464 |
| Provisions | 127,408 | 63,576 |
| Other | 79,691 | 34,376 |
| Total non-current liabilities | 2,417,471 | 2,434,401 |
| Total liabilities | 3,637,910 | 3,022,707 |
| Net assets | 3,732,709 | 3,325,998 |
| Equity | | |
| Parent Company interest | | |
| Contributed equity | 2,802,491 | 2,561,817 |
| Reserves | (11,223) | (13,634) |
| Retained earnings | 871,612 | 725,945 |
| Total Parent Company interest | 3,662,880 | 3,274,128 |
| Minority interests | 69,829 | 51,870 |
| Total equity | 3,732,709 | 3,325,998 |

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 2016

| | Share capital \$'000 | Reserves \$'000 | Retained earnings \$'000 | Total \$'000 | Minority interests \$'000 | Total \$'000 |
|--|-------------------------|--------------------|-----------------------------|------------------|------------------------------|------------------|
| Balance at 1 July 2014 | 2,538,517 | (119,941) | 664,067 | 3,082,643 | 26,351 | 3,108,994 |
| Profit for period | - | - | 347,698 | 347,698 | 6,339 | 354,037 |
| Other comprehensive income for the period | - | 114,808 | (8,803) | 106,005 | 110 | 106,115 |
| Total comprehensive income for the period | - | 114,808 | 338,895 | 453,703 | 6,449 | 460,152 |
| Transactions with owners in their capacity as owners: | | | | | | |
| Dividends paid | - | - | (277,017) | (277,017) | - | (277,017) |
| Shares issued | 21,573 | (8,631) | - | 12,942 | - | 12,942 |
| Transfers to share capital | 1,800 | (1,800) | - | - | - | - |
| Share based payments | - | 2,039 | - | 2,039 | - | 2,039 |
| Acquisition of treasury shares | (100) | - | - | (100) | - | (100) |
| Allocation of treasury shares | 27 | - | - | 27 | - | 27 |
| Minority interests on formation of subsidiary | - | - | - | - | 23,491 | 23,491 |
| Acquisition of minority interests | - | (109) | - | (109) | - | (109) |
| Dividends paid to minority interests | - | - | - | - | (4,421) | (4,421) |
| Balance at 30 June 2015 | 2,561,817 | (13,634) | 725,945 | 3,274,128 | 51,870 | 3,325,998 |
| Balance at 1 July 2015 | 2,561,817 | (13,634) | 725,945 | 3,274,128 | 51,870 | 3,325,998 |
| Profit for period | - | - | 451,374 | 451,374 | 14,627 | 466,001 |
| Other comprehensive income for the period | - | 10,377 | (16,791) | (6,414) | (3,741) | (10,155) |
| Total comprehensive income for the period | - | 10,377 | 434,583 | 444,960 | 10,886 | 455,846 |
| Transactions with owners in their capacity as owners: | | | | | | |
| Dividends paid | - | - | (288,916) | (288,916) | - | (288,916) |
| Shares issued | 239,378 | (3,978) | - | 235,400 | - | 235,400 |
| Transaction costs on shares issued net of tax | (131) | - | - | (131) | - | (131) |
| Transfers to share capital | 1,396 | (1,396) | - | - | - | - |
| Share based payments | - | 1,887 | - | 1,887 | - | 1,887 |
| Allocation of treasury shares | 31 | - | - | 31 | - | 31 |
| Contribution from minority interests | - | - | - | - | 12,206 | 12,206 |
| Acquisition of minority interests | - | (4,479) | - | (4,479) | (619) | (5,098) |
| Dividends paid to minority interests | - | - | - | - | (4,514) | (4,514) |
| Balance at 30 June 2016 | 2,802,491 | (11,223) | 871,612 | 3,662,880 | 69,829 | 3,732,709 |

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 2016

| | 2016 \$'000 | 2015 \$'000 |
|--|------------------|----------------|
| Cash flows from operating activities | | |
| Receipts from customers (inclusive of goods and services tax) | 5,082,370 | 4,180,442 |
| Payments to suppliers and employees (inclusive of goods and services tax) | (4,217,422) | (3,497,816) |
| Gross operating cash flow | 864,948 | 682,626 |
| Interest received | 4,130 | 3,796 |
| Borrowing costs | (58,276) | (48,896) |
| Income taxes paid | (103,094) | (125,442) |
| Net cash inflow from operating activities | 707,708 | 512,084 |
| Cash flows from investing activities | | |
| Payment for purchase of controlled entities, net of cash acquired | (475,257) | (46,115) |
| Payments for property, plant and equipment | (322,418) | (197,478) |
| Proceeds from sale of non-current assets | 92,385 | 22,724 |
| Payments for investments | (3,382) | (2,836) |
| Payments for intangibles | (71,576) | (66,688) |
| Repayment of loans by other entities | 6,829 | 9,017 |
| Loans to other entities | (12,818) | (7,613) |
| Net cash (outflow) from investing activities | (786,237) | (288,989) |
| Cash flows from financing activities | | |
| Proceeds from issues of shares and other equity securities (net of transaction costs and related taxes) | 91,276 | 12,869 |
| Proceeds from borrowings | 877,958 | 452,394 |
| Repayment of borrowings | (631,936) | (411,167) |
| Transaction with non-controlling interest | 13,925 | 7,973 |
| Dividends paid to Company's shareholders | (214,805) | (277,017) |
| Dividends paid to minority interests in subsidiaries | (4,569) | (4,399) |
| Net cash inflow/(outflow) from financing activities | 131,849 | (219,347) |
| Net increase in cash and cash equivalents | 53,320 | 3,748 |
| Cash and cash equivalents at the beginning of the financial year | 249,393 | 232,137 |
| Effects of exchange rate changes on cash and cash equivalents | (12,277) | 13,508 |
| Cash and cash equivalents at the end of the financial year | 290,436 | 249,393 |

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

NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

30 JUNE 2016

| | | |
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This Concise Financial Report relates to the Group consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the year ended 30 June 2016.

NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS 30 JUNE 2016

NOTE 1 BASIS OF PREPARATION

This Concise Financial Report relates to the Group consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the year ended 30 June 2016. The accounting policies adopted have been consistently applied to all years presented, except as stated below. Comparatives may be restated to enhance comparability with the current year.

(a) Presentation currency

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

(b) Changes in accounting policies

There were no impacts on the financial statements of the Group as a consequence of new standards effective 1 July 2015.

NOTE 2 SEGMENT INFORMATION

Business segments

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

The Group has the following reportable segments.

(i) Laboratory

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

(ii) Imaging

Diagnostic imaging services provided in Australia.

(iii) Other

Includes the corporate office function, medical centre operations and occupational health services, and other minor operations.

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

NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS 30 JUNE 2016

NOTE 2 SEGMENT INFORMATION (CONTINUED)

Business segments (continued)

| 2016 | Laboratory \$'000 | Imaging \$'000 | Other \$'000 | Eliminations \$'000 | Total \$'000 |
|--|----------------------|-------------------|-----------------|------------------------|-----------------|
| Revenue (Constant Currency) | | | | | |
| External sales | 3,918,798 | 420,406 | 411,118 | – | 4,750,322 |
| Inter-segment sales | 35 | 269 | 11,076 | (11,380) | – |
| Other income | – | – | 34,766 | – | 34,766 |
| Total segment revenue (Constant Currency) | 3,918,833 | 420,675 | 456,960 | (11,380) | 4,785,088 |
| Currency exchange rate movements | 263,268 | – | – | – | 263,268 |
| Total segment revenue (Statutory) | 4,182,101 | 420,675 | 456,960 | (11,380) | 5,048,356 |
| Interest income | | | | | 4,130 |
| Total revenue | | | | | 5,052,486 |
| Result | | | | | |
| Underlying segment result (Constant Currency) | 605,546 | 47,743 | 20,030 | – | 673,319 |
| Non-recurring items (net) | (16,341) | – | 22,283 | – | 5,942 |
| Segment result (Constant Currency) | 589,205 | 47,743 | 42,313 | – | 679,261 |
| Currency exchange rate movements | 35,919 | – | – | – | 35,919 |
| Segment result (Statutory) | 625,124 | 47,743 | 42,313 | – | 715,180 |
| Amortisation of intangibles | | | | | (54,528) |
| Unallocated net interest expense | | | | | (63,007) |
| Profit before tax | | | | | 597,645 |
| Income tax expense | | | | | (131,644) |
| Profit after income tax expense | | | | | 466,001 |
| Depreciation | 113,600 | 28,307 | 23,317 | – | 165,224 |
| Other non-cash items | 87,774 | 876 | (28,096) | – | 60,554 |
| 2015 | | | | | |
| Revenue | | | | | |
| External sales | 3,421,348 | 414,034 | 361,347 | – | 4,196,729 |
| Inter-segment sales | 38 | 290 | 9,924 | (10,252) | – |
| Total segment revenue | 3,421,386 | 414,324 | 371,271 | (10,252) | 4,196,729 |
| Interest income | | | | | 3,796 |
| Total revenue | | | | | 4,200,525 |
| Result | | | | | |
| Segment result | 493,134 | 55,393 | 10,151 | – | 558,678 |
| Amortisation of intangibles | | | | | (43,231) |
| Unallocated net interest expense | | | | | (52,132) |
| Profit before tax | | | | | 463,315 |
| Income tax expense | | | | | (109,278) |
| Profit after income tax expense | | | | | 354,037 |
| Depreciation | 87,508 | 29,701 | 18,762 | – | 135,971 |
| Other non-cash items | 62,671 | 1,290 | 3,799 | – | 67,760 |

NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS 30 JUNE 2016

NOTE 2 SEGMENT INFORMATION (CONTINUED)

| Geographical information | Revenues from sales to external customers* | | Non-current assets** | |
|--------------------------|--|----------------|----------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Australia | 2,083,578 | 1,961,181 | 2,207,320 | 2,045,121 |
| United States of America | 1,088,474 | 929,959 | 1,660,415 | 1,584,990 |
| Germany | 914,426 | 805,022 | 1,021,725 | 951,376 |
| Other | 927,112 | 500,567 | 1,306,625 | 717,198 |
| Total | 5,013,590 | 4,196,729 | 6,196,085 | 5,298,685 |

Note that changes between years are affected by exchange rate movements and the timing of business acquisitions.
Note that this includes all non-current assets other than financial instruments and deferred tax assets.

NOTE 3 REVENUE AND OTHER INCOME

| | 2016 \$'000 | 2015 \$'000 |
|---|------------------|----------------|
| Services revenue | | |
| Medical services revenue | 4,947,307 | 4,141,094 |
| Other revenue | | |
| Government grants | 31,121 | 30,287 |
| Interest received or due and receivable | 4,130 | 3,796 |
| Rental income | 15,635 | 15,012 |
| Other revenue | 19,527 | 10,336 |
| | 70,413 | 59,431 |
| Revenue from operations | 5,017,720 | 4,200,525 |
| Other income | | |
| Net gain on sale of properties | 34,766 | - |

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

NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS 30 JUNE 2016

NOTE 4 DIVIDENDS

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Total dividends paid on ordinary shares during the year | | |
| Final dividend for the year ended 30 June 2015 of 41 cents (2014: 40 cents) per share paid on 22 October 2015 (2014: 23 September 2014), franked to 55% (2014: 55%) | 164,908 | 160,449 |
| Interim dividend for the year ended 30 June 2016 of 30 cents (2015: 29 cents) per share paid on 6 April 2016 (2015: 25 March 2015), franked to 30% (2015: 55%) | 124,008 | 116,568 |
| | 288,916 | 277,017 |
| Dividends not recognised at year end | | |
| In addition to the above dividends, since year end the Directors declared a final dividend of 44 cents (2015: 41 cents) per ordinary share, franked to 30% (2015: 55%) based on tax paid at 30%. The aggregate amount of the final dividend payable on 27 September 2016 out of retained earnings at the end of the year, but not recognised as a liability is: | 182,963 | 164,908 |
| Franked dividends | | |
| The 2016 final dividend declared after the year end was 30% franked out of existing franking credits and out of franking credits arising from the payment of income tax in the year ending 30 June 2017. | | |
| Franking credits available at the year end for subsequent financial years based on a tax rate of 30% | 14,855 | 27,173 |

The consolidated amounts include franking credits that would be available if distributable profits of subsidiaries not part of the Australian tax group were paid as dividends.

Dividend Reinvestment Plan ("DRP")

The Company's Dividend Reinvestment Plan has been suspended for the FY2016 final dividend. The DRP operated for the FY2016 interim dividend and FY2015 final dividend.

NOTE 5 BUSINESS COMBINATIONS

Acquisition of subsidiaries/business assets

Acquisitions of subsidiaries/business assets in the period included:

- Swiss laboratory business, Medisupport S.A., on 2 July 2015.
- Belgium laboratory business, KLD Laboratory, on 3 July 2015.
- A number of small healthcare businesses.

The contribution these acquisitions (other than Medisupport) made to the Group's profit during the period was immaterial individually and in total. It is impracticable to accurately determine the contribution these immaterial acquisitions made to the net profit of the Group during the period, and what they are likely to contribute on an annualised basis, as the acquisitions were integrated with other entities in the Group. The accounting for these business combinations has been finalised at the date of this report.

NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS 30 JUNE 2016

NOTE 5 BUSINESS COMBINATIONS (CONTINUED)

Acquisition of subsidiaries/business assets (continued)

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

| | Medisupport S.A. \$'000 | Other \$'000 | Total \$'000 |
|--|----------------------------|-----------------|-----------------|
| Consideration - cash paid | 319,704 | 181,781 | 501,485 |
| Less: Cash of entities acquired | (19,504) | (18,921) | (38,425) |
| | 300,200 | 162,860 | 463,060 |
| Deferred consideration | 20,830 | 50,404 | 71,234 |
| Consideration - other | - | 1,569 | 1,569 |
| Consideration - shares | 69,857 | - | 69,857 |
| Total consideration | 390,887 | 214,833 | 605,720 |
| Carrying value of identifiable net assets of businesses acquired: | | | |
| Debtors & other receivables | 35,478 | 3,696 | 39,174 |
| Prepayments | 3,057 | 439 | 3,496 |
| Inventory | 2,672 | 2,015 | 4,687 |
| Property, plant & equipment | 24,398 | 13,696 | 38,094 |
| Identifiable intangibles | 2,179 | 8,454 | 10,633 |
| Deferred tax assets | 7,784 | 1,317 | 9,101 |
| Trade creditors | (11,188) | (1,270) | (12,458) |
| Sundry creditors & accruals | (11,009) | (1,730) | (12,739) |
| Current tax liabilities | (7,636) | 22 | (7,614) |
| Deferred tax liabilities | (718) | (2,487) | (3,205) |
| Provisions | (38,646) | (5,006) | (43,652) |
| Borrowings | (50,473) | (1,324) | (51,797) |
| | (44,102) | 17,822 | (26,280) |
| Goodwill | 434,989 | 197,011 | 632,000 |

The goodwill arising from the business combinations 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. No purchased goodwill recognised is expected to be deductible for income tax purposes.

3,834,086 Sonic ordinary shares, with a fair value of \$69,857,000, were issued as part of the consideration for Medisupport S.A. The fair value was based on the weighted average market share price at the time of issue. The Medisupport business has contributed \$239,838,000 of revenue and \$39,617,000 of profit since the acquisition date.

Acquisition related costs of \$5,711,000 are included in other expenses in the Income Statement.

The fair value of acquired debtors and other receivables is \$39,174,000. The gross contractual amount due is \$43,509,000, of which \$4,335,000 is expected to be uncollectible.

NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS 30 JUNE 2016

NOTE 6 EARNINGS PER SHARE

| | 2016 Cents | 2015 Cents |
|----------------------------|---------------|---------------|
| Basic earnings per share | 110.0 | 86.6 |
| Diluted earnings per share | 109.3 | 86.0 |

| | 2016 Shares | 2015 Shares |
|--|----------------|----------------|
| Weighted average number of ordinary shares used as the denominator | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 410,405,046 | 401,419,782 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 412,925,617 | 404,380,891 |

Options and performance rights over ordinary shares are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options and rights have not been included in the determination of basic earnings per share.

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

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Reconciliations of earnings used in calculating earnings per share | | |
| Net profit | 466,001 | 354,037 |
| Net (profit) attributable to minority interests | (14,627) | (6,339) |
| Earnings used in calculating basic and diluted earnings per share | 451,374 | 347,698 |

NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS

30 JUNE 2016

NOTE 7 SHARE OPTIONS

(a) Shares under options

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

(i) Sonic Healthcare Limited Employee Option Plan

| Grant date | Expiry date | Exercise price of option* | Number of options at date of report |
|--------------|-------------|---------------------------|-------------------------------------|
| 18/11/11 | 18/11/17 | \$11.43 | 651,126 |
| 18/11/11 | 18/11/18 | \$11.43 | 596,841 |
| 7/03/12 | 7/03/19 | \$11.14 | 1,000,000 |
| 2/07/12 | 2/07/19 | \$12.57 | 125,000 |
| 18/10/13 | 18/10/18 | \$15.43 | 320,000 |
| 13/12/13 | 13/12/18 | \$15.21 | 600,000 |
| 27/11/14 | 27/11/19 | \$17.32 | 706,108 |
| 30/01/15 | 30/11/19 | \$18.84 | 750,000 |
| 20/10/15 | 20/08/20 | \$18.49 | 925,000 |
| 20/11/15 | 20/11/20 | \$19.41 | 766,969 |
| 11/12/15 | 11/10/20 | \$19.78 | 2,200,000 |
| Total | | | 8,641,044 |

*The issue price of shares held under option is either the exercise price of the option or the market price of Sonic shares at the date of exercise.

The above options granted are able to be exercised subject to the following vesting periods:

- 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 7 March 2012, 2 July 2012, 18 October 2013, 13 December 2013 and 11 December 2015 are subject to different vesting and expiry periods. For the options granted on 7 March 2012 up to 1,000,000 options are exercisable from 7 March 2017 until expiry on 7 March 2019. Options granted on 2 July 2012 which satisfy the vesting conditions will be exercisable from 2 July 2017 until expiry on 2 July 2019. Options granted on 18 October 2013 which satisfy the vesting conditions will be exercisable from 18 October 2016 until expiry on 18 October 2018. For the options granted on 13 December 2013 up to 600,000 options are exercisable from 13 December 2016 until expiry on 13 December 2018. For the options granted on 11 December 2015 a third are exercisable after 11 June 2018, two thirds after 11 June 2019 and up to 100% after 11 June 2020 subject to satisfying vesting conditions.

The performance options granted on 18 November 2011, 27 November 2014 and 20 November 2015 relate to the Long Term Incentive component for Dr C.S. Goldschmidt and C.D. Wilks. The vesting conditions attached to the performance rights are detailed in the Remuneration Report.

NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS 30 JUNE 2016

NOTE 7 SHARE OPTIONS (CONTINUED)

(a) Shares under options (continued)

(ii) Sonic Healthcare Limited Performance Rights Plan

Performance rights are granted under the Sonic Healthcare Limited Performance Rights Plan for no consideration and carry no dividend or voting rights. When exercisable, each performance right is convertible into one ordinary share. No rights holder has any right to participate in any other share issue of the Company or of any other entity.

The performance rights granted on 18 November 2011, 27 November 2014 and 20 November 2015 relate to the Long Term Incentive component for Dr C.S. Goldschmidt and C.D. Wilks. The vesting conditions attached to the performance rights are as detailed in the Remuneration Report.

| Grant date | Expiry date | Issue price of shares | Number of rights at date of report |
|--------------|-------------|-----------------------|------------------------------------|
| 18/11/11 | 18/11/18 | Nil | 66,141 |
| 27/11/14 | 27/11/19 | Nil | 100,085 |
| 20/11/15 | 20/11/20 | Nil | 91,988 |
| Total | | | 258,214 |

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

(i) Sonic Healthcare Limited Employee Option Plan options

A total of 380,000 ordinary shares of Sonic were issued during the year ended 30 June 2016 under the Sonic Healthcare Limited Employee Option Plan. 734,406 options have been exercised since that date, but prior to the date of this report, resulting in the issue of 734,406 ordinary shares. The amounts paid on issue of those shares were:

| Number of Options | Issue Price (per share) |
|-------------------|-------------------------|
| 222,500 | \$11.13 |
| 7,500 | \$19.28 |
| 150,000 | \$19.69 |
| 389,605 | \$23.00 |
| 150,000 | \$23.19 |
| 194,801 | \$23.51 |
| 1,114,406 | |

NOTES TO THE CONSOLIDATED CONCISE FINANCIAL STATEMENTS 30 JUNE 2016

NOTE 7 SHARE OPTIONS (CONTINUED)

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

(ii) Sonic Healthcare Limited Performance Rights Plan

A total of 132,222 performance rights were exercised during the year ended 30 June 2016 under the Sonic Healthcare Limited Performance Rights Plan, satisfied by the issue of 130,393 new ordinary shares and by 1,829 shares purchased on-market. Nil performance rights have been exercised since that date, but prior to the date of this report, resulting in the issue of nil ordinary shares. The amounts paid on issue of those rights were:

| Number of Rights | Issue Price (per right) |
|------------------|-------------------------|
| 59,527 | \$19.69 |
| 70,866 | \$20.18 |
| 1,829 | \$19.69 |
| 132,222 | |

(c) Options granted to officers

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

NOTE 8 EVENTS OCCURRING AFTER REPORTING DATE

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

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2016

The Directors declare that in their opinion, the Concise Financial Report of the Group for the year ended 30 June 2016 as set out on pages 59 to 74 complies with Accounting Standard AASB 1039: Concise Financial Reports.

The Concise Financial Report is an extract from the full Financial Report for the year ended 30 June 2016. The financial statements and specific disclosures included in the Concise Financial Report have been derived from the full Financial Report.

The Concise Financial Report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full Financial Report, which is available on request.

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



Dr C.S. Goldschmidt

Director



C.D. Wilks

Director

Sydney
22 September 2016

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SONIC HEALTHCARE LIMITED



REPORT ON THE CONCISE FINANCIAL REPORT

We have audited the accompanying Concise Financial Report of Sonic Healthcare Limited (the company) which comprises the consolidated Balance Sheet as at 30 June 2016, the consolidated Income Statement and consolidated Statement of Comprehensive Income, consolidated Statement of Changes in Equity and consolidated Cash Flows Statement for the year then ended and related notes, derived from the audited Financial Report of the Company for the year ended 30 June 2016 for both Sonic Healthcare Limited and the Sonic Healthcare Group (the consolidated entity). The Concise Financial Report does not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the Concise Financial Report is not a substitute for reading the audited Financial Report.

Directors' responsibility for the Concise 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 is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the Concise Financial Report based on our audit procedures which were conducted in accordance with Auditing Standard ASA 810 Engagements to Report on Summary Financial Statements. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of the consolidated entity for the year ended 30 June 2016. We expressed an unmodified audit opinion on that financial report in our report dated 22 September 2016. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the Financial Report for the year is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Concise Financial Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Concise Financial Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Concise Financial Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Our procedures include testing that the information in the Concise Financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of audit evidence supporting the amounts and other disclosures which were not directly derived from the Financial Report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the Concise Financial Report complies with AASB 1039 Concise Financial Reports.

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

PricewaterhouseCoopers, ABN 52 780 433 757

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

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SONIC HEALTHCARE LIMITED



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion, the Concise Financial Report of the consolidated entity for the year ended 30 June 2016 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

Report on the Remuneration Report

The following paragraphs are copied from our report on the Remuneration Report for the year ended 30 June 2016.

We have audited the Remuneration Report included in pages 29 to 43 of the Directors' Report for the year ended 30 June 2016. 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.

Auditor's opinion

In our opinion, the Remuneration Report of Sonic Healthcare Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Mark Dow' in a cursive script.

Mark Dow

Partner
PricewaterhouseCoopers

Sydney
22 September 2016

SHAREHOLDERS' INFORMATION

1. INFORMATION RELATING TO SHAREHOLDERS

(a) Distribution schedule as at 13 September 2016

| | No. of holders |
|--|----------------|
| ordinary shares | |
| 1 – 1,000 | 39,678 |
| 1,001 – 5,000 | 24,488 |
| 5,001 – 10,000 | 1,904 |
| 10,001 – 100,000 | 914 |
| 100,001 and over | 104 |
| | 67,088 |
| 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 | 69.60% |
| Number of holders holding less than a marketable parcel | 655 |

(b) Substantial shareholders as at 13 September 2016

The Company has received substantial shareholding notices to 13 September 2016 in respect of the following holdings:

| | No. of securities | Percentage held |
|--|-------------------|-----------------|
| The members of the Veritas Group | 28,690,310 | 6.90% |
| BlackRock Group (including 843,459 American Depositary Receipts) | 25,208,821 | 6.06% |

SHAREHOLDERS' INFORMATION

1. INFORMATION RELATING TO SHAREHOLDERS (CONTINUED)

(c) Names of the twenty largest registered holders of equity securities as at 13 September 2016

| | No. of securities | Percentage held |
|---|-------------------|-----------------|
| HSBC Custody Nominees (Australia) Limited | 109,012,733 | 26.22% |
| J P Morgan Nominees Australia Limited | 55,823,992 | 13.42% |
| National Nominees Limited | 51,692,028 | 12.43% |
| Citicorp Nominees Pty Limited | 18,785,972 | 4.52% |
| Jardvan Pty Ltd | 15,958,704 | 3.84% |
| BNP Paribas Noms Pty Ltd <DRP> | 8,531,031 | 2.05% |
| Citicorp Nominees Pty Limited <Citibank NY ADR Dep A/C> | 6,136,814 | 1.48% |
| Polly Pty Ltd <A/C Patterson Family> | 3,816,646 | 0.92% |
| Argo Investments Limited | 2,936,618 | 0.71% |
| Blaise Mentha | 2,340,382 | 0.56% |
| Goodoil Investments Pty Ltd <Timothy Roberts Invest A/C> | 1,973,717 | 0.47% |
| Australian Foundation Investment Company Limited | 1,703,358 | 0.41% |
| RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C> | 1,649,168 | 0.40% |
| IOOF Investment Management Limited <IPS Super A/C> | 1,549,556 | 0.37% |
| Quintal Pty Ltd <Harken Family A/C> | 1,521,138 | 0.37% |
| Citicorp Nominees Pty Limited <Colonial First State Inv A/C> | 1,495,837 | 0.36% |
| HSBC Custody Nominees (Australia) Limited <NT-Comnwth Super Corp A/C> | 1,413,704 | 0.34% |
| Netwealth Investments Limited <Wrap Services A/C> | 1,164,451 | 0.28% |
| Australian United Investment Company Limited | 1,000,000 | 0.24% |
| Navigator Australia Ltd <MLC Investment Sett A/C> | 922,113 | 0.22% |
| | 289,427,962 | 69.60% |

2. UNQUOTED EQUITY SECURITIES AS AT 13 SEPTEMBER 2016

| | No. on issue | No. of holders |
|---------------------------------------|--------------|----------------|
| Options over unissued ordinary shares | 9,749,466 | 74 |
| Performance rights | 381,049 | 2 |

3. SECURITIES SUBJECT TO VOLUNTARY ESCROW

| | No. on issue | Date escrow period ends |
|---|--------------|-------------------------|
| As at the date of this report the following securities were subject to voluntary escrow: | | |
| Ordinary shares | 3,834,086 | 7 October 2016 |

The above securities were issued as part consideration for the acquisition of the Swiss medical laboratory group, Medisupport S.A.

SHAREHOLDERS' INFORMATION

4. SHARE REGISTRY

Computershare Investor Services Pty Limited

Registered address: Level 5, 115 Grenfell Street, Adelaide, SA 5000

Postal address: GPO Box 1903, Adelaide, SA 5001

| | |
|------------------------------|--|
| Enquiries within Australia: | 1300 556 161 |
| Fax within Australia: | 1300 534 987 |
| Enquiries outside Australia: | +61 3 9415 4000 |
| Fax outside Australia: | +61 3 9473 2408 |
| Email: | www.investorcentre.com/contact |

Shareholders with enquiries should email, telephone or write to the Share Registry.

Separate shareholdings may be consolidated by advising the Share Registry in writing or by completing a Request to Consolidate Holdings form which can be found online at the above website.

Shareholders who are issuer sponsored holders should notify the Share Registry of a change of address without delay. Shareholders who are broker sponsored on the CHESS sub-register must notify their sponsoring broker of a change of address.

Direct payment of dividends into a nominated account may be arranged with the Share Registry. Shareholders are encouraged to use this option by completing a payment instruction form online or advising the Share Registry in writing with particulars.

The Annual Report is produced for your information. However, should you receive more than one or wish to be removed from the mailing list for the Annual Report, please advise the Share Registry. You will continue to receive any Notices of Meetings and Proxy Forms.

Supporting the environment through electronic communication

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

5. ANNUAL GENERAL MEETING

The Annual General Meeting will be held in the Fort Macquarie Room at the InterContinental Sydney Hotel, 117 Macquarie Street, Sydney at 10.00am on Thursday 17 November 2016.

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**SONIC
HEALTHCARE**
Quality is in our DNA