

Thursday 21 September 2023

Australian Clinical Labs Limited - 2023 Annual General Meeting

The following announcements to the market are provided:

AGM Notice of Meeting

Proxy Form

Shareholder Question Form

Online Guide from Link Market Services

- ✓ Australian Clinical Labs Limited 2023 Annual Report (including the 2023 Corporate Governance Statement)

Appendix 4G

– ENDS –

This announcement was authorised for release to ASX by the Company Secretary. For further information regarding this announcement, please contact:

Company Secretary

Eleanor Padman

Company Secretary

Email:

epadman@padmanadvisory.com.au

Phone: +61 (0) 422 002 918

About Australian Clinical Labs

ACL is a leading Australian private provider of pathology services. Our NATA accredited laboratories perform a diverse range of pathology tests each year for a range of clients including doctors, specialists, patients, hospitals and corporate clients. ACL is one of the largest private hospital pathology businesses nationally. ACL is focused on its mission of combining talented people, and medical and scientific leadership, with innovative thinking and technologies to empower decision making that saves and improves patients' lives.

Annual Report 2023



Contents

2	Letter from the Chair
6	Letter from the CEO
10	Our Mission and Values
12	Clinical Labs at a glance
14	Company Overview
18	Specialist Solutions
20	Environmental, Social and Governance
22	Directors' Report
34	Auditor's Independence Declaration
36	Remuneration Report
50	Corporate Governance Statement
65	Financial Statements
71	Notes to the Financial Statements
109	Directors' Declaration
110	Independent Auditors' Report
114	Shareholder Information
iii	Corporate Directory

ANNUAL GENERAL MEETING

Date of Meeting

Monday, 23 October 2023

Time of Meeting

9:00am AEDT

For personal use only

Australian Clinical Labs (ACL) is a leading private provider of pathology services in Australia.

ACL has laboratories and pathology collection centres in all Australian States and Territories (except Tasmania) and is one of the largest private hospital pathology businesses nationally.



Letter from the Chair



Dear Shareholder,

On behalf of the Board of Directors,
it is my pleasure to present to you
ACL's FY23 Annual Report.

I would like to take this opportunity to welcome Ms Christine Bartlett, who commenced as new Non-Executive Director of the ACL Board on August 23. Christine is an experienced non-executive director, with extensive executive experience gained through chief executive officer and senior executive roles with National Australia Bank, IBM and Jones Lang LaSalle. Pending Christine's election to the Board by Shareholders at the Annual General Meeting, we look forward to drawing on her vast experience.

After two COVID-affected years, FY23 has delivered its own set of opportunities and challenges, and I want to extend my appreciation to our exceptional ACL team throughout the organisation, who rose to the occasion multiple times throughout the year and ultimately delivered a strong result once more.

The performance of ACL over the past eight years has been a credit to the dedication of its employees, producing outstanding results under the direction of Melinda McGrath's experienced leadership team.

FY23 Highlights

Benefiting from the strong and resilient operating platform created over the past eight years, ACL delivered excellent results in FY23, including strong growth of our core (non-COVID) business operations. Among our FY23 financial highlights, ACL:

- Delivered more than 9 million pathology episodes;
- Generated revenue of \$697.1 million; and
- Continued its operational improvement program, which led to profit margins; as measured by earnings before interest and tax, reaching 10.1%;

ACL's key growth drivers continued to guide our business forward. ACL delivered an 11.4% increase in base-business growth compared to FY22, and above-market growth from our SunDoctors' business. While COVID-related revenue has reduced sharply, our strategic investments in SunDoctors and Medlab have been fully integrated into the business ahead of schedule, making ACL a stronger Company coming out of the pandemic than we were going into it.

Key operational highlights in FY23 include:

- A disciplined and structured wind-down of COVID-related costs in line with testing volumes;
- Completion of a significant upgrade of the base laboratory information system, and the roll-out of our patient-centred digitisation program;
- Implementation of key operational innovations, including 'Click to Collect' for patient sample collections – a trackable sample pick-up service to doctors and hospitals; and
- Implementation of operational improvement projects with benefits continuing to accrue into FY24.

Key strategic and growth initiatives

One of the areas I am most proud of as Chair is ACL's continued position as a leader in science and technology. In 2018, ACL made a strategic investment in an innovative genomic testing business: Geneseq. During FY23, Geneseq completed validation studies for both early- and late-stage melanoma detection using genetic technology applied to tissue and blood. ACL has a 10-year exclusivity period for the international patent-pending technology, and commercialisation is expected to begin in FY24 as final regulatory approvals are received.

The melanoma tests that Geneseq have developed are globally leading, best practice and we are extremely excited about the impact these tests will have on early detection and resulting patient outcomes, as well as the potential for the Company to commercialise these opportunities on a global scale. Most exciting is the efficacy and accuracy of the results and the low false negatives and positives on test results.

Geneseq will be making a number of announcements over the coming year as its products move to commercialisation and additional forms of cancer tests are developed. To give shareholders a sense of what we are talking about one needs to look no further than at the success of the Galleri product in the US, owned by Grail, an Illumina subsidiary.

ACL has also brought a new, exclusive genetic test for breast cancer to Australia, called EndoPredict; and our work has facilitated the partial funding of the test via the Medicare Benefits Schedule (MBS), which is due to commence in November 2023.

We commenced sales of Aspect Liquid Biopsy, a suite of DNA-based blood tests we developed in-house for lung cancer, colorectal cancer and melanoma, for which ACL is the sole provider in Australia.

We are also preparing for the introduction of carrier screening to the MBS in November 2023. This is a genetic test for screening mutations causing the common genetic conditions of cystic fibrosis, spinal muscular atrophy and fragile X syndrome.

Since the pandemic, we have seen a shift towards more remote ways of working, and by extension, a large uptake in digital technologies. ACL has begun the transition to a fully paper-free workflow by offering our referrers the ability to send their patients' pathology referrals electronically. From FY23, ACL will focus on enhancing the digitisation of the front-end referral and patient-facing processes.

Off-market Takeover Bid for Healius

In March 2023, ACL announced its intention to make an off-market takeover bid for Healius Limited, which, if successful, would create Australia's largest pathology provider – giving the combined entity the capacity to invest in emerging advances in diagnostics (with international potential), as well as market-leading, front-end solutions to enhance doctor, patient and customer experience. The offer is subject to ACCC and FIRB approval, and other conditions. We remain in discussions with the ACCC and, as is always the case with larger mergers in concentrated industries, there are many stakeholders which wish to be heard and many questions to be answered. This takes time and requires patience. We continue to make our way through this process and remain of the view that the proposed merger is in the national interest and is good for the country, patients, staff and shareholders.

In regard to shareholders in particular, the offer made to Healius shareholders represented a nil premium merger, priced at the time of the announcement.¹ We believe the potential value creation of the proposed merger for both sets of shareholders² is too large for either shareholder group to ignore. We are hopeful that following ACCC approval we can work in a collaborative and productive way with the Healius board to ensure this transaction takes place, with the aim of achieving the potential value creation of the proposed merger for both shareholder groups. At the end of the day, for either company to ignore such a merger opportunity, it would need to form a view that it has a stronger future on its own. We cannot see a basis for either company to genuinely come to this conclusion,³ given how compelling the value creation opportunity is.

Board Governance

I am fortunate to be surrounded by an engaged and talented Board whose members uphold the ACL values as rigorously as our staff. Through continuous improvement in our governance, we aim to best utilise the skills and experience of our Directors.

In FY23, ACL Board Governance highlights include:

- Board performance evaluation completed and recommended action items implemented;
- A new charter for Audit and Risk Committee drafted and adopted;
- Updating the Board skills matrix and succession plan; and
- The recruitment of a new Non-Executive Director, Ms Christine Bartlett.

Focus on ESG

In FY23, ACL continued to prioritise environmental stewardship, good governance and social responsibility. Our ESG strategy is in the second year of execution, and we continue to deliver strong performance across all areas of our ESG mission.

We have upheld our commitment to sustainability and environmental stewardship by the continued reduction in our carbon footprint through the roll-out of hybrid cars, increased installation of solar panels in laboratories and a reduction in consumable packaging. ACL's dedication to environmental sustainability aligns with our broader mission of improving health outcomes for generations to come.

1 See ACL's replacement bidder's statement dated 14 April 2023 (Bidder's Statement) (a copy of which is attached to the notice of meeting and explanatory memorandum for ACL's extraordinary general meeting in relation to the proposed merger that ACL sent to ACL shareholders and lodged with the ASX on 20 April 2023 (EGM Notice)) for more information about the basis for ACL's view that the offer represents a nil premium merger (in particular, see the section of the Bidder's Statement entitled 'Overview of the Offer').

2 See the Bidder's Statement and the EGM Notice for detailed information on the potential value creation of the proposed merger (in particular, see sub-section 4 of the 'Why You Should Accept the Offer' section of the Bidder's Statement).

3 Based on publicly available information about Healius.

Key ESG highlights for FY23 include:

- Impressive gains in reducing carbon emissions from 1.4kg to 1.06kg CO₂ per episode. This was achieved through the implementation of energy-saving measures, a focus on cold chain logistics, reducing single-use plastics, increasing our number of hybrid cars and reducing the kilometres travelled per episode by 5% by using our SMART GPS-based logistics platform;
- Reduction of our Lost Time Injury Frequency Rate to 3.78 (including new staff from the acquisition), which is a significant improvement year on year;
- Increasing female Board and management representation to 33% and 63.8% respectively, with this ratio expected to improve with the appointment of Christine Bartlett to the Board from 23 August 2023;
- Increasing digital pathology referrals to 19%, up from 11% in 1H FY22;
- Receiving more than 1 million patient survey responses, with an average rating of 4.7 out of 5; and
- Commencing our Reflect Reconciliation Action Plan (RAP), which aims to strengthen relations between Aboriginal and Torres Strait Islander and non-Indigenous peoples, and contribute in a meaningful way to national reconciliation.

We have continued to invest in our people. We have prioritised professional development programs, employee training initiatives and employee wellbeing measures to foster a culture of growth, collaboration and excellence.

Thank you

On behalf of the ACL Board, I would like to thank Melinda McGrath, the senior leadership team and all of ACL's dedicated employees for their commitment to this mission and the important work that you do on a daily basis. By creating a culture of innovation, continuous improvement and doctor-patient centricity, we uphold our mission to empower decision making that saves and improves patients' lives.

Separately on a personal note as well as on behalf of the Board, I also would like to thank Daren McKennay who stepped in as my alternate Director and Chair while I was on a leave of absence for the last 12 weeks. Daren is a highly experienced Healthcare Executive and Director with one of the most compelling healthcare backgrounds in Australia. Australian Clinical Labs and shareholders were genuinely lucky to have someone of his skills and knowledge available to assist the Company at short notice while I was on leave.

I would also like to extend my gratitude to our shareholders for their support and trust in our organisation. With our collective commitment to excellence, I am proud to be a part of ACL's continued journey of medical leadership to enhance patients' lives.



Yours sincerely,

Michael Alscher
Chair



Letter from the CEO



Dear Fellow Shareholder,

I would like to start by thanking ACL's 5,115 employees, who, as always, have worked tirelessly over the past 12 months to provide outstanding service. We have worked hard to re-orientate the business during this post-COVID transition.

While there was a lot of public focus throughout the pandemic on staff providing frontline COVID services, and these teams did a fantastic job for the Australian community, there remains a large team of ACL staff, led by our pathologists and scientists, who continued to provide care to other patients in need. Our mission is to improve and save patients' lives – and this mission binds us and guides our shared vision and values.

On behalf of the Board and the entire ACL team, I would like to welcome Michael Alscher back into the ACL Chair position after a temporary leave of absence following his surgical procedure – we are thrilled your recovery has been swift and successful. I'd also like to thank Daren McKennay for stepping into Michael's role as acting Chair, and providing us your wealth of experience, guidance and leadership during this time. ACL Board, employees and shareholders are highly appreciative of your support.

FY23 has been a busy and challenging year, with a focus on returning to our core business in a post-COVID environment.

With COVID-19 largely in its endemic phase in 2023, we wound down most of our COVID infrastructure while continuing to provide outstanding care to our patients throughout Australia. It was a difficult undertaking to dismantle this infrastructure in a timely manner due to the steep drop-off in testing rates, and the teams did an excellent job of managing this change.

Pathology referrals are a key indicator of the health of the healthcare system. Australia's healthcare human resources were certainly challenged throughout the pandemic. Post-pandemic, we continue to experience access and resource challenges in all areas of key referral of pathology testing caused in part by years of low immigration rates for medical and nursing workers. We anticipate that these issues will be alleviated throughout FY24.

I am pleased to advise shareholders that despite the challenges, the team has delivered a continued strong performance in FY23.

Key Financial Metrics

In the 12 months to 30 June 2023, ACL has achieved:

- Revenue of \$697.1 million, with non-COVID revenue up 11.4% on FY22;
- EBITDA* of \$193.0 million (representing a 27.7% margin);
- EBIT* of \$70.3 million (representing a 10.1% margin);
- Strong operating cash flow of \$59.2 million with a 90.5% cash conversion. Capex of \$6.9 million was marginally below historical averages;
- Low gearing, with Net Debt at \$45.7 million (0.7x of FY23 AASB - 117 EBITDA), strong balance sheet with capacity for growth;
- Final dividend declared of 7cps, which combined with the interim dividend of 7cps takes the full year dividend to 14cps. Full year dividend represents 67% of NPAT, and a 4.4% dividend yield based on the share price on 18 August of \$3.18; and
- The Board continues with its target dividend payout ratio of 50-70% of NPAT based on full-year NPAT.

Against the backdrop of the steep drop in COVID testing volumes and a slowed return of base volume, the ACL team has delivered a continued strong financial performance, executed in a disciplined operational manner.

The growth trajectory of our base business continued to improve, increasing 11.4% compared to FY22, with the majority of growth coming from both Specialists and General Practitioners. ACL has also renewed key public contracts, including our contract agreement with Barwon Health's University Hospital Geelong.

We continue to work closely with our partners including a range of large-scale medical centre operators and two of the top three private hospital groups in Australia.

Leaders in Science and Technology

As a part of ACL's growth plan, we have continued our commitment to bring new genetic tests to Australia, as Michael mentioned in his Chair's address. As medical science progresses, we will continue to invest in this space, and these tests will form part of a suite of personalised medicine options that our doctors and patients can turn to as they seek to improve their outcomes.

We are the only provider in Australia offering EndoPredict and have been instrumental in working with Medicare to partially fund the cost of this test from November 2023. EndoPredict is an in-vitro multi-gene prognostic test that provides information for different stages of treatment planning for patients with oestrogen receptor positive, HER2-negative, primary breast cancer. It is the only prognostic test that can determine whether a patient can safely avoid chemotherapy, how beneficial chemotherapy would be and whether a patient can avoid extended endocrine therapy.

Aspect Liquid Biopsy, which was developed in-house by ACL, is a non-invasive, safe and ultrasensitive cancer screening and diagnostic option that identifies genomic alterations from a simple blood test using the circulating tumour DNA (ctDNA). We offer this test for lung cancer, colorectal cancer and melanoma. ACL is the first and exclusive Australian private laboratory to offer liquid biopsy, allowing oncologists to choose a targeted therapy, monitor treatment resistance and detect minimal residual disease, without patients undergoing an invasive procedure.

In 2018, ACL made a strategic investment in a company called Geneseq, to develop a multi tissue and blood plasma genomic test for melanoma. The test, named Melaseq, is an exciting development to aid in the diagnosis and appropriate treatment of a key cause of cancer.

Since investing, we have provided both strategic, clinical and financial support to Geneseq. The relationship leverages dermatological samples from ACL and SunDoctors, along with ACL pathologists, and scientists' expertise to support efficacy analysis.

* Excluding normalisations relating to HLS transaction costs

In July 2023, Geneseq published ground-breaking research in the British Journal of Dermatology showing 93% sensitivity and 98% specificity for invasive melanoma detection. Being a highly sensitive test means that Melaseq is able to correctly identify patients with a disease, with few false negative results; therefore fewer cases of disease missed. Melaseq opens up the potential for earlier, less invasive and more accurate screening and diagnosis of individuals at risk of melanoma, and can detect the cancer at all stages.

Commercialisation of the Melaseq test for melanoma applications is planned within FY24, with final approval for the skin biopsy application of Melaseq expected in the next few months, followed quickly by plasma approval.

In Australia alone there are 2 million biopsies of melanoma every year and more than 2 million patients are considered high risk for melanoma. Screening or testing 5% of these biopsies or at-risk patients every year has the potential to generate revenue in the region of \$100 million per year and materially reduce the costs to society associated with melanoma (medical and economic). We estimate the revenue opportunity in the US market to be \$2 billion, with a further \$1 billion in Europe. ACL has convertible notes that provide it with an effective 20% equity ownership of Geneseq, and a 10-year exclusive Australian licence for the distribution of the Melaseq test, with international patents pending across several jurisdictions.

The test approach is applicable to other common cancers and Geneseq is currently working on the development of a non-invasive Ovarian cancer test.

We continue to enhance our suite of customer-friendly eHealth products including eOrders, eDownloads and eResults. ACL has a team of in-house developers who focus on enhancements to the Laboratory Information System, and a separate team that focuses on user and front-facing applications under our eHealth banner. In FY23, SMS eRequests were made available for patients, allowing them to receive electronic copies of their referral via SMS directly from their doctor's practice management system. Our Paperless Pathology project is underway, aimed at increasing the accuracy of pathology referrals and decreasing wastage and paper. We have continued our focus on rolling out eResults to enhance and improve clinical outcomes.

Operational highlights

Our focused business improvement programs allow us to achieve and maintain strong operating margins, supporting ACL's growth and innovation.

Some of the projects in progress across FY23 and FY24 include:

- Removal of COVID collection sites and associated costs – achieved in H1FY23;
- Integration of Medlab's laboratories, generating \$20 million of annual savings – achieved in H1FY23;
- Continuous Approved Collection Centre (ACC) review process to allow focus on profitable growth;
- Digitisation rollout and transition to paperless operations; and
- Maximisation of our laboratory analyser performance allowing shift optimisation and consumable rationalisation.

Through FY24 we will continue to leverage our unified laboratory information system by implementing our Laboratory Best Demonstrated Performance initiative, which allows us to measure and share the top innovations of our laboratories between our States and Territories throughout Australia, ensuring standardisation to best practice performance.

Strategy and Outlook

In FY24, ACL will continue to focus on capturing above-market revenue growth, delivering operating efficiencies and our ESG performance.

We will focus on:

- Growth in revenue through disciplined new ACC openings, new test initiatives and the return of volume in key referral channels that was suppressed due to COVID;
- Continuing to drive excellence in patient care and new test development to benefit patients, with focus on commercialising Geneseq products and implementing MBS-funded carrier screening;
- Implementing a number of identified cost reductions and operational efficiencies to help offset supplier and wage pressure from the higher levels of inflation that are expected to continue into FY24;
- Maintaining our values- and outcomes-focused approach to investing in ESG targets, including our Reflect Reconciliation Action Plan; and
- Continuing to work with the ACCC in relation to ACL's off-market takeover bid for all of the ordinary shares in Healius Limited.

While the underlying core business continues to grow back to trend, negligible COVID revenue is expected in the FY23 result – a gap that needs to be closed to deliver total revenue growth. As a result, ACL believes that it will achieve a similar EBIT result in FY24 of between \$65 million and \$70 million.

The business is expected to end FY24 at a run rate above the FY23 result, demonstrating the underlying trajectory in the ACL core business.

We continue to progress the proposed acquisition of Healius Limited. The ACL Board believes that this potential transaction justifies continued effort, given its highly accretive potential for all shareholders.

Thank you

I would like to thank our Board of Directors, our Executive Team, and our talented ACL staff for upholding our mission and values during another rewarding year.

Thank you for your hard work and commitment to improve the lives of our patients, and for the excellent service we provide as a team to our doctors. It is humbling to witness the passion and enthusiasm with which all ACL team members focus on the job at hand, as they live and breathe every day our mission to improve and save patients' lives.

Thank you to our Shareholders for your continued confidence in our organisation. We look forward to the opportunities that lie ahead in the coming year as, together, we continue to make a significant positive impact on the lives of our patients.



Sincerely,

Melinda McGrath
CEO



Our Mission and Values

Our Mission and Values were created by our staff and reflect what we stand for, and what we want to achieve as a healthcare organisation.

Our Mission

We combine talented people, medical and scientific leadership, with innovative thinking and technologies to empower decision making that saves and improves patients' lives.

Our Values

Our Company Values help us implement our mission and reflect who we are and what we stand for as a Company.



Patient Focus and Medical Excellence



Entrepreneurship and Agility



Efficiency and Effectiveness



Passion and Enthusiasm



Respect and Integrity

Clinical Labs at a glance

ACL is a leading private provider of pathology services in Australia. ACL has laboratories and pathology collection centres in all Australian States and Territories (except Tasmania) and is one of the largest private hospital pathology businesses nationally.

In FY23, our 73 NATA-accredited laboratories serviced a range of clinicians and patients within our communities. ACL is also a leading provider of skin cancer care via the SunDoctors brand – operating 31 clinics across Queensland, New South Wales and Victoria.





\$697.1m

ANNUAL
REVENUE



3,100+

FULL-TIME
employees, including
over 85 pathologists
and 500 scientists



1,300+

APPROVED
Collection Centres



73

ACCREDITED
laboratories including
four central laboratories



Reach

Providing pathology
services across
seven States and
Territories in Australia



1 system

A UNIFIED laboratory
information system



Servicing over 90 hospitals,
including two of the three
largest private hospital groups
in Australia.

Company Overview

In the medium term, ACL's objective is to achieve above market growth for both revenue and EBITDA through:

Strategic Acquisitions

Strategic acquisitions have been an important growth strategy of ACL since our conception, and our board continually assess opportunities both domestically, as well as internationally. We are proud to have a long-standing track record of successful integrations of acquired businesses, guided by the wealth of experience of our leadership team. The Medlab integration, now complete, is generating \$20m of annual savings, primarily through laboratory consolidation, courier network overlap and management optimisation.

\$20m

Per year saving from
Medlab integration

Organic Market Growth

In November 2023, two advanced genetic tests of which ACL have been early adopters, are coming onto the Medicare schedule: genetic carrier screening, for pregnancy planning, and EndoPredict for breast cancer patients. In the case of EndoPredict, ACL is the only pathology provider in Australia currently offering the test, and we have been instrumental in working with Medicare to partially fund the cost of this test.

Similarly, our exclusive Aspect Liquid Biopsy test is the first non-invasive, ultrasensitive cancer screening diagnostic produced from a simple blood test using circulating tumour DNA available from a private laboratory in Australia. The Aspect Liquid Biopsy method is available for lung, colorectal and skin cancer, allowing oncologists to choose a targeted therapy and monitor treatment resistance over time, without patients going through an invasive procedure.

In FY24, ACL is proud to be partnering with Geneseq in bringing their unique Melaseq test to the Australian and global market – a test that has been receiving ground-breaking research publication in the British Journal of Dermatology, showing 93% sensitivity and 98% specificity for invasive melanoma detection from blood samples.

**1st private lab
in Australia
to offer:**

- **Aspect Liquid Biopsy**
- **EndoPredict**
- **Melaseq
(coming soon)**



Footprint Expansion

ACL has continued to drive growth and increase its presence in New South Wales from the Medlab acquisition, as well as build on its existing general practitioner relationships in the Australian Capital Territory and Queensland. Importantly, our continuous Approved Collection Centre (ACC) review process enables focus on profitable growth, not merely market share growth.

ACL has offered additional services nationwide in the form of automatic electronic pathology request forms for doctors, and digital payment gateways for patients, allowing patients to receive electronic copies of their referral directly from their doctor's practice management system, or our eResults platform.

Our digitisation initiative is a key step towards creating a paperless pathology environment, increasing accuracy of pathology referrals and, importantly, increasing our future footprint potential. By leveraging our courier network and collection centre footprint with our single laboratory information system, our Clinical Trials unit will be well positioned to meet the requirements of the growing demand of tele-trials, or remote clinical trials.

37%

Growth of
digital referrals

19%

Of all referrals
are digital



Operational Performance Improvements

ACL's continuous improvement project culture has allowed the business to achieve double digit EBIT margins during a period of the unwind of COVID volumes and while non-COVID revenue remains below trend. The projects completed in FY23 will generate benefits into FY24 and optimise operating margins as the pathology market transitions back to a more regular growth trajectory. Under direction of ACL executives, ACL's Project Management Office actively assesses projects to drive continuous business improvement and offer operational benefits to the organisation.

An example being our state of the art courier management system in Victoria – a trackable in real-time sample collection process that decreases unnecessary courier stops and will be implemented on a nationwide scale. We use advanced Route Planner technology to manage our courier runs, allowing us to reprioritise urgent pick-ups if required, and reduce redundant runs – providing better service for our customers.

Further operational gains have been achieved through the consolidation of our customer service call centre, allowing for efficient management of peak times and coverage sharing, and the optimisation of our Malaysian operations for data entry.

FY23 saw the implementation of our Laboratory Best Demonstrated Performance (BPD) program, designed to facilitate the sharing of laboratory innovations across our interconnected network of laboratories – a program only made possible by our single laboratory information system.

\$70.3m

**EBIT* margins
achieved during FY23**

5%

**Reduction in km
per episode**

Embedded Revenue Opportunities

ACL has established relationships with a number of large general practitioner and hospital groups across Australia. ACL's strategy is to continue to broaden these relationships and develop new relationships with large scale organisations of note. ACL is well known as being a quality hospital provider of choice, nurturing strong relationships with iconic, long-standing hospitals and health institutions, including being the primary provider to two of the three largest private hospital groups. ACL also has contracts with four significant public hospitals in Australia, including Bendigo Health and Barwon Health in Victoria.

We are pleased to report that ACL reached an agreement on a five-year extension with Barwon Health, which is a testament to our teams' commitment in providing the very best care to our doctors and patients. It demonstrates our national scale and reach, and our ability to service the more complex, multi-disciplinary cases that hospital work requires.

90+

Hospitals serviced

* Excluding normalisations relating to HLS transaction costs

Specialist Solutions

Cutting-edge technology built to enhance workflows and improve patient outcomes for specialists, hospitals and their patients.

ACL is a proud partner to 90+ hospitals and 25,000+ specialist practitioners nationwide – a multi-faceted medical cohort who have a unique set of demands that require a unique set of solutions.

Our three core eHealth products, eOrders, eDownloads and eResults; have been designed to take our referrers on a seamless and intuitive journey from ordering pathology tests online, through to receiving real-time, paperless patient results, in a user-friendly and customisable environment.

Our dedicated eHealth development team have built our digital products in conjunction with specialist and hospital groups – ensuring our eHealth services complement their practices as well as provide a number of additional support features.

A Complete Digital Pathology Solution for Referrers On-the-Go

Busy specialists and hospital referrers need their patient results quickly, securely and on-the-go, and ACL's eResults is the all-purpose digital pathology solution designed for this express purpose. Running independently of practice management software, and available as a desktop or mobile app, eResults is perfect for specialist and hospital referrers who may alternate between their routine ward rounds to any number of private practice settings.

eResults features a host of value-add services that help improve clinical outcomes for patients, including: cumulative tables and charts for identification of patient data trends; ability for users to add-on tests to existing specimens already in our laboratory; doctor notifications for urgent or abnormal results; and a host of security features including multi factor authentication and IP Lock settings.

Paperless Pathology

Our specialist referrers can also order new pathology requests for patients without the need for paper request forms, by using our powerful built-in eOrders module. Patients can receive their pathology request via SMS or email, as well as the traditional printed copy – making it perfect for telehealth consultations. The built-in eOrders module allows doctors to save their favourite tests, add commonly ordered suggested tests, and order clinically recommended test profiles for a variety of diseases and symptoms. With our all-in-one paperless pathology solution, our specialist and hospital referrers can enjoy quicker results, increased accuracy, enhanced patient security – and with the reduction in paper usage – a more sustainable work environment.

A Unified Laboratory Information System

As the only Australian pathology provider with a unified national laboratory information system, ACL's specialist services gain multiple performance efficiencies, and are able to offer specialists access to all ACL's patient results reported across Australia with uniform visibility and report formatting. Providing specialists with a unified and cohesive, high-quality user experience across all of our States and Territories is an essential step in supporting effective clinical governance.

18,000+

Active eResults Users

100,000+

Reports viewed in eResults
on a typical weekday

7,500+

Log-ins to eResults
on a typical day

30+

New users signing up
to eResults per day

9,000±

eOrders placed on
a typical weekday



Environmental, Social and Governance



ACL is an industry leader committed to having a positive social impact and contributing meaningfully to the communities in which it operates.

The May 50K

For the past few years, ACL has formed a strong alliance with MS Australia through our passionate annual participation in The May 50K. We are pleased to report that; once again, Team Clinical Labs finished on top of The May 50K national organisation leader boards for the second year in a row.

This year, we had some big individual results in both funds raised and kilometres logged. Including our pledge to match staff funds dollar for dollar, we raised \$38,000 to help support life-changing research into the prevention and treatment of MS, as well as finding a cure. We also managed to log an impressive 8,600 kilometres, which is equivalent to driving from Melbourne to Mount Isa, via Adelaide, Perth, Broome and Darwin. We thank all participants and donors for another phenomenal effort. MS is a progressive neurological disease that affects more than 25,000 Australians.

\$38,000

Raised for MS Australia

1st place

in Australia two years in a row

8,600+

Kilometres logged

A Focus on Patients

In 2018, ACL began a customer survey initiative to measure patient satisfaction after visiting our pathology collection centres. Patients are invited to leave feedback and rate their visit out of 5 stars via SMS. In FY23, we received our 1,000,000th survey response. Our overall patient score expressed as an average of over 1,000,000 survey responses is 4.7 out of 5.

Each patient survey is linked to a specific collection centre, allowing ACL to get real-time data on the patient experience at each site. It allows us to celebrate the good work of our staff caring for patients, as well as respond quickly to any specific concerns or issues, so we can continually improve our service for the betterment of our communities.

1,000,000+

Survey responses received in our patient care program since 2018

1,300+

Collection Centres across our national network

4.7 stars

An average out of 5 stars

Patient Experience
01 Jul 2022 - 30 Jun 2023



4.7

360,460 responses received in FY23

Saying 'No' to Styrofoam

As part of our Continuous Improvement Program, ACL identified an opportunity to significantly reduce environmental waste through a collaborative partnership with one of our key laboratory suppliers of reagent. Reagents are special substances used by our labs to create chemical reactions so patient test results can be obtained. Laboratories like ours go through thousands of litres of reagent per year.

Reagent is historically delivered in large styrofoam boxes to help keep the chemicals at the right temperature. Approximately 7,000 styrofoam eskies from this particular supplier are delivered to our labs each year. ACL, together with our supplier, orchestrated a massive reduction of environmental waste by overhauling our delivery and supply chain processes. The initiative has been rolled out across five of our larger labs – reducing styrofoam and other harmful environmental waste by approximately 13,500 kilograms per year already.

As we roll out the initiative to the rest of our laboratories, we estimate over 30,000 kilograms of environmentally harmful waste will be saved per year. Our business improvement teams are already looking at targeting other items of packaging and talking to our other suppliers to help reduce our carbon footprint and improve our sustainability as a business.

13,500 kg/year

Reduction of Styrofoam waste achieved so far

30,000 kg/year

Total estimated reduction of Styrofoam once roll-out complete

Directors' Report

The Directors of Australian Clinical Labs Limited (referred to as “the Company”) present their Report for the financial year ended 30 June 2023 (referred to as “the year”) accompanied by the Financial Report of Australian Clinical Labs Limited and the entities it controlled (referred to as “Clinical Labs”, “ACL” or “the Group”) from time to time during the year. Pursuant to the requirements of the *Corporations Act 2001* (Cth) (Corporations Act), the Directors' Report as follows:

1. Directors

The following persons were Directors of the Company during the year (or, where indicated, during part of the year) and/or up to the date of this Report:

Current Directors	Position	Date Appointed/Resigned
Michael Alscher	Chair	Temporary leave from 3 July 2023
Melinda McGrath	Chief Executive Officer and Executive Director	
Nathanial Thomson	Non-Executive Director	
Andrew Dutton	Independent Non-Executive Director	
Dr Leanne Rowe AM	Independent Non-Executive Director	
Dr Michael Stanford AM	Independent Non-Executive Director	Resigned 19 October 2022
Mark Haberlin	Independent Non-Executive Director	
Daren McKennay	Acting Chair (Alternate Director)	Appointed 3 July 2023



Michael Alscher

Non-Executive Director

Chair

Member – Audit and Risk Committee (appointed 25 November 2021 – temporary leave from 3 July 2023)

Mr Michael Alscher was appointed Chair of ACL's predecessor corporate vehicle, Clinical Laboratories Pty Ltd in 2015 following its acquisition by Crescent Capital Partners in 2015. Michael was appointed a Director of ACL on 19 December 2020 and Chair of ACL as part of the IPO process on 19 December 2020.

Michael is the Managing Partner and founder of Crescent, a leading Australian private equity investment firm, specialising in high growth companies and certain industry sectors such as healthcare.

Michael is the current Chair of Cardno Limited, National Dental Care Limited, 24-7 Healthcare Pty Ltd and is a Non-Executive Director of Clearview Wealth Limited, Green Leaves Early Learning Centres Pty Ltd and Aurora Expeditions Holdings Pty Ltd. Michael's former director roles include Chair of Cover-More Group Limited, LifeHealthcare Group Limited and Director of Metro Performance Glass Limited, Crumpler Pty Ltd and Intega Group Limited.

Prior to founding Crescent in 2000, Michael was a strategy consultant at Bain International and LEK Partnership as well as holding several senior operating roles.

Michael holds a Bachelor of Commerce (Finance and Mathematics) Degree from the University of New South Wales.



Daren McKennay

Non-Executive Director – appointed alternate director to Mr Alscher on 3 July 2023

Acting Chair

Member – Audit and Risk Committee (from 3 July 2023)

Mr Daren McKennay has over 20 years of healthcare experience. Daren is a partner at Crescent Capital Partners, a leading Australian private equity investment firm, specialising in high growth companies and certain industry sectors such as healthcare where Crescent Capital Partners is the largest private equity investor (by number of investments) in healthcare in Australia.

Daren co-founded and served as CEO of Life Healthcare Group Limited (ASX:LHC) and was the COO of MIA Group Limited. He also has 11+ years of experience as a Hospital CEO at Healthcare of Australia (Mayne). Currently, he holds chairmanship positions in Australian Institute of Business and Healthcare Australia. Daren's former chairmanship roles include chair of PRP radiology, MyHealth Group and Nucleus Network.

Daren is a Chartered Accountant and holds a Bachelor of Business, Information Technology from Edith Cowan University and an MBA in Marketing from the University of Western Australia.

Directors' Report continued for the year ended 30 June 2023



Melinda McGrath

Chief Executive Officer and Executive Director

Ms Melinda McGrath has been the Chief Executive Officer and Executive Director of ACL's predecessor corporate vehicle, Clinical Laboratories Pty Ltd since 2015. Melinda was appointed an Executive Director of ACL on 19 December 2020. Melinda has more than 30 years' experience in healthcare with over 25 years of experience in chief executive roles and over 15 years of experience in pathology CEO roles.

Melinda has led the organisation's restructure and transformation, building ACL's scale and operational performance improvement over the past seven years, overseeing the integration of Healthscope's Australian pathology business, St John of God Health Care's pathology business, Perth Pathology, SunDoctors and MedLab Pathology. She has also driven the establishment of one performance oriented culture across the organisation, via one unified integrated pathology system.

Melinda was Chief Executive Officer of QML Pathology (part of Healius/Primary Healthcare) from 2008 to 2015, where she developed five QML brands and established Tasmania Medical Laboratories. Prior to that, Melinda held various transformative chief executive roles at private regional and tertiary referral hospitals in Queensland including The Sunshine Coast Private Hospital, St Andrew's War Memorial Hospital and St Stephens Private Hospital.

Melinda has held board member positions at Metro North Hospitals and Health Service including Royal Brisbane, Prince Charles, Redcliffe, Caboolture and related health services and a superannuation fund, UC Super.

Melinda holds a Bachelor of Human Movement Studies Degree and a Bachelor of Arts Degree from the University of Queensland, a Master of Business Administration from the University of Central Queensland, and a Certificate in Governance Practice from the Governance Institute of Australia.



Mark Haberlin

Independent Non-Executive Director Chair – Audit and Risk Committee

Mr Mark Haberlin has been a Non-Executive Director of ACL since 28 April 2021.

Mark has over 25 years of audit, risk management, capital transactions and mergers and acquisitions experience across industries including healthcare, real estate and financial services.

Mark is the Lead Independent Director and Chair of the Audit and Risk Committee of Abacus Property Group. Previously, Mark was an independent Non-Executive Director and the Chair of the Audit and Risk Committee of Laybuy Group Holdings Limited, the Chair of PwC Australia and PwC's Public Reporting Panel, as well as a Director of the European Australia Business Council and PwC Asia Pacific.

Mark holds a Bachelor of Science (Civil Engineering) (Honours) from Imperial College London and qualified as a Chartered Accountant in the United Kingdom.



Andrew Dutton GAICD

Independent
Non-Executive Director
Chair – Remuneration and
Nominations Committee
Member – Audit and Risk Committee

Mr Andrew Dutton has been a Non-Executive Director of ACL since 28 April 2021.

Andrew has over 30 years of management, business development and technology experience across Australia, Asia and Europe.

Andrew is the current Chair of Land Registry Services and was recently an Advisor to FinancialForce APJ. He has had extensive Chief Executive Officer and Board experience globally and within Australia.

Andrew's former roles include Chair of NVOI Pty Ltd and SAI Global Pty Ltd, Chief Executive Officer at Land Registry Services and Integrated Research Limited, Managing Director of the Asia Pacific/Japan region for VMware Inc., and senior executive positions at IBM, Computer Associates, BEA Systems Inc., Lendlease and Norwich Union Financial Services Group including roles as CFO, CMO, CRO and Divisional Heads. At IBM, Andrew was elected to the Worldwide Senior Leadership Team.

Andrew holds a Bachelor of Science Degree from the University of Sydney and is a member of the Australian Institute of Company Directors.



Dr Leanne Rowe AM

Independent Non-Executive Director
Member – Remuneration and
Nominations Committee

Dr Leanne Rowe has been a Non-Executive Director of ACL since 28 April 2021.

Leanne is a clinical professor and medical practitioner with over 30 years of clinical experience in the public and private health systems across acute care, aged care, mental health and community health.

Leanne is currently a Non-Executive Director of Bupa ANZ Group and a Presiding Member for Medical Panels Victoria. She has previously served on a wide range of boards, including as a Chair of Nexus Hospitals, the Royal Australian College of General Practitioners and Barwon Health (Acting); and as a Non-Executive Director of Japara Healthcare, Medibank Private, I-Med Radiology, the Medical Indemnity Protection Society and Beyond Blue.

Leanne is a former Deputy Chancellor of Monash University and has been awarded a Doctor of Laws (Honoris Causa) for her services. Leanne has also received a Member of the Order of Australia for her services to medicine.

Her other qualifications include a Doctor of Medicine Degree (MD), Bachelor of Medicine and Bachelor of Surgery Degree (MB BS), Fellowship of the Australian College of General Practitioners (FRACGP), and Fellowship of the Australian Institute of Company Directors (FAICD).



Nathaniel Thomson

Non-Executive Director
Member – Remuneration and
Nominations Committee

Mr Nathaniel Thomson has been a Non-Executive Director of ACL's predecessor corporate vehicle, Clinical Laboratories Pty Ltd, since April 2018. Nathaniel was appointed a Non-Executive Director of ACL on 19 December 2020.

Nathaniel is a Partner at Crescent, a leading Australian private equity investment firm. Nathaniel has over 20 years of experience in strategy consulting, private equity and investment banking. He has significant consulting experience from his prior role at McKinsey & Co.

Nathaniel is the current Chair of Clover Insurance and a Non-Executive Director of Cardno Limited, National Dental Care Limited, Clearview Wealth Limited and 24-7 Healthcare Pty Ltd. Nathaniel's former director roles include Deputy Chair of Cover-More Group Limited and a Non-Executive Director of Metro Performance Glass Limited.

Nathaniel holds a Bachelor of Commerce Degree and Bachelor of Laws Degree from the University of Western Australia.

Directors' Report continued

for the year ended 30 June 2023

2. Directorships of other Listed Companies

The following table shows, for each director, all directorships of companies that were listed on the ASX, other than the Company, from 30 June 2020, and the period for which each directorship has been held:

Director	Listed Entity	Period Directorship Held
Michael Alscher	Cardno Limited ClearView Wealth Limited Intega Group Limited	November 2015 – present November 2018 – present August 2019 – December 2021
Melinda McGrath	–	–
Nathanial Thomson	Cardno Limited ClearView Wealth Limited	May 2016 – present October 2012 – present
Andrew Dutton	–	–
Dr Leanne Rowe AM	Japara Healthcare Limited Doctor Care Anywhere Group PLC	July 2019 – November 2021 September 2020 – November 2021
Mark Haberlin	Laybuy Group Holdings Limited Abacus Property Group	April 2020 – March 2023 November 2018 – present
Daren McKennay	–	–

3. Meetings of Directors and Board Committees

The number of meetings of the Board and each of the Board Committees held during the year ended 30 June 2023, and the number of meetings attended by each Director are shown below.

From time to time, Directors attend meetings of Committees of which they are not currently members however, only attendance by Directors who are members of the relevant Committee are shown below:

Current Directors	Board of Directors		Audit and Risk Committee*		Remuneration and Nomination Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Michael Alscher	19	18	4	3	–	–
Melinda McGrath	19	18	–	–	–	–
Nathanial Thomson	19	16	–	–	4	3
Andrew Dutton	19	17	4	4	4	4
Dr Leanne Rowe AM	19	17	–	–	4	4
Dr Michael Stanford AM	3	1	1	1	–	–
Mark Haberlin	19	17	4	4	–	–

* On 28 June 2022, the Board resolved to reconstitute the Company's Audit Committee and Risk Committee into a combined Audit and Risk Committee, with the first meeting of the new Audit and Risk Committee taking place on 14 November 2022. Prior to November 2022, the Audit Committee met in August 2022 and the Risk Committee did not meet. As such, the table above includes the August 2022 meeting held by the former Audit Committee prior to the Audit and Risk Committee being established in November 2022.

Further meetings occurred during the year on specific issues, including meetings of the Chair with the CEO and meetings of Non-Executive Directors with management.

4. Directors' Relevant Interests in Shares

The following table sets out the relevant interests that each Director and their immediate family has in the Company's ordinary shares as at the date of this report:

Director	Ordinary Shares	Performance Rights
Michael Alscher	280,502	–
Melinda McGrath	2,923,331	485,344
Nathanial Thomson	–	–
Andrew Dutton	81,897	–
Dr Leanne Rowe AM	5,000	–
Mark Haberlin	47,500	–
Daren McKennay	–	–

5. Company Secretary

Eleanor Padman was appointed Company Secretary on 28 April 2021. Eleanor is a corporate lawyer, governance and sustainability expert with more than 25 years' experience gained in the UK and Australia. During the last 10 years Eleanor has held the roles of General Counsel, Company Secretary and Head of Risk and Compliance at various ASX-listed companies. Eleanor established her own boutique advisory business in 2019 and provides corporate governance services to ACL, as well as acting as Company Secretary to the Board and its Committees. Eleanor combines multi-disciplinary technical abilities with a strong commercial approach and a focus on promoting good corporate governance. Eleanor is a Fellow of the Governance Institute of Australia, a Graduate of the Australian Institute of Company Directors and also holds company secretary and non-executive director positions for various private companies.

Eleanor holds a Bachelor of Modern Languages (First Class Honours) from the University of Oxford, a Graduate Diploma in Law and Postgraduate Diploma in Legal Practice from the University of Law, London (formerly the College of Law) and a Graduate Diploma in Applied Corporate Governance from the Governance Institute of Australia. Eleanor is currently studying a Masters in Sustainability at the University of Sydney.

6. Principal Activities

During the year the principal continuing activity of the Group was the provision of pathology diagnostic services.

7. Operating and Financial Review

Key financial highlights in the financial year ended 30 June 2023 compared to financial year ended 30 June 2022 include:

- Total revenue decreased by 30% to \$697.1m.
- COVID-19 revenue decreased by \$361.9m to \$58.2m.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding Healius transaction costs decreased by 48% to \$193.0m.
- Earnings before interest and tax (EBIT) excluding Healius transaction costs decreased by 74% to \$70.3m.
- Net profit after tax (NPAT) excluding Healius transaction costs decreased by 77% to \$41.7m.
- Cash flow prior to financing and investing activities of \$30.6m.
- Cash EBITDA to operating cash flow conversion of 90%.
- Net debt excluding lease liabilities increased by \$72.1m, net debt position \$45.7m.
- Basic earnings per share of 17.90 cents.

Directors' Report continued

for the year ended 30 June 2023

ACL pathology revenue, excluding COVID-19, increased for the year by 11% against FY22. The revenue growth reflected the improving market conditions following the COVID-19 pandemic, although they remain well below trend, coupled with the Medlab acquisition which was completed on 20 December 2021. Excluding COVID-19, acquisitions and non-Medicare testing ACL's growth in its core pathology revenue was 9% versus market growth of 8%¹.

ACL continues to benefit from the previous investments it has made in its systems and processes.

Comparing the core pathology business² for 2HFY23 and 1HFY20 (being the most recent comparable non-COVID-19 period):

Average Fee per episode	Up 1,230bps
Episodes per work hour	Up 1,156bps
Labour as a percentage of revenue	Down 692bps
Consumables, Rent and Other Costs as a percentage of revenue	Down 18bps
EBITDA Margin (AASB 117)	Up 710bps

ACL achieved a conversion of EBITDA to operating cash flow of 90%. Free cash flow after Capex to operating cash flow of 80% reflecting ACL's continued ability to generate cash for shareholders. During the year ACL paid \$96.9m in dividends, increased its debt by \$65.7m and ended the year in a \$45.7m net debt position.

Capital expenditure of \$6.9m included development capital of \$1.0m primarily in relation to the expansion of the New South Wales Bella Vista laboratory to include the Medlab New South Wales operations and an Oracle upgrade.

Impact of COVID-19

COVID-19 revenue for FY23 was \$58.2m, down from \$420.1m in FY22. The majority of COVID-19 revenue was reported in 1HFY23 with \$45.2m (78%) of the full year total achieved during the period. COVID-19 revenue for 2HFY23 was \$13.0m and represented less than 4% of total pathology revenue.

FY23 Operations

ACL is one of the largest providers of pathology services in Australia by revenue, with operations in Victoria, New South Wales, Western Australia, South Australia, Queensland and the Northern Territory with a heritage of hospital based pathology and the skills to deliver time-critical and complex hospital pathology, as well as the scale to efficiently provide community pathology.

ACL's network comprises:

- More than 5,115 scientists, collectors and support staff
- 73 accredited laboratories
- 1,328 collection centres
- 31 specialist skin cancer clinics

ACL continued to deliver on its logistics and courier automation platform with both financial benefits (reduced km per sample and reduced third party logistics) as well as the environmental benefits of a reduced carbon footprint.

ACL capitalised on its unified lab information system by implementing best practice performance via its dedicated performance improvement team. Overall, as a result of these enhancements, ACL delivered a reduced cost per episode, an increase in overall equipment effectiveness and an improvement in customer service metrics.

8. Significant Changes in State of Affairs

On 20 March 2023, ACL announced its intention to make an off-market takeover offer to acquire all of the fully paid ordinary shares on issue in Healius Limited (ASX:HLS). ACL continues to work with the ACCC and remains confident that the merger does not lead to any substantial lessening of competition.

There was no other significant change in the state of affairs of the Group during the year.

1 ACL FY23 excludes Medlab, SunDoctors, COVID and non-MBS revenue. Market data based on Medicare statistics adjusted for COVID testing outlays and estimated associated PEI and BBI outlays. ACL and Market data is working day adjusted.

2 Like for like human pathology business. Excludes Queensland and SunDoctors.

9. Business Strategies and Future Developments

The Board and the Executive Management Team continue to focus on delivery against the well-defined growth strategy that is comprised of five core strategic initiatives:

- (1) Organic Market Growth
 - (a) The Australian pathology market has historically grown by between 4-6% per annum due to predictable drivers including a growing and ageing population and increasing testing rates.
 - (b) Since 2020 the non-COVID pathology market has grown by a lower rate, but it is expected to grow back to this trend growth.
- (2) Embedded Revenue Opportunities
 - (a) Broaden general practitioner relationships, broadening existing contracts and commercial COVID-19 testing.
- (3) Operational Performance Improvements
 - (a) Continuous improvement program, further benefits from the unified pathology system.
- (4) Footprint Expansion
 - (a) Opportunities exist to grow revenues in New South Wales growth corridors and in Queensland.
 - (b) Introduction of additional services.
- (5) Strategic Acquisitions and alliances
 - (a) On 20 March 2023, ACL announced its intention to make an off-market takeover offer to acquire all of the fully paid ordinary shares on issue in Healius Limited (ASX:HLS). ACL continues to work with the ACCC and remains confident that the merger does not lead to any substantial lessening of competition.

10. Key Risks and Uncertainties

ACL is subject to risks both specific to ACL and ACL's business activities, as well as general risks.

Government policy and regulation may change

ACL seeks to provide affordable pathology services to its patients. This is facilitated through bulk-billing the vast majority of its services to patients and receiving reimbursements through the Australian Government's Medicare Benefits Schedule (MBS). The MBS is subject to continual review and change, with the included services and prices being determined by the Federal Government.

Any changes to the MBS or any other Government funding initiatives, including a reduction in fees or tests that will be covered by the MBS, could lead to a reduction in revenue for ACL and may adversely affect ACL's ability to provide testing and demand for ACL's services. This could include a reduction in COVID-19 fees or the fee paid for any particular test.

The nature, timing and impact of future changes to laws, government policies and regulations are not predictable and are beyond ACL's control. Failure by ACL to comply with applicable laws, regulations and other professional standards and accreditation may lead to enforcement actions that disrupt ACL's operations and result in it being subject to fines, penalties, damages and disruption to its operations.

ACL monitors legislative and regulatory developments and engages proactively with key stakeholders to manage this risk.

COVID-19 or another pandemic may impact ACL's business

Pandemic risks, such as COVID-19, pose business continuity risk to ACL. There is the risk from lockdowns across communities in response to a pandemic that the volume of routine (non-COVID-19) pathology testing may be adversely impacted.

There is a risk that staff and laboratories are adversely impacted by a pandemic, such as COVID-19, which limits ACL's ability to provide testing facilities. ACL staff are front line personnel providing collection services to customers potentially infected by COVID-19. Notwithstanding policies and procedures in place to mitigate such risks, there is a risk that staff in key operational roles are infected, impacting ACL's operations.

The COVID-19 pandemic has also affected the rate of growth of non-COVID-19 pathology testing revenue and decreased the rate of growth from the level prior to the pandemic. It is expected to grow back to trend but it is unclear when or whether there will be a catch up of lost growth that has occurred over the past three years.

Directors' Report continued

for the year ended 30 June 2023

IT system may fail and may be subject to cyber security risks

ACL is heavily dependent on technology for the delivery of the services it provides its customers. Any information technology system is potentially vulnerable to interruption and/or damage from a number of sources, including but not limited to computer viruses, cyber security attacks and other security breaches, power, systems, internet and data network failures, and natural disasters.

ACL is committed to preventing and reducing cybersecurity risks. ACL has an information security policy and standards framework established in accordance with the international standard Information Security Management (ISO 27001). ACL implements and operates IT security in-house with the assistance of partners and common IT security technologies to protect, detect and respond to security concerns. ACL conducts routine testing of systems and works closely with third-party security specialists to implement its security roadmap.

ACL may be unable to recruit and retain key personnel

The successful operation of ACL's business relies on its ability to recruit and retain experienced and high-performing management, pathologists, scientists, and IT and operating staff. Relationships with certain referrers may be heavily reliant on particular ACL personnel (especially pathologists and scientists), such that their departure from the business could have an adverse impact on ACL's relationship with the referrer. There is significant competition to recruit these personnel, which can lead to increased labour costs.

ACL's focus on diagnostic excellence through its centres of excellence and commitment to continuing professional education for staff and referrers, including training the next generation of pathologists and scientists, help to attract and retain a professional workforce. ACL's unified pathology system also provides flexibility to its national workplace.

ACL's exposure to international developments may impact its operations

ACL sources testing supplies such as reagents and equipment from international markets. Prices of these supplies and equipment are subject to change driven by, among other factors, foreign exchange rates, market demand and supply, and scientific and technological advancements. ACL is unable to pass on cost increases as a substantial portion of ACL's revenue is derived from the MBS with almost all community pathology being bulk-billed under the MBS and some private hospital contracts linked to services in the MBS. Any adverse movements in testing supplies and equipment may increase ACL's costs of business and may have a material adverse impact on ACL's performance.

ACL manages supply price risk by entering into long-term fixed price arrangements with major suppliers for consumable products and by sourcing consumables locally in Australia. ACL remains vigilant in actively monitoring international developments, and managing supply costs and disruptions. For example, ACL has successfully managed the surge in demand for COVID-19 testing with no material operational disruptions.

ACL's takeover offer associated with HLS may or may not proceed

On 20 March 2023, ACL announced its intention to make an off-market takeover offer to acquire all of the fully paid ordinary shares on issue in Healius Limited (ASX: HLS). This offer is subject to a number of conditions that may not be met and this takeover offer may or may not proceed.

11. 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 affected 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.

12. Dividends

In respect of the full year ended 30 June 2023, a final dividend of 7.00 cents per share (100% franked) has been declared with a record date of 15 September 2023 and payable 3 October 2023, bringing total dividends for FY23 to 14.00 cents per share (100% franked). This represented a dividend payout ratio of 78% of FY23 NPAT (68% excluding Healius transaction costs), which is consistent with ACL's policy of paying out 50% to 70% of NPAT as a dividend.

The dividend reinvestment plan will remain suspended for the FY2023 final dividend.

13. Rights and Options Granted over Unissued Shares

Performance Rights

The Australian Clinical Labs Long-Term Variable Remuneration (LTVR) plan was created in March 2021 for selected senior executives including Key Management Personnel (KMP). The purpose of the plan is to provide at-risk remuneration and incentives that reward executives for performance against long-term value creation objectives set by the Board at the beginning of the financial year and to align the interests of executives with the interests of shareholders through "skin in the game".

On 13 July 2021, the Company granted 104,025 Performance Rights under the LTVR plan. The Performance Rights granted during the financial year have an Indexed Total Shareholder Return (iTSR) vesting condition (100% weighting). The vesting of such Performance Rights will be determined by comparing the Company's TSR over the Measurement Period with the TSR of the S&P/ASX 300 industrials Ex-Financials and Resources Index.

Each Performance Right entitles the holder to acquire one ordinary fully paid share in the Company.

On 13 March 2023, 896,374 Performance Rights were issued under the LTVR plan and are subject to the same vesting conditions.

The table in section 14 sets out the details of Performance Rights that have been granted under the LTVR plan which remain on issue as at the date of the Directors' Report.

Further information about Performance Rights issued under the LTVR plan is included in the Remuneration Report.

Service Rights

The LTVR plan also includes Services Rights that have been issued to key operational staff. The vesting conditions associated with Service Rights are time based to encourage staff to remain with the Company.

Like the Performance Rights, each Service Right entitles the holder to acquire one ordinary fully paid share in the Company.

On 20 November 2021, the Company granted 811,641 Service Rights under the LTVR plan.

On 13 March 2023, a further 379,912 Service Rights were granted under the LTVR plan.

The table in section 14 sets out the details of Service Rights that have been granted under the LTVR plan which remain on issue as at the date of the Directors' Report.

Directors' Report continued

for the year ended 30 June 2023

14. Shares issued on the Exercise of Rights

During the financial year ended 30 June 2023 there were no shares issued on exercise of Performance Rights or Service Rights.

The following table shows those Performance Rights and Service Rights that have been granted up to the date of this report.

Type	Date performance right granted	Expiry date	Issue price	Number of Performance Rights on issue
Performance Rights	25 May 2021	24 May 2026	Nil	804,532
Performance Rights	13 July 2021	12 July 2026	Nil	39,780
Service Rights	20 November 2021	19 November 2026	Nil	678,615
Performance Rights	13 March 2023	12 March 2028	Nil	896,374
Service Rights	13 March 2023	12 March 2028	Nil	379,912
Closing balance of Rights				2,799,213

15. Remuneration Report

The Remuneration Report which forms part of this Directors' Report is presented separately from page 36.

16. Indemnification and Insurance of Directors and Officers

The Company's Constitution provides that the Company may indemnify current and former Directors, alternate Directors, Executive Officers, Officers and auditors of the Company on a full indemnity basis and to the extent permitted by the law against all liabilities and losses incurred as an officer of the Group, except to the extent covered by insurance. Further, the Company's Constitution permits the Company to maintain and pay insurance premiums for directors and officers liability insurance, to the extent permitted by law.

Consistent with (and in addition to) the provisions in the Company's Constitution outlined above, the Company has also entered into deeds of access, indemnity and insurance with all Directors and certain Officers of the Company which provide indemnities against losses incurred in their role, subject to certain exclusions, including to the extent that such indemnity is prohibited by the *Corporations Act 2001* (Cth) or any other applicable law.

During the financial period, the Company paid insurance premiums for a directors' and officers' liability insurance contract that provides cover for the current and former Directors, alternate Directors, Secretaries, Executive Officers and Officers of the Company and its subsidiaries. The Directors have not included details of the nature of the liabilities covered in this contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

The Group's auditor is Pitcher Partners (Melbourne) (PP). No payment has been made to indemnify PP during or up to the date of this report. No premium has been paid by the Group in respect of any insurance for PP. No Officers of the Group were Partners or Directors of PP whilst PP conducted audits of the Group.

17. Proceedings on behalf of the Company

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of the Group by a member or other person entitled to do so under section 237 of the *Corporations Act*.

18. Environmental Regulation

The operations of the Group are not subject to any site-specific environmental licences or permits which would constitute particular or significant environmental regulation under the laws of the Australian Government or an Australian Territory.

ACL, through its internal policy and processes, is committed to managing operations in an environmentally sustainable manner to maximise resource efficiency in relation to the consumption of energy and natural resources and minimise waste.

ACL published its first Environmental, Social and Governance statement during FY22 and will release the FY23 statement in conjunction with the Annual Report.

19. Non-audit Services

There is no person who has acted as an officer of the Group during the year who has previously been a partner at Pitcher Partners when that firm conducted Clinical Labs' audit.

During the year Pitcher Partners did not provide any non-audit services.

Directors' Report continued

for the year ended 30 June 2023

20. Auditor's Independence Declaration



AUSTRALIAN CLINICAL LABS LIMITED
ABN: 94 645 711 128

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF AUSTRALIAN CLINICAL LABS LIMITED

In relation to the independent audit for the year ended 30 June 2023, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Australian Clinical Labs Limited and the entities it controlled during the year.

A handwritten signature in black ink, appearing to be 'S D Whitchurch'.

S D WHITCHURCH
Partner

Date: 21 August 2023

A handwritten signature in black ink, appearing to be 'P. O. M.'.

PITCHER PARTNERS
Melbourne

Pitcher Partners. An independent Victorian Partnership ABN 27 975 255 196. Level 13, 664 Collins Street, Docklands, VIC 3008
Pitcher Partners is an association of independent firms. Liability limited by a scheme approved under Professional Standards Legislation.
Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities

Adelaide Brisbane Melbourne Newcastle Sydney Perth

21. Rounding Amounts

The Company is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in this report and the financial report are rounded off to the nearest thousand dollars or, in certain cases, to the nearest dollar.

Some numerical figures included in this report have been subject to rounding adjustments. Any differences between totals and sums of components in tables or figures contained in this report are due to rounding.

22. Annual General Meeting

ACL will be holding its AGM on 23 October 2023.

Signing of Directors' Report

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the *Corporations Act 2001*.
On behalf of the Directors.



Daren McKennay
Chair

21 August 2023

Directors' Report continued

for the year ended 30 June 2023

Remuneration Report

Overview

The Remuneration Report for the year ended 30 June 2023 (2023 Financial Year or FY23) forms part of the Directors' Report. It has been prepared in accordance with the *Corporations Act 2001* (Cth) (the Act), Corporations Regulation 2M.3.03, in compliance with AASB 124 Related Party Disclosures, and audited as required by section 208(3C) of the Act. It also includes additional information and disclosures that are intended to support a deeper understanding of remuneration governance and practices, for shareholders, where statutory requirements are not sufficient.

Report structure

The report is divided into the following sections:

Section		Description
1	Letter from the Chair of the Remuneration and Nominations Committee	A brief introduction from the Chair of the Remuneration and Nominations Committee outlining the Board's view of performance and reward in FY23.
2	People covered by this report	This section provides details of the Directors and Executives who are subject to the disclosure requirements of this report, together with the Key Management Personnel (KMP), including roles and changes in roles.
3	Remuneration overview	This section provides an overview of performance and reward for FY23, including "at-a-glance" summaries, as well as key governance matters.
4	The Australian Clinical Labs Remuneration Strategy, Policy and Framework	This section provides details of the elements of the remuneration framework, including market positioning, changes to fixed pay, variable remuneration principles, and the terms of variable remuneration.
5	The link between performance and reward in FY23	This section addresses FY23 short-and long-term variable remuneration outcomes based on performance measurement periods completed during FY23, as well as the "achieved" remuneration outcomes for executives.
6	Statutory tables and supporting disclosures	This section provides the statutory disclosures not addressed by preceding sections of the report, including statutory remuneration tables, changes in equity, KMP service agreements, related party loans/ transactions, and the engagement of external remuneration consultants.

Letter from the Chair of the Remuneration and Nominations Committee

Dear Shareholders,

On behalf of the Board, I am pleased to present the Remuneration Report for the year ended 30 June 2023 (FY23).

The last few years have been challenging for our entire workforce. The extreme demands of COVID-19, floods that damaged one of our laboratories, the constant vigilance needed in Information Technology and the difficult labour market have stretched and challenged all our management and staff, but especially our executive.

Your Board has implemented a remuneration framework to provide a clear line of sight between Company performance and remuneration outcomes, in addition to creating a strong alignment between the interests of Directors, employees and shareholders.

As we enter 2024, we are looking to expand the challenges for our executive to achieve Long-Term Variable Remuneration (LTVR) goals with potential ESG targets to be included.

At ACL, our supply chains are deep and wide so even further testing to ensure compliance with Modern Slavery guidelines will occur. The Board has also asked that our progression to de-carbonise be accelerated. This too will look to be included as part of our LTVR measures.

Our executives and Board have all their ACL shares in a trading halt since March 2023, as we continue to pursue the opportunity to acquire a large competitor. You will notice no trading from our employees or Board members during this period.

Our "Employee Share Trust/Emerging Leaders" equity fund announced during 1H21 will have its first maturity in December 2023. Thirty-five key employees have been offered service rights in this initial tranche to deepen the incentive and demand structure in the business. The Board will examine the opportunity to update and continue this program as the acquisition opportunity clarifies.

To ensure our executives are remunerated at or above median market levels we engaged GRG Consulting to evaluate market conditions, salary and Short-Term Variable Remuneration (STVR)/LTVR structures. Having external baselines of remuneration is valuable to ensure our talented executive teams are rewarded correctly and ACL remains a desired place to work for new talented employees.

This past year has seen strong progress on Succession Planning, Business Structure and Executive Skills Development. Uplifting skill and learning is never easy, especially when external factors have impinged so heavily on our business. Our management have openly welcomed the challenge, often spending hours of personal time to achieve the tasks.

As I highlighted last year, some of the structures outlined in this report will not be evident for some time as the measurement periods for the first grant of LTVR will not conclude until the end of FY24.

The individual efforts of our teams during the last year cannot be underestimated. Last year I highlighted the 'ramping up' of our business efforts to support the COVID-19 testing in our community. This past year saw us work equally as hard in shedding those temporary structures and business practices in a fashion that had no impact on the community but kept our costs and employee pool in balance.

Our management team has extraordinary experience in many facets of pathology and health systems. The Board's goal is to ensure remuneration meets or exceeds our competitors and correctly recognises the efforts of our people in our collective drive to grow and expand your business.

Your Company is managed strongly and effectively with enthusiasm and skill.

I welcome feedback on this report as an input into future considerations. You will notice that the remuneration emphasis is on Short-Term Variable Remuneration (STVR) and Long-Term Variable Remuneration (LTVR), not just base remuneration; which allows increased focus and alignment to the goals of shareholders.

On behalf of the Committee and the Board, I would like to thank shareholders for their ongoing support of the Company.



Mr Andrew Dutton
Chair, Remuneration and Nominations Committee

Directors' Report continued

for the year ended 30 June 2023

a. People covered in this Report

This Report covers KMP which are defined as those who have the authority and responsibility for planning, directing and controlling the activities of ACL.

				Committee membership	
Name	Role at year end	Appointed	Resigned	Audit and Risk	Remuneration and Nominations
Non-Executive KMP					
Michael Alscher*	Board Chair	19/12/2020	3/7/2023 **	M	
Nathaniel Thomson*	Non-Executive Director	19/12/2020			M
Andrew Dutton	Independent Non-Executive Director	28/4/2021		M	C
Dr Leanne Rowe AM	Independent Non-Executive Director	28/4/2021			M
Dr Michael Stanford AM	Independent Non-Executive Director	28/4/2021	19/10/2022	M	
Mark Haberlin	Independent Non-Executive Director	28/4/2021		C	
Daren McKennay	Non-Executive Director	3/7/2023		M	
Executive KMP					
Melinda McGrath*	Chief Executive Officer and Executive Director	9/11/2015			
James Davison	Chief Financial Officer	1/2/2011			

* Were previously Directors of Clinical Laboratories Pty Ltd prior to the incorporation of Australian Clinical Labs Limited.

** Temporary leave taken from 3 July 2023.

M = Member, C = Chair.

Note: Appointment dates of Non-Executive KMPs above is the appointment date in Australian Clinical Labs Limited. Michael Alscher and Nathanial Thompson were appointed as Directors of Clinical Laboratories Pty Ltd, the preceding parent entity of the Group, on 11 August 2015 and 30 April 2018 respectively.

b. Remuneration overview

FY23 Executive remuneration structure at-a-glance

The following diagram outlines the executive KMP remuneration cycle under the remuneration framework.

Component	FY23	FY24	FY25	FY26	FY27
Fixed	Fixed Pay Cash & Benefits				
Short-Term	STVR Performance Period	Audit and Metric Assessment			
		Cash Award			
Long-Term	LTVR Performance Period – Performance Rights and SARs with a TSR Vesting Condition			Audit, Metric Assessment, Vesting, Exercise up to 5th Year.	

The table above represents the components of the FY23 remuneration being fixed component payable during the year, short-term payable in FY24 as a result of audit and matrix assessment based on the FY23 year, and long-term exercisable in FY27 based on TSR from FY23 to FY25.

FY23 Company performance at-a-glance

The following outlines the Company's performance, which is intended to assist in demonstrating the link between performance, value creation for shareholders, and executive reward:

FY End Date	Net Profit After Tax	Share Price (end of year) \$	Revenue Growth Year on Year %	EBITDA Growth Year on Year %	NPAT Growth Year on Year %
30/06/2023	\$35.9m	\$3.44	-30.0%	-50.4%	-79.9%
30/06/2022	\$178.2m	\$4.59	47.6%	61.6%	100.9%
30/06/2021*	\$88.7m*	\$3.40	29.0%*	98.4%*	659.1%*

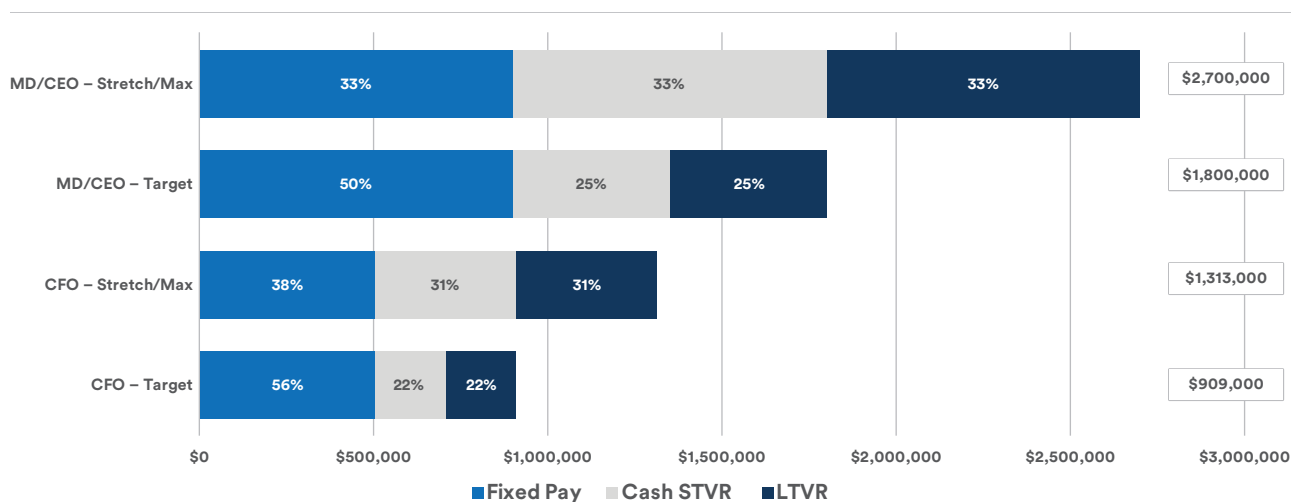
* FY21 numbers above are on a pro forma basis as reported in the FY21 Financial Report.

In addition to these metrics linked to value creation and the variable remuneration structures, the following were notable performance achievements for the year:

- Managing the dramatic variations in community demand for testing during COVID-19;
- Initiating the takeover opportunity with a key competitor; and
- Skilled cost management in an inflationary environment and COVID-19 ramp down.

FY24 Executive remuneration opportunities

During FY23 there have been no changes to existing STVR plan or LTVR plan. The following charts outline the remuneration opportunities for FY24 under the current remuneration structures, with the outcomes dependent on performance over FY24 for STVR and over FY24 to FY26 for LTVR.



Key KMP remuneration governance developments in FY23

There were no key remuneration governance developments that occurred in FY23.

Directors' Report continued

for the year ended 30 June 2023

c. The Australian Clinical Labs remuneration strategy, policy and framework

Executive remuneration – Fixed Pay (FP), Total Remuneration Package (TRP) and the variable remuneration framework

Fixed Pay (FP) comprises base salary plus any other fixed elements such as superannuation, allowances, benefits and fringe benefits tax for example. Fixed Pay is intended to be positioned at P50 of market benchmarks for comparably designed roles.

Total Remuneration Package (TRP) is intended to be composed of an appropriate mix of remuneration elements including FP, Short-Term Variable Remuneration (STVR) and Long-Term Variable Remuneration (LTVR). The Target TRP (TTRP), being the TRP value at target/expected performance, is generally intended to fall around the P62.5 of market benchmarks, subject to smoothing for volatility across role samples at the same level. The Board views P62.5 market positioning as an indicator of P50 TTRP opportunities due to the impact of AASB 2/IFRS 2 and nil (sometimes negative) values that often appear in market data based on statutory disclosure, dragging down the market data compared to actual remuneration opportunities. That is, share-based payment expenses for accounting purposes may be nil (sometimes negative) in market data; therefore the Board views P62.5 market positioning as an indicator of P50.

Variable remuneration is not a “bonus”, but a blend of at-risk remuneration (below target) and incentives (above target and up to stretch/maximum). Metrics selected are intended to be linked to the primary drivers of value creation for stakeholders, and successful implementation of the long-term strategy over both the short and long term. Thresholds are intended to be a near-miss of expectations, while target is intended to be a challenging but realistically achievable objective with a probability of around 50% to 60%. Stretch on the other hand is designed to be exceptionally challenging with a probability of around 10% to 20%.

The Board's approach to the variable remuneration framework and how it fits within the remuneration policy is demonstrated in the below graphic:

Variable Remuneration Component	Policy Market Position – TRP	Performance
Target to Stretch – Incentive/Upside	P100+ P62.5 to P100	Exceeds Expectations
Target – Expected Reward	P62.5	Meets Expectations
Threshold to Target – At Risk/Down Side	P50 to P62.5 P50	Below Expectations
Fixed Pay Only	P10 to (P50 of Fixed Pay Benchmarks)	Below Threshold

Executive KMP remuneration will be tested annually by reference to appropriate independently sourced comparable benchmark data, and specific advice as may be appropriate from time to time. Benchmark groups are generally designed to be based on 20 companies from the same market sector, within a range of 50% to 200% of the market value of the Company at the time, and evenly balanced to ensure measures of central tendency are highly relevant. Benchmarks may be adjusted upwards or downwards for variations in role design compared to market benchmark roles, and individual remuneration may vary by +/- 20% compared to the policy midpoint, to reflect individual/incumbent factors such as experience, qualifications and performance.

Short-Term Variable Remuneration (STVR) plan

A description of the STVR structure is set out below. No changes will be made to this plan for FY24.

Purpose	To provide at-risk remuneration and incentives that reward executives for performance against annual objectives set by the Board at the beginning of the financial year. Objectives selected are designed to support long-term value creation for shareholders, and link to the long-term strategy on an annual basis.
Measurement Period	The financial year of the Company.
Opportunity	The target value is 50% of Fixed Pay for the CEO, with a maximum/stretch of 100% of Fixed Pay. The target value is 40% of Fixed Pay for the CFO, with a maximum/stretch of 80% of Fixed Pay.
Outcome Metrics and Weightings	The STVR is dependent on meeting Group performance objectives. The metrics are based off EBITDA performance. This metric was selected because it is viewed by the Board as the primary driver of value creation for the business.
Settlement	Awards are determined following auditing of accounts after the end of the financial year.
Service Condition	STVR is subject to the participant remaining employed on the last day of the financial year unless otherwise determined by the Board.
Malus and Clawback	The STVR is currently subject to malus and clawback clauses.
Board Discretions	The Board has discretion to modify the awards payable to participants regardless of any performance outcome or gate, to ensure that outcomes are appropriate to the circumstances that prevailed over the Measurement Period.
Corporate Actions	The Board has discretion to determine the treatment of unpaid STVR in the case of major corporate actions such as a change in control, delisting, major return of capital or demerger.

Long-Term Variable Remuneration (LTVR) plan

A description of the LTVR structure is set out below. This plan is currently being revised and will add ESG requirements.

Purpose	To provide at-risk remuneration and incentives that rewards executives for performance against long-term value creation objectives set by the Board at the beginning of the financial year and to align the interests of executives with the interests of shareholders through “skin in the game”.
Measurement Period	Three financial years including the financial year of grant.
Opportunity	The target value is 50% of Fixed Pay for the CEO, with a maximum/stretch of double the target, or 100% of Fixed Pay. The target value is 40% of Fixed Pay for the CFO, with a maximum/stretch of 80% of Fixed Pay.
Instrument	The Awards that may be offered under the LTVR Plan consist of Performance Rights for the CEO and CFO.
Price and Exercise Price	The Price is nil, because it forms part of the remuneration of the participant. The Exercise Price is nil.

Directors' Report continued

for the year ended 30 June 2023

Allocation Method

The Rights are valued using the following method:

Right Value = Share Price – (Annual Dividend x Years to First Exercise)

The Number of Rights to be granted = FP\$ x Target LTVR % ÷ Target Vesting % ÷ Right Value

Share Price = Volume Weighted Average Price during last 21 days or listing price if less than 21 days.

Note: dividing target \$ by the vesting % at target grosses the grant up to the stretch \$ level.

Performance Metrics and Weightings

Granted Performance Rights have an Indexed Total Shareholder Return (iTSR) vesting condition (100% weighting). The vesting of such Performance Rights will be determined by comparing the Company's TSR over the Measurement Period with the TSR of the S&P/ASX 300 Industrials Ex-Financials and Resources Index.

50% of the Performance Rights will vest based on the following vesting schedule:

Performance Level	Company's TSR compared to S&P/ASX 300 Ex-Financials and Resources Index over performance period	% of Tranche Vesting
Target	Index TSR + 5% CAGR	100%
Threshold	Index TSR	50%

Outcomes that fall between the threshold and target level of performance will result in a pro-rata calculation being applied.

50% of the Performance Rights will vest based on the following vesting schedule:

Performance Level	Company's TSR compared to S&P/ASX 300 Ex-Financials and Resources Index over performance period	% of Tranche Vesting
Stretch	index movement + 10% CAGR	100%
Below stretch	< Index TSR +10% CAGR	0%

There will be no pro-rata calculation applied for outcomes that fall below the stretch level of performance.

TSR is the sum of share price appreciation and dividends (assumed to be reinvested in shares) during the measurement period. It is annualised for the purposes of the above vesting scale. The TSR of the Company over the measurement period will be calculated and converted to a compound annual growth rate (CAGR) value for the purposes of assessment against this scale. During periods of nil dividends being declared, TSR is equal to change in share price.

This metric was selected because it is the best measure of value creation for shareholders that adjusts for windfall gains and losses arising from broad market movements.

Equity grants are tested against the performance measures set. If the performance hurdles are not met at the vesting date, Performance Rights lapse.

Gate

iTSR Performance Rights are subject to a gate of TSR for ACL being positive for the Measurement Period to ensure the grant does not vest when shareholders are losing value.

Settlement

The Rights are "Indeterminate" which may be settled in the form of a Company Share (including a Restricted Share), or cash equivalent, upon valid exercise.

Term

Rights must be exercised within five years of the Grant Date, otherwise they lapse.

Service Condition

In addition to the performance conditions, continued service during the full Measurement Period is a requirement in order for any Rights to become eligible to vest.

Malus and Clawback	The LTVR plan includes malus and clawback clauses which will result in forfeiture of unvested Rights in a range of circumstances, including material misstatements resulting in overpayment, the participant joining a competitor or being involved in actions that are deemed to have harmed other stakeholders.
Board Discretions	The Board has discretion to modify vesting to participants regardless of any performance outcome or gate, to ensure that outcomes are appropriate to the circumstances that prevailed over the Measurement Period.
Corporate Actions	In the case of a Change in Control, unvested Rights will vest in the proportion that the elapsed portion of the Measurement Period bears to the full Measurement Period. The Board, in its discretion, may determine that none, some or all of the remaining unvested Rights also vest. Any Rights that remain unvested following exercise of the Board's discretion will lapse. In the case of a major return of capital or demerger, the Board has discretion to bring forward vesting or to alter the number of Rights or the Exercise Price or to alter Vesting Conditions to ensure that the outcome is fair to participants. This is because following such an event the share price is likely to be materially different from the basis of the grant, and Performance Conditions set may be unable to be met.

Management Equity Plan (MEP/Legacy Plan)

The Group has previously established an equity incentive plan under which certain senior executives received ordinary shares as part of their incentive arrangements (Management Equity Plan and MEP Shares). Equity issued under the Management Equity Plan will be dealt with as described below to ensure that participants continue to be motivated to achieve sustained growth for shareholders.

Under the arrangements for the issue of the MEP Shares, if a participant ceases to be employed by the Group, the participant will no longer have an entitlement to MEP Shares still under escrow.

The remaining MEP Shares were vested in FY23 with no further shares held in escrow.

No further shares will be issued under the Legacy Plan.

Non-Executive Director (NED) fee policy

The following outlines the principles that Australian Clinical Labs applies to governing NED remuneration:

Principle	Comment
Fees are set by reference to key considerations	Fees for Non-Executive Directors are based on the nature of the Directors' work and their responsibilities, taking into account the nature and complexity of the Company and the skills and experience of the Director. Non-Executive Directors' fees are recommended by the Remuneration and Nominations Committee and determined by the Board. External consultants may be used to source the relevant data and commentary or to obtain independent recommendations given the potential for a conflict of interest in the Board setting its own fees.
Remuneration is structured to preserve independence whilst creating alignment	To preserve independence and impartiality, Non-Executive Directors are not entitled to any form of variable remuneration payments and the level of their fees is not set with reference to measures of the Company's performance. Non-Executive Directors are encouraged to hold shares in the Company, however they do not currently receive equity as part of their remuneration.
Aggregate Board fees	The total amount of fees paid to Non-Executive Directors is within the aggregate amount disclosed in the Company Constitution of \$1,500,000 per annum.

Directors' Report continued

for the year ended 30 June 2023

The following outlines the Board Fees applicable as at the end of FY23:

Role/Function	Main Board	Audit and Risk Committee	Remuneration and Nominations Committee
Chair	\$180,000	\$15,000	\$15,000
Member	\$120,000	\$10,000	\$10,000

Note: Fees are expressed as inclusive of superannuation. Non-Executive Directors are also reimbursed for their reasonable out-of-pocket expenses that are incurred in the discharge of their role.

There is a planned 1% increase in the table above for FY24.

Other elements of the KMP remuneration governance framework

The following outlines the other elements that together with the foregoing form the KMP remuneration governance framework:

- The Remuneration and Nominations Committee Charter, which outlines the roles and responsibilities of the committee. This is available for inspection on the Company website.
- The Securities Trading Policy, which outlines under what circumstances and when trading in ACL securities by KMP and other nominated employees may be permitted or prohibited.
- External Remuneration Consultant (ERC) Engagement Policy which is intended to ensure the independence of any recommendation received regarding KMP remuneration, and which supports the Board's published statements regarding such recommendations. In addition to the requirements outlined in the Corporations Act, it requires the ERC to notify the Board if management makes contact with the ERC on remuneration matters outside of interactions approved or supervised by the Board, such as the provision of factual information for benchmarking purposes.

d. The link between performance and reward in FY23

The Board views the outcomes of remuneration for FY23 performance as appropriately aligned with stakeholder interests generally, given the strong Group and individual performance against annual objectives, the substantial shareholder value created through share price growth, and progress towards strategy objectives made by the executive team.

FY23 STVR Outcomes

The STVR plan is designed to reward executives for the achievement against annual performance objectives set by the Board at the beginning of the performance period. The payment of an STVR is dependent on delivery of performance against a range of outcome metrics. The primary metrics and outcomes of assessment against those metrics are summarised below:

Metric/Measure	Weight	Performance	Outcome (% of Target)	% of Target \$ Payable
Financial Performance	100%			
This metric is viewed as the primary financial driver of shareholder value creation under the current strategy.		>150% of EBITDA vs Budget achieved		200% of Target \$ Payable

Achieved total remuneration package for FY23

The following outlines "Achieved" total remuneration, including the portions of maximum variable remuneration that were awarded or vested, and portions that were forfeited or lapsed as the result of performance assessments:

Name	Role(s)	Year	Fixed Pay (incl Super)		Total STVR Awarded following Completion of the Financial Year				Achieved Total Remuneration Package (TRP)
			Amount	% of TRP	Amount ⁽ⁱ⁾	% of Max Awarded	% of Max Forfeited	% of TRP	
Ms Melinda McGrath	Chief Executive Officer and Executive Director	FY23	\$911,703	100%	\$0	0%	0%	0%	\$911,703
		FY22	\$908,771	50%	\$900,000	100%	0%	50%	\$1,808,771
Mr James Davison	Chief Financial Officer	FY23	\$504,996	100%	\$0	0%	0%	0%	\$504,996
		FY22	\$504,996	56%	\$404,000	100%	0%	44%	\$908,996

(i) This is the value of the total STVR award calculated and accrued during the reporting period. It will be settled following the release of the full year results.

Directors' Report continued

for the year ended 30 June 2023

e. Statutory tables and supporting disclosures

The following table outlines the statutory remuneration of executive KMP. These disclosures have been calculated in accordance with the Australian Accounting Standards:

Name	Role(s)	FY	Fixed Pay				Variable Remuneration				Total for Year		Other Statutory Items	
			Salary	Super	Other Benefits ⁽ⁱⁱⁱ⁾	Total Fixed Pay		Cash STVR ⁽ⁱ⁾		LTVR ⁽ⁱⁱ⁾		Statutory Total Remuneration Package (TRP)	Change in Accrued Leave	Termination Benefits
						Amount	% of TRP	Amount	% of TRP	Amount	% of TRP			
Ms Melinda McGrath	Chief Executive Officer and Executive Director	FY23	\$872,508	\$27,492	\$11,703	\$911,703	84%	\$0	0%	\$167,243	16%	\$1,078,946	\$96,698	\$0
		FY22	\$872,508	\$27,058	\$9,205	\$908,771	47%	\$900,000	46%	\$134,432	7%	\$1,943,202	(\$2,747)	\$0
Mr James Davison	Chief Financial Officer	FY23	\$467,520	\$27,480	\$9,996	\$504,996	87%	\$0	0%	\$75,073	13%	\$580,069	\$35,694	\$0
		FY22	\$467,520	\$27,480	\$9,996	\$504,996	52%	\$404,000	42%	\$60,345	6%	\$969,341	\$27,091	\$0

(i) Note that the STVR value reported in this table is the STVR that was accrued during the reporting period. This will be paid following the release of the full year results.

(ii) Note that the LTVR value reported in this table is the amortised accounting charge of all grants that have not lapsed or vested as at the start of the reporting period. Where a market based measure of performance is used such as TSR, no adjustments can be made to reflect actual LTVR vesting.

(iii) Other benefits include items such as car parking, car allowances, FBT, etc.

Non-Executive Director KMP statutory remuneration of FY23

The following table outlines the statutory and audited (A-IFRS) remuneration of NEDs (\$, except where otherwise indicated):

Name	Role(s)	Year	Cash Board Fees	Committee Fees	Superannuation	Other Benefits (i)	Total
Mr Michael Alscher	Board Chair	FY23	\$180,000	\$10,000	\$0	\$0	\$190,000
		FY22	\$180,000	\$5,973	\$0	\$0	\$185,973
Mr Nathaniel Thomson	Non-Executive Director	FY23	\$120,000	\$10,000	\$0	\$0	\$130,000
		FY22	\$120,000	\$10,000	\$0	\$0	\$130,000
Mr Andrew Dutton	Independent Non-Executive Director	FY23	\$108,597	\$22,624	\$13,778	\$659	\$145,658
		FY22	\$109,091	\$22,727	\$13,182	\$0	\$145,000
Dr Leanne Rowe AM	Independent Non-Executive Director	FY23	\$108,597	\$9,050	\$12,353	\$10,636	\$140,636
		FY22	\$109,091	\$18,182	\$12,727	\$0	\$140,000
Dr Michael Stanford AM	Independent Non-Executive Director	FY23	\$36,199	\$3,017	\$4,118	\$5,219	\$48,553
		FY22	\$109,091	\$22,727	\$13,182	\$0	\$145,000
Mr Mark Haberlin	Independent Non-Executive Director	FY23	\$108,597	\$13,575	\$12,828	\$10,659	\$145,659
		FY22	\$109,091	\$22,727	\$13,182	\$0	\$145,000

(i) The Board (with each of the interested Directors abstaining) determined to increase the superannuation payments to Andrew Dutton, Leanne Rowe, Michael Stanford and Mark Haberlin in FY23 to 0.5% in line with the applicable super guarantee rate in that period. The column of the above table entitled 'Other' includes these payments, along with payments made to Directors who were members of the Risk Committee in FY23 (which subsequently merged with the Audit Committee in FY23). The payments made to members of the Risk Committee will no longer be paid in FY24.

KMP equity interests and changes during FY23

Movements in equity interests held by executive KMP during the reporting period, including their related parties, are set out below. All equity interests are granted by the listed entity unless otherwise specified:

Name	Instrument	Number Held at Open FY23	Granted FY23		FY23 Purchased/ Other	FY23 Sold	Number Held at Close FY23
		Number	Date Granted	Number	Number	Number	Number
Ms Melinda McGrath	Shares	2,857,673	—	—	65,658	—	2,923,331
	Unvested Rights	247,252	13/03/2023	238,092	—	—	485,344
Mr James Davison	Shares	563,099	—	—	—	(311,635)	251,464
	Unvested Rights	110,988	13/03/2023	106,876	—	—	217,864
TOTALS		3,779,012	n/a	344,968	65,658	(311,635)	3,878,003

Directors' Report continued

for the year ended 30 June 2023

Movements in equity interests held by non-executive KMP during the reporting period, including their related parties, are set out below:

Name	Instrument	Number Held at Open FY23	FY23 Purchased/ Other	FY23 Sold	Number Held at Close FY23
		Number	Number	Number	Number
Mr Michael Alscher	Shares	255,928	24,574	–	280,502
Mr Andrew Dutton	Shares	81,897	–	–	81,897
Dr Leanne Rowe AM	Shares	37,500	–	(32,500)	5,000
Dr Michael Stanford AM	Shares	38,000	–	(38,000)	–
Mr Mark Haberlin	Shares	47,500	–	–	47,500

The following outlines the accounting values and potential future costs of equity remuneration granted for executive KMP:

Equity Grants		Grant Type	Number	Vesting Conditions	Grant Date	Fair Value Each at Grant Date \$	Total Fair Value at Grant \$	Value Expensed in FY 23 \$	Max Value to be Expensed in Future Years \$
Name	Tranche								
Ms Melinda McGrath	Tranche 1	LTVR Rights	123,626	iTSR	25/05/2021	3.64	449,999	80,259	99,340
	Tranche 2	LTVR Rights	123,626	iTSR	25/05/2021	3.64	449,999	54,173	67,052
	Tranche 3	LTVR Rights	119,046	iTSR	13/03/2023	3.78	449,994	17,379	131,429
	Tranche 4	LTVR Rights	119,046	iTSR	13/03/2023	3.78	449,994	15,432	116,709
Mr James Davison	Tranche 1	LTVR Rights	55,494	iTSR	25/05/2021	3.64	201,998	36,027	44,592
	Tranche 2	LTVR Rights	55,494	iTSR	25/05/2021	3.64	201,998	24,317	30,099
	Tranche 3	LTVR Rights	53,438	iTSR	13/03/2023	3.78	201,996	7,801	58,997
	Tranche 4	LTVR Rights	53,438	iTSR	13/03/2023	3.78	201,996	6,927	52,389
TOTALS	n/a	n/a	703,208	n/a	n/a	n/a	2,607,974	242,315	600,607

Note: All Rights granted under the LTVR in FY21 will expire in FY26. They may only be exercised after vesting which is expected to occur after release of the year ended 30 June 2024 results. All rights granted in FY23 will expire in FY27 and may only be exercised after vesting which is expected to occur after release of the year ended 30 June 2025 results.

The total fair value at grant date differs from the total value expected to be expensed through the profit and loss due to the measure of the plan using the Monte Carlo valuation for accounting purposes, which is different to the valuation at grant date.

KMP Service Agreements

Executive KMP Service Agreements

The following outlines current executive KMP service agreements:

Name	Position Held at Close of FY23	Employing Company	Duration of Contract	Period of Notice	
				From Company	From KMP
Ms Melinda McGrath	Chief Executive Officer and Executive Director	Australian Clinical Labs Limited	No fixed term	6 months	6 months
Mr James Davison	Chief Financial Officer	Australian Clinical Labs Limited	No fixed term	6 months	6 months

Non-Executive Directors service agreements

Non-Executive Directors are appointed under a service agreement. The service agreements stipulate that Non-Executive Directors' fees are inclusive of superannuation and that Non-Executive Directors are not eligible for any termination benefits or other contractual or statutory entitlements (other than superannuation) following termination of their office.

Other statutory disclosures

Loans to KMP and their related parties

During the financial year and to the date of this report, the Company has not made any loans to Directors and other KMP.

There are no loan balances outstanding as at 30 June 2023 with any related parties.

Other transactions with KMP

Certain Directors and KMP, or their personally-related entities (Related Parties), hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the FY23 reporting period. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with unrelated entities on an arm's-length basis.

There were no transactions which occurred with entities controlled by Related Parties.

Corporate Governance Statement

For personal use only

Corporate Governance Statement

for the year ended 30 June 2023

Introduction

Australian Clinical Labs Limited (ACN 645 711 128)(**ACL**) has adopted the ASX Corporate Governance Principles and Recommendations, 4th edition (**ASX 4th Principles**) that apply to entities listed on the Australian Securities Exchange as a foundation stone of its corporate governance framework. This Corporate Governance Statement describes the corporate governance framework that was in place at ACL during the financial year ended 30 June 2023. The statement was approved by the Board on 18 August 2023.

ACL is a leading provider of pathology services, skin cancer clinics and other diagnostics modalities in Australia and one of the largest hospital pathology businesses nationally with 1,328 approved collection centres (**ACCs**) (as at 30 June 2023). ACL became a publicly listed company on the ASX on 14 May 2021 and has a national footprint on mainland Australia.

ACL generates revenue by providing pathology services across the community, hospital and other pathology segments with operations as follows:

- **Community pathology:** ACL operates 73 National Associating of Testing Authorities (NATA) accredited laboratories and 328 ACCs from which it collects community pathology samples (as at 30 June 2023). ACL's ACCs are mostly co-located at medical centres, where ACL leases an area within the medical centre and provides an ACL employee to conduct the sample collection. ACL also operates 31 skin cancer clinics under the SunDoctors brand across Queensland, New South Wales, South Australia and Victoria. ACL also sources pathology samples from general practitioners, specialists and patients that self-collect their samples;
- **Hospital pathology:** ACL provides services to over 90 public and private hospitals, which include large-scale hospital facilities, day hospitals, acute care facilities, 24/7 emergency departments and smaller regional hospitals; and
- **Other pathology:** ACL provides several other pathology services to other users which include veterinary clinics, phase one clinical trials providers, functional pathology providers, corporate organisations to assist compliance with workplace health and safety regulations and government organisations, including the Australian Department of Defence.

During the financial year ending 30 June 2023, the corporate governance framework that ACL adopted to enable and facilitate the performance of its operations comprised:

- a board of directors (**Board**), which is responsible for managing and directing the affairs of ACL and which is legally responsible for its operations. The Board is supported in this role by two standing committees of the Board (**Committees**);
- a senior executive management team (**Executive Team**), which is led by a Group Chief Executive Officer (**CEO**). The CEO and Executive Team are responsible for the day to day operations of ACL and for implementing ACL's strategy. The CEO is also an Executive Director of the Board;
- external assurance provided by its external auditor, its internal auditor and other professional advisers; and
- internal assurance provided through reporting by ACL's risk team and internal quality assurance team.

The corporate governance framework in place during FY23 can be visually represented as follows:



Corporate Governance Statement continued

for the year ended 30 June 2023

The legal and constitutional framework that governs ACL consists principally of its Constitution, the Corporations Act 2001 and the ASX Listing Rules. ACL is also accredited by the National Association of Testing Authorities and is subject to its governance and compliance requirements.

Principle 1: Lay Solid Foundations for Management and Oversight

Roles and Responsibilities

The Board is the legal decision-making body of ACL and has responsibility for the development and approval of strategy, monitoring the implementation of strategy by the CEO and Executive Team and oversight of ACL's financial position and financial reporting.

The Board's main functions are:

- to strive to build sustainable value for shareholders whilst protecting the assets and reputation of ACL;
- to demonstrate leadership, including at strategic and cultural levels;
- to define ACL's purpose and to set its strategies, budgets and business plans;
- to approve ACL's statement of values and code of conduct to underpin a culture of acting lawfully, ethically and responsibly;
- to satisfy itself that ACL has in place an appropriate risk management framework (for both financial and non-financial risks as well as risks relating to clinical governance) and setting the risk appetite within which the Board expects management to operate;
- to satisfy itself that ACL's remuneration policies are aligned with its purpose, values, strategic objectives and risk appetite;
- to oversee management in its implementation of ACL's strategic objectives, its role in instilling ACL's values and performance generally;
- to monitor the performance of the CEO and the Executive Team;
- to set measurable objectives for achieving gender diversity in the composition of ACL's Board, the Executive Team and workforce generally;
- to approve major borrowing and debt arrangements, the acquisition, establishment, disposal or cessation of any significant business of the company, any significant transaction or capital expenditure and the issue of any shares, options, equity instruments or other securities in ACL;
- to approve ACL's Annual Report including the Financial Statements, Directors' Report, Remuneration Report and Corporate Governance Statement, with advice from the Remuneration and Nomination Committee and the Audit and Risk Committee, as appropriate;
- to oversee ACL's process for making timely and balanced disclosure of all material information concerning ACL that a reasonable person would expect to have a material effect on the price or value of ACL's securities;
- to satisfy itself that an appropriate framework exists for relevant information to be reported to the Board by management;
- to recognise that ACL provides professional medical services and therefore, ACL should adhere to medical ethics and ACL's code of conduct, and value the importance of ACL's commitment to empower decision making that saves and improves patient's lives;
- whenever required, to challenge management and hold it to account;
- to review operating information to understand at all times the state of health of ACL;
- to oversee ACL's approach to sustainability and its environmental, social and governance activities, including the approval of applicable ACL governance policies;
- to ensure that ACL acts legally and responsibly on all matters and that the highest ethical standards are maintained;
- to ensure that ACL maintains effective workplace health and safety practices, an equitable and inclusive workplace culture and that there are robust anti-discrimination, harassment and bullying policies in place;
- to develop an investor relations program to facilitate effective two-way communication with investors;
- to maintain a constructive and ongoing relationship with the ASX and regulators, and to approve policies regarding disclosure and communications with the market and ACL's shareholders;

- to ensure that ACL's relationships with its stakeholders (including employees, healthcare practitioners, government and the broader community) are managed to facilitate the achievement of ACL's objectives; and
- to monitor the effectiveness of, and approving changes to, internal governance including delegated authorities, and monitoring resources available to the CEO and Executive Team.

The Board has a charter which sets out its role and its responsibilities in more detail and provides guidance on the functions which it has reserved to itself. A copy of the Board Charter can be found [here](#).

On 28 June 2022, the Board reviewed the charters and composition of its Board Committees and resolved to make various changes, including merging the Audit Committee and the Risk Committee. These changes were implemented during the 2023 financial year. Following this reorganisation, the Board delegated certain responsibilities as follows:

- to the Audit and Risk Committee, responsibility for oversight of financial reporting, tax, internal control systems, internal and external audit functions, the establishment and oversight of ACL's risk management framework for both financial and non-financial risk (with the exception of clinical governance risk and cybersecurity risk which are reserved to the full Board) and monitoring the effectiveness of that framework; and
- to the Remuneration and Nomination Committee, responsibility for oversight of remuneration policy and strategy, the performance of the CEO and the Executive Team, and CEO and Board succession planning.

Each Board Committee has its own charter which sets out its role and responsibilities in more detail. The committees meet at least quarterly or more frequently if required. All Directors have a standing invitation to attend any Committee where they are not a Committee member, as well as access to Committee papers and minutes. Regular reporting on the activities of each Committee is also provided to the Board.

Under the terms of the Board charter, the Board has delegated authority and power to manage the daily operations of ACL to the CEO and the Executive Team within levels of authority specified by the Board. The CEO may delegate aspects of her authority and power but remains accountable to the Board for ACL's performance and is required to report regularly to the Board on progress being made by ACL's business units.

ACL has 29 subsidiaries and the boards of ACL's subsidiaries are generally comprised of Executive Directors. ACL's corporate governance framework, including its risk management and compliance framework, applies to its subsidiaries.

During the reporting period, the Board has held 19 Board meetings, with attendance as follows:

Name of director	Eligible to attend	Attended
Michael Alscher (Chair)	19	18
Melinda McGrath (Managing Director and Group CEO)	19	18
Andrew Dutton	19	17
Mark Haberlin	19	17
Dr Leanne Rowe AM	19	16
Dr Michael Stanford AM	3	1
Nathanial Thomson	19	16

Appointment of Directors

ACL's constitution provides that Directors are appointed as a casual vacancy to the Board and then must stand for formal appointment by a vote of shareholders at the next AGM. Subject to the requirement that an election of Directors must occur each year at ACL's AGM, a Director will generally serve a term of 3 years from appointment and is then eligible to stand for re-appointment for a further term of three years. There are no maximum tenure provisions in ACL's Constitution. At the 2022 AGM, Michael Stanford retired as a Director and Andrew Dutton was re-appointed for a further term of 3 years.

In any notice of meeting proposing resolutions to appoint Directors, Shareholders are provided with information in relation to a Director's biographical details, qualifications, skills and experience, as well as details of any other directorships or material interests that they hold. The Board also provides its recommendation in relation to any proposed appointment or re-appointment.

Corporate Governance Statement continued

for the year ended 30 June 2023

When a Board vacancy arises, the Remuneration and Nomination Committee conducts a search for a new Director, having regard to ACL's commitment that the Board should comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds and able to contribute to the effective direction of the Company. Appropriate reference and background checks are conducted when a Director is first appointed to the Board.

Service Agreements

Upon appointment and re-appointment, Directors are provided with written agreements that set out the terms of their appointment, including the required time commitment, remuneration arrangements including superannuation, the requirement to disclose material interests and any matter which may affect their independence, the requirement to comply with key policies including ACL's code of conduct, indemnity and insurance arrangements, access to corporate records and ongoing confidentiality arrangements.

All senior executives, including the CEO and Executive Team, have contracts of employment that set out the terms and conditions of their employment, including rights and obligations in respect of the termination of their employment and the circumstances in which summary termination may occur.

Secretary

The Company Secretary is appointed by the Board and all Directors have direct access to the Company Secretary. The Company Secretary attends Board and Committee meetings and is responsible for providing the Board with advice on corporate governance issues. The Company Secretary is responsible for the operation of the Company Secretariat function and is accountable to the Board through the Chair on all matters to do with the proper functioning of the Board. The Company Secretary is also responsible for communications with the ASX about listing rule matters, including making disclosures to the ASX in accordance with ACL's Disclosure Policy.

During the reporting period the Board had access to the services and advice of Eleanor Padman, the Company Secretary. Details of the experience and qualifications of Eleanor Padman are set out in ACL's 2023 Directors' Report.

Diversity, Equity and Inclusion

The Board considers that having a diverse, equitable and inclusive workplace supports ACL's strategy and values. It also facilitates ACL achieving better overall performance by allowing it to compete for the widest possible pool of talent and to attract and retain employees, whilst also encouraging a variety of viewpoints that enhance problem-solving, continual improvement and innovation.

ACL has a Diversity Policy which applies to the employees and officers of the Company and its subsidiaries. The Diversity Policy provides that the Board is responsible for setting measurable objectives to promote gender diversity and the Company's progress in achieving them. The Board has set measurable objectives for achieving gender diversity of 40 : 40 : 20 (being 40% female, 40% male and 20% any gender). A full copy of ACL's Diversity Policy can also be found [here](#). In 2023, the respective proportions of men and women on the Board, the CEO and the Executive Team (defined as the CEO's direct reports and excluding the CEO) were as follows:

	Board (including the CEO)		CEO		Executive Team	
	Number	Percentage	Number	Percentage	Number	Percentage
Men	4	66.7%			7	87.5%
Women	2	33.3%	1	100%	1	12.5%

ACL is a relevant employer under the Australian *Workplace Gender Equality Act 2012* (Cth) and remains compliant with its reporting obligations under this legislation.

Further information in respect of ACL's approach to diversity, equity and inclusion can be found in its 2023 ESG report which is available on its [investor portal](#).

Performance of the Board

The Board charter provides that the Board will, with the guidance of the Remuneration and Nomination Committee, regularly review the performance of the Board, its Committees and each Director. The Committee charters provide that the performance of the Committees will be assessed bi-ennially.

During the reporting period, the Board, with the assistance of the Remuneration and Nomination Committee, designed and conducted a Board performance evaluation, comprising a self-assessment coupled with seeking feedback from the Executive Team. As noted above, in June 2022 the Board conducted a review of the composition and role of each Committee and a reorganised Committee structure was implemented during FY23. The Board therefore considered it premature to assess the performance of the newly constituted Committees during the 2023 financial year.

Performance of CEO and senior executives

Performance reviews of the CEO and CFO are performed annually by the Board, with the assistance of the Remuneration and Nominations Committee where required. The CEO is responsible for conducting performance reviews of the other members of the Executive Team (other than the CFO). The Executive Team's performance is reviewed against a number of metrics which include:

- economic performance;
- positioning the Company for growth ;
- culture, innovation, staff engagement and leadership; and
- brand and relationship management.

During the reporting period, performance reviews were completed for the CEO, CFO and the other members of the Executive Team.

Principle 2: Structure the Board to Add Value

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is a standing committee of the Board. During the reporting period its members were Andrew Dutton (Chair), Leanne Rowe AM and Nathaniel Thomson. Andrew Dutton and Leanne Rowe are both considered to be independent within the meaning of Box 2.3 of the ASX Principles.

During the reporting period, the Remuneration and Nomination Committee held three meetings and one joint meeting with the Audit Committee with attendance as follows:

Name of director	Eligible to attend	Attended
Andrew Dutton (Chair)	4	4
Dr Leanne Rowe AM	4	4
Nathaniel Thomson	4	3

As set out in its charter, the function of the Remuneration and Nomination Committee is to assist the Board in discharging the following responsibilities in relation to ACL:

- the recruitment of Directors and the CEO, including ensuring that appropriate background checks are performed;
- remuneration policies, including evaluating and approving remuneration packages for the CEO, the Executive Team and Non-Executive Directors and engaging external remuneration consultants;
- developing and approving short-and-long term incentive plans and equity plans;
- Board performance and composition, including the appropriate size and diversity of the Board, the development of skills matrices, selection criteria, succession plans, induction processes and any other requirements for the Board; and
- overseeing remuneration-related disclosures required in ACL's annual statutory reporting.

A full copy of the Committee's charter can be found [here](#).

Corporate Governance Statement continued

for the year ended 30 June 2023

Board skills matrix

During FY23, the Remuneration and Nominations Committee refreshed the Board skills matrix to ensure that the Board is constituted to best align with ACL's strategic objectives. The Board skills matrix provides an evaluation of the technical skills, knowledge and experience of Directors and helps to ensure diversity of perspectives.

The 2023 Board skills matrix was completed through Directors' self-assessment and then calibrated by the Board. It shows that the current composition of the Board has the following skills and sector experience as at June 2023:

Skill	Expert	Proficient	Developing
Leadership: holding senior positions of leadership in business, private practice, government, or the not-for-profit sector.	✓		
Financial acumen: understanding of financial accounting and reporting, corporate finance principles, financial controls, treasury management.	✓		
Governance: experience of working in a listed environment with a commitment to the highest standards of governance.	✓		
Remuneration: experience of designing remuneration frameworks, including long-and-short-term incentive structures.	✓		
Strategy: experience in building and executing strategy, ability to identify and critically assess strategic opportunities and threats and develop effective strategies in the context of the strategic objectives.	✓		
Capital projects: experience working on projects involving large-scale capital outlays and long-term investment horizons.	✓		
Corporate activity: experience in large scale mergers and acquisitions involving the management of various stakeholder groups and/or regulators, experience in takeovers or in corporate restructures.	✓		
Capital raising: experience of debt or equity based capital raising on Australian primary or secondary markets.	✓		
Risk and compliance: experience in designing and utilising risk and compliance frameworks and systems, ability to identify key risks to the organisation in a wide range of areas.	✓		
Change management and disruption: overseeing transformational change of an organisation, for example rapid growth, diversification into new products and services, digital transformation, process re-engineering, ownership transition; experience of an organisation that has faced disruptive change.	✓		
Legal and regulatory: qualified lawyer or experience in the legal and regulatory environment applicable to ACL including privacy law and corporate and commercial law.	✓		
Medical and health sector: qualified clinical or medical practitioner or operational experience in a clinical or medical setting; operating within a regulated environment; operating a best practice clinical governance framework. ##		✓	
Work Health and Safety: understanding of WHS legislation and experience in programs implementing health and safety safeguards, including mental health and physical wellbeing.		✓	
Privacy and Cyber Security: experience of data management, data governance frameworks and cyber security frameworks.		✓	

Skill	Expert	Proficient	Developing
Digital engagement: experience in building a multi-channel engagement strategy for customer engagement, utilising data analytics to derive customer insights.		✓	
Digital transformation and delivery: experience in designing and implementing a digital strategy that is transformative; experience of a business that uses digital platforms to deliver products and services.		✓	
Brand and influence: experience in building an organisation's brand and digital assets to raise its profile and differentiate it from peers and competitors.		✓	
Marketing and customer: experience in marketing, understanding of corporate purpose to create long-term value and best in class customer experience.	✓		
Public policy and government: experience of engaging with government agencies to advocate for industry and to influence policy settings.		✓	
Sustainability: experience in creating a sustainable operating model focused on designing a framework to achieve ESG target; experience in integrated reporting models and sustainability reporting.		✓	
Talent and culture: experience in talent management and creating a flexible workplace environment to attract and retain talent; experience in implementing inclusion and diversity strategies.	✓		
Crisis management: experience of managing significant internal crises or reacting to external crises.	✓		

Dr Michael Stanford retired as a Director from the Board on 19 October 2022. The Board has been conducting a recruitment process during the remainder of the 2023 financial year and is mindful of the need to seek to replace Dr Stanford's clinical and operational healthcare skills.

The Board will continue to refine the Board skills matrix and evaluation process in FY24.

Corporate Governance Statement continued

for the year ended 30 June 2023

Independence of Directors and the Chair

As at 30 June 2023, the Board is comprised of five Non-Executive Directors and the CEO, who is appointed as an Executive Director. ACL's Board charter provides that the Chair of the Board must be a Non-Executive Director and must not hold (or have held in the previous three years) the office of CEO. The table below provides further information on the independence status of each current Director and their length of service.

Name	Date appointed	Tenure on the Board	Independent as per Box 2.3 of the ASX 4th Principles
Mr Michael Alscher* Non-Executive Chair	19 December 2020	2.5 years	No – CCP is a substantial holder of shares in ACL
Melinda McGrath* CEO and Executive Director	19 December 2020	2.5 years	No – CEO
Andrew Dutton Non-Executive Director	28 April 2021	2 years, 2 months	Yes
Mark Haberlin Non-Executive Director	28 April 2021	2 years, 2 months	Yes
Dr Leanne Rowe AM Non-Executive Director	28 April 2021	2 years, 2 months	Yes
Nathanial Thomson* Non-Executive Director	19 December 2020	2.5 years	No – CCP is a substantial holder of shares in ACL

* Michael Alscher, Nathanial Thomson and Melinda McGrath were Directors on the Board of Clinical Labs Pty Ltd, the main operating subsidiary of ACL prior to its IPO in May 2021.

As noted above, the Chair, Michael Alscher, is not considered an independent Director in accordance with recommendation 2.5 of the ASX 4th Principles. The Board acknowledges the recommendation but considers that Michael brings objective and unbiased judgement to this position of Chair of the Board. The Board further believes that Michael's ongoing role as Chair is in the best interests of the Company, as are the considerable skills, experience and understanding of the Company's business which he continues to bring to his role.

Board induction and education

As part of the appointment process, all new Directors receive detailed information outlining their duties and responsibilities and an opportunity to meet with the CEO and members of the Executive Team. They are also invited to attend orientation sessions to ensure that they are familiar with ACL's key business and strategic issues, as well as an understanding of the NATA regulatory framework.

Time is allocated at Board and Committee meetings for the continuing education of Directors on significant issues facing ACL and changes to the regulatory environment.

Principle 3: Instil a Culture of Acting Lawfully, Ethically and Responsibly

Articulate and disclose values

ACL's mission is to combine talented people, medical and scientific leadership with innovative thinking and technologies to empower decision making that saves and improves patients' lives. ACL's values reflect what it stands for as a Company and are:

- **Patient focus and medical excellence:** ACL serves to protect the best interests of patients by aiming to achieve excellence in daily actions.
- **Entrepreneurship and agility:** ACL seeks to deliver its mission to as many people as possible by being vigilant of delivery cost.
- **Efficiency and effectiveness:** ACL applies innovative thinking to science and business. ACL endeavours to be agile in responding to the needs of customers and stakeholders. ACL aims to be proactive and not reactive to problems; ACL meets challenges with a 'can do' attitude.
- **Passion and enthusiasm:** ACL is passionate about pathology and enthusiastic about living out its mission.
- **Respect and integrity:** ACL is committed to ensuring the Company and its representatives act with the highest integrity and respect.

Further information about how ACL instills its values across the organisation can be found in its ESG reports which are available on its [investor portal](#).

Code of Conduct

ACL has a [Code of Conduct](#) that applies to all employees, contractors, consultants, managers and Directors of the Company.

Material breaches of the Code of Conduct are reported to the Board and/or the Audit and Risk Committee as appropriate.

A copy of the Code of Conduct can be found [here](#).

Whistleblower Policy

ACL is committed to a corporate culture that encourages the reporting and investigation of misconduct or serious wrongdoing. ACL has implemented a [Whistleblower Policy](#) to protect whistleblowers which includes a third-party anonymous whistleblowing reporting service, Yourcall, which can be accessed at <https://www.yourcall.com.au/report>.

Once a report is lodged, the Chair of the Audit and Risk Committee will consult in relation to the disclosure with the Chair of the Board except where the report is about the Chair of the Board.

A fully copy of the Whistleblower Policy can be accessed [here](#).

ABC Policy

ACL's Anti-Bribery and Corruption Policy (**ABC Policy**) commits ACL to compliance with anti-bribery and corruption obligations in the countries in which it operates. The ABC Policy applies to all employees, officers and Directors and in certain circumstances consultants, secondees, contractors, agents and intermediaries.

Material breaches of the Code of Conduct are reported to the Board and/or the Audit and Risk Committee as appropriate.

A fully copy of the ABC Policy can be accessed [here](#).

Corporate Governance Statement continued

for the year ended 30 June 2023

Principle 4: Safeguard the Integrity of Corporate Reports

Audit and Risk Committee

The Audit and Risk Committee is a standing committee of the Board. During the reporting period, its members were:

- Mark Haberlin FCA (Chair);
- Andrew Dutton;
- Michael Alscher; and
- Dr Michael Stanford AM (until his retirement on 19 October 2022),

Each of Mark Haberlin and Andrew Dutton are considered to be independent Directors within the meaning of Box 2.3 of the ASX Principles. Michael Alscher is not considered to be independent.

The Chair, Mark Haberlin, is the former Chair of PwC Australia and has over 25 years of audit experience, as well as significant experience in financial reporting and risk. Mark also chairs the Audit and Risk Committee for Abacus Property Group.

Andrew Dutton has previously held the role of Chief Financial Officer at Norwich Union Pty Ltd and IBM NZ Pty Ltd. Andrew has also served on other Audit Committees.

Michael Alscher is the Managing Partner and founder of Crescent Capital Partners, with specialist expertise in private equity investment and has extensive non-executive director experience. Prior to founding Crescent, Michael was a strategy consultant at Bain International and LEK Partnership. Michael holds a Bachelor of Commerce (Finance and Mathematics) Degree from the University of New South Wales.

Under the terms of its charter, the key objective of the Audit and Risk Committee is to support the Board in fulfilling its oversight responsibilities in respect of ACL's financial reporting, internal and external audit functions, internal control structure and risk management systems. Its duties include:

- overseeing and monitoring the implementation and effectiveness of ACL's risk management framework for financial and non-financial risks (excluding diagnostic and clinical risks), financial risk controls, policies, procedures and systems;
- reviewing and approving ACL's financial statements and reports;
- overseeing ACL's financial reporting, including reviewing the suitability of ACL's accounting policies and principles, assessing significant estimates and judgements in the financial reports, the appropriate disclosure of related party transactions (if any), and assessing information from the external auditor to ensure the quality of the financial reports;
- recommending the financial reports to the Board for approval;
- managing audit arrangements and auditor independence, including any internal audit function;
- receiving and reviewing reports from management, the external auditor and internal auditor in respect of risks (excluding diagnostic and clinical risk) and overseeing any remediation plans implemented by management;
- ensuring that any periodic corporate reporting released by ACL to the market that has not been subject to audit discloses the process taken to verify the integrity of its content;
- reviewing at least annually the effectiveness of ACL's risk management system to ensure it continues to be sound and that ACL is operating within the risk appetite set by the Board and to ensure implementation towards continuous improvement;
- evaluating the adequacy of ACL's insurance coverage; and
- reviewing reports from management and regulators concerning compliance with key laws, regulations, licences and standards which apply to ACL's operations.

A full copy of the Audit and Risk Committee's charter can be found [here](#).

During the reporting period, the former Audit Committee and (from 14 November 2022) the Audit and Risk Committee has held four meetings, with attendance as follows:

Name of Director	Eligible to attend	Attended
Mark Haberlin (Chair)	4	4
Andrew Dutton	4	4
Michael Alscher (from November 2021)	4	4
Dr Michael Stanford AM (retired 19 October 2022)	1	1

CEO and CFO declaration

Before the Board approves financial statements for a financial period, it receives a declaration from the CEO and Chief Financial Officer stating that, in their opinion:

- the financial records of the entity have been properly maintained;
- the financial statements comply with appropriate accounting standards and interpretations and give a true and fair view of the financial position and performance of the entity; and
- this opinion was formed based on sound risk management systems and internal controls, which operate effectively.

Verification of unaudited reports

ACL's 2023 Remuneration Report was subject to external audit by the Company's auditors, Pitcher Partners. ACL does not currently release quarterly activity reports, quarterly cash flow reports or other periodic corporate reporting that investors might rely upon when making investment decisions.

Principle 5: Make Timely and Balanced Disclosure

Continuous disclosure and market announcements

ACL is committed to ensuring that all investors have equal and timely access to material information concerning the Company and maintains a Disclosure Policy to ensure compliance with its obligations. The Board has also established a Disclosure Committee comprised of the Chair of the Board, ACL's CEO, CFO and Company Secretary. The Disclosure Committee's responsibilities include:

- determining what information will be disclosed by ACL to the ASX;
- implementing procedures to ensure that disclosure can be made immediately to the ASX and trading halt requests lodged;
- reviewing and preparing external announcements for referral to the Board for approval; and
- providing the Board with copies of all material market announcements promptly after they have been made.

Investor and analyst presentations

ACL's [Disclosure Policy](#) provides that a copy of any new or substantive investor or analyst presentations must be released to the ASX ahead of any presentation being held, even if the information in the presentation would not otherwise require market disclosure.

The Disclosure Policy also states that the only ACL people authorised to speak on behalf of ACL to investors, potential investors, analysts or the media are the Chair, the CEO and the CFO are such other persons as may be approved from time to time.

A full copy of the Disclosure Policy can be found [here](#).

Corporate Governance Statement continued

for the year ended 30 June 2023

Principle 6: Respect the Rights of Members

Governance information

ACL's website contains a dedicated investor centre that provides shareholders with information about the governance of the organisation, members of the Board and of the Executive Team, copies of all key governance documents and policies and a feed to its ASX announcements.

Investor relations program

ACL's investor relations program is designed to ensure engagement with its key stakeholders including retail shareholders, institutional investors, buy-side and sell-side research analysts and individual investors. The program includes an investor webinar and other scheduled engagements following the release of ACL's half year and full year financial results, as well as attending other events to provide operational updates.

The Board understands the importance of these interactions as providing an opportunity for ACL to articulate its strategy and to receive feedback from investors and other market participants on its financial performance, strategy, financial reporting and governance.

Key information released and available via ACL's investor portal and which is available on its [investor portal](#) includes:

- ACL's annual report and periodic financial reporting;
- ACL's Corporate Governance Statements;
- ACL's ESG reports;
- ACL's dividend reinvestment plan;
- market briefings and presentations; and
- ASX announcements.

Shareholder engagement at the AGM

ACL will be holding its AGM on 23 October 2023. The Board will promote shareholder engagement and encourage participation enabling virtual participation at the AGM. Engagement is also facilitated by:

- distributing a copy of the Annual Report and the Notice of Meeting for the AGM to shareholders via their nominated means of communication, including electronic communication;
- enabling the use of online proxy voting for shareholders who are unable to attend the AGM;
- enabling shareholders to submit questions for the Board during the course of the AGM and answering as many questions as time permits; and
- encouraging shareholders to submit written questions in advance of the AGM. The Chair will address as many of the more frequently raised topics as possible in his AGM address

ACL's auditors, Pitcher Partners, will also be attending the 2023 AGM for the purpose of answering shareholder questions about the audit report and the audit process.

Voting on resolutions by a poll

The Board acknowledges that deciding votes of shareholders on the basis of a show of hands rather than by a poll is inconsistent with the principle of 'one security one vote'. The Board is committed to ensuring that all substantive resolutions at a meeting of shareholders are decided by a poll rather than a show of hands.

Electronic communications

ACL has a continuing commitment to electronic communications with shareholders and stakeholders generally including via its dedicated web-based investor centre. Shareholders may elect to receive information about the Company electronically.

Principle 7: Recognise and Manage Risk

Audit and Risk Committee

As set out in further detail above in relation to Principle 4, the Board has established an Audit and Risk Committee which is tasked with assisting the Board to oversee ACL's internal control structure and risk management systems.

The types of risks overseen by the Audit and Risk Committee include regulatory and compliance risk, investment risk, legal risk, economic risk, environmental and social risk, workplace health and safety risk including mental health, digital and IT risk and operational risk. Oversight of clinical governance risk and cybersecurity risk are matters that are reserved to the full Board.

The Group's risk management framework establishes a foundation for the management of strategic and operational risk during periods of organisational uncertainty or increased stress, whilst also supporting the organisation's efforts in achieving its strategic objectives. ACL has adopted a 'Three Lines of Defence' risk framework and all staff, led by the Executive Team, are responsible for the identification, assessment, management, reporting and monitoring of all risks across the operating spectrum, including emerging risks and strategic risks. Risks are expected to be escalated to the Executive Team and are discussed at the Executive Team Risk Committee, together with the tracking of any improvement plans required for potential remediation and monitoring. Regular updates are provided to the Audit and Risk Committee or on an as-required basis.

Enterprise Risk Management Framework

As part of its role, the Audit and Risk Committee conducts a program of work that includes a review of ACL's risk management framework and systems and to ensure that they continue to be sound and fit for purpose. The Audit and Risk Committee also monitors that ACL is operating within the risk appetite set by the Board. During the reporting period, the Audit and Risk Committee conducted this review.

Internal audit

ACL maintains high quality standards and internal audit processes to ensure that it continually meets licensing and accreditation standards across its business. In addition, the Company's core focus on the efficient and accurate delivery of a diverse range of diagnostic and analytical information is supported by a robust quality assurance framework comprised of internal and external quality control measures, standardised national training and competency and credentialing programs for pathologists and scientific staff.

ACL's established procedures focus on best practice, clinical excellence and continuous service improvements, which serves to mitigate operational risk and address regulatory compliance.

The Board has also engaged EY to provide internal audit services to ACL in respect of the non-clinical areas of its operations. In addition, ACL will continue to regularly engage external subject-matter expert advisers to conduct audits of other specialist areas, such as its IT environment, to ensure that risks are effectively identified and mitigated.

Environmental and social sustainability risks

ACL's approach to identifying and managing its exposure to environmental and social sustainability risks is set out in detail in its ESG Report which can be viewed on ACL's [investor portal](#).

Corporate Governance Statement continued

for the year ended 30 June 2023

Principle 8: Remunerate Fairly and Responsibly

Remuneration and Nominations Committee

Information in respect of the Remuneration and Nominations Committee has already been set out at page 36 above.

Remuneration policies and practices

Non-Executive

Under the terms of ACL's Constitution, the Company may in general meeting determine the maximum aggregate remuneration to be paid to Non-Executive Directors for their services. Following the listing of the Company, and until a different amount is determined, the maximum aggregate Non-Executive Directors' remuneration for the purpose of the Constitution and the ASX Listing Rules has been set at \$1,500,000 per annum, of which \$720,000 is currently utilised. Advice was sought from external remuneration consultants prior to the initial public offering in order to determine the appropriate level of this remuneration pool.

Currently, there is no requirement for Non-Executive Directors to hold shares in ACL, although the majority of the Board do have shareholdings in ACL in accordance with the disclosures made periodically to the ASX. No Non-Executive Directors hold any performance rights or grants under the LTVR Plan operated by the Company.

Directors may be reimbursed for travel and other expenses in attending to Company affairs, including travel to and from meetings. A Director who performs additional or special duties for the Company may be paid such additional or special remuneration as determined by the Board. There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

More information on the benefits paid to Non-Executive Directors during the reporting period can be found in ACL's 2023 Directors' Report at page 47.

Executives

The Company has established a short-term variable remuneration plan (**STVR Plan**) under which cash awards may be payable to participants subject to the satisfaction of specified performance criteria. Participation in the STVR Plan is determined by the Board in its absolute discretion and is conditional upon:

- the Company's financial performance against criteria set by the Board; and
- individual performance criteria tailored to each respective role (if any).

The Company has also established a long-term variable remuneration plan (**LTVR Plan**) to assist in the motivation, retention and reward of eligible employees. The Board has the discretion to determine which employees are eligible to participate in the LTVR Plan and the number of rights they will be offered. The rights that may be offered under the LTVR Plan consist of performance rights for all participants and share appreciation rights for the CEO. The grant of rights is not subject to the payment of an acquisition price by the participant.

The LTVR Plan is designed to align the interests of employees and shareholders by providing an opportunity for employees to receive equity interests in the Company. Under the LTVR Plan, eligible participants may be offered options or performance rights which will be subject to vesting conditions set by the Board. The key terms of the LTVR Plan include:

- forfeiture and lapse of rights in certain circumstances, including in the event that the Board determines that a participant has engaged in conduct that may cause harm to the Company's stakeholders, may have taken excessive risks or contributed to unacceptable culture;
- malus and clawback provisions;
- forfeiture in full in the event of cessation of employment; and
- prohibitions against participants entering into arrangements to offer rights as security, or to hedge or otherwise limit the economic risk of participation.

More information on the benefits paid to KMP during the reporting period can be found in ACL's 2023 Directors' Report at page 40.

Financial Statements

For personal use only

Consolidated statement of profit or loss

for the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Revenue	3	697,072	995,604
Other income	3	7,684	1,561
Total		704,756	997,165
Consumables		(126,083)	(207,592)
Labour costs		(296,193)	(314,003)
Labour costs – Healius transaction		(1,201)	–
Property costs		(15,104)	(17,325)
Repairs and maintenance		(8,071)	(8,061)
Healius transaction costs		(7,080)	–
Acquisition, restructuring and other insurance related expenses		(2,627)	(8,940)
Other operating expenses		(63,649)	(68,544)
Depreciation	4	(14,260)	(12,145)
Depreciation of right-of-use assets	4	(108,267)	(93,724)
Amortisation of intangible assets		(228)	(227)
Total operating costs		(642,763)	(730,561)
Earnings before interest and tax		61,993	266,604
Net finance costs	5	(13,683)	(11,704)
Profit before income tax		48,310	254,900
Income tax expense	6	(12,268)	(76,498)
Profit for the year		36,042	178,402
Net (profit) attributable to non-controlling interests		(141)	(158)
Net profit to members of Australian Clinical Labs Limited		35,901	178,244
Earnings per share			
		Cents per share	Cents per share
Basic earnings per share from continuing operations	23	17.90	88.55
Diluted earnings per share from continuing operations	23	17.85	88.46

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated statement of other comprehensive income

for the year ended 30 June 2023

	2023 \$'000	2022 \$'000
Profit for the year	36,042	178,402
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	(40)	6
Other comprehensive income for the year, net of tax	(40)	6
Total comprehensive income for the year	36,002	178,408
Total comprehensive income attributable to:		
Members of Australian Clinical Labs Limited	35,861	178,250
Non-controlling interests	141	158
	36,002	178,408

The above consolidated statement of other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

as at 30 June 2023

	Note	2023 \$'000	2022 \$'000
Current Assets			
Cash and cash equivalents	28(a)	19,955	26,372
Trade and other receivables	7	73,710	91,114
Inventories	8	15,092	20,088
Other assets	9	5,955	5,271
Current tax assets	10	1,247	26
Total Current Assets		115,959	142,871
Non-Current Assets			
Plant and equipment	11	50,299	58,145
Right-of-use assets	12	238,139	252,055
Intangible assets	13	165,172	165,400
Other assets	9	1,111	150
Deferred tax assets	14	8,233	9,421
Total Non-Current Assets		462,954	485,171
Total Assets		578,913	628,042
Current Liabilities			
Trade and other payables	15	41,364	59,189
Lease liabilities	16	101,085	94,767
Provisions	18	45,323	53,770
Deferred consideration	19	145	10,235
Current tax liabilities	10	8	5,615
Other liabilities		–	1,587
Total Current Liabilities		187,925	225,163
Non-Current Liabilities			
Lease liabilities	16	149,538	167,610
Borrowings	17	65,696	–
Provisions	18	3,083	2,712
Total Non-Current Liabilities		218,317	170,322
Total Liabilities		406,242	395,485
Net Assets		172,671	232,557
Equity			
Issued capital	20	792,140	793,031
Reserves	21	(774,964)	(776,807)
Retained earnings		155,241	216,220
Total Parent Entity Interest		172,417	232,444
Non-Controlling Interest		254	113
Total Equity		172,671	232,557

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

for the year ended 30 June 2023

2022	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interest \$'000	Total \$'000
Opening balance at 1 July 2021	797,975	(778,271)	62,194	81,898	16	81,914
Profit for the year	–	–	178,244	178,244	158	178,402
Exchange differences on translation of foreign operations	–	6	–	6	–	6
Total other comprehensive income for the year net of tax	–	6	–	6	–	6
Total comprehensive income for the year	–	6	178,244	178,250	158	178,408
Transactions with owners in their capacity as owners						
Share-based payments (Note 22)	–	1,458	–	1,458	–	1,458
Dividend declared and paid (Note 24)	–	–	(24,218)	(24,218)	–	(24,218)
Dividend paid to minority interest in controlled entities	–	–	–	–	(61)	(61)
Acquisition of treasury shares (Note 20)	(4,944)	–	–	(4,944)	–	(4,944)
Closing balance at 30 June 2022	793,031	(776,807)	216,220	232,444	113	232,557
2023	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interest \$'000	Total \$'000
Opening balance at 1 July 2022	793,031	(776,807)	216,220	232,444	113	232,557
Profit for the year	–	–	35,901	35,901	141	36,042
Exchange differences on translation of foreign operations	–	(40)	–	(40)	–	(40)
Total other comprehensive income for the year net of tax	–	(40)	–	(40)	–	(40)
Total comprehensive income for the year	–	(40)	35,901	35,861	141	36,002
Transactions with owners in their capacity as owners						
Share-based payments (Note 22)	–	1,883	–	1,883	–	1,883
Dividend declared and paid (Note 24)	–	–	(96,880)	(96,880)	–	(96,880)
Acquisition of treasury shares (Note 20)	(891)	–	–	(891)	–	(891)
Closing balance at 30 June 2023	792,140	(774,964)	155,241	172,417	254	172,671

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

for the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Receipts from customers and government grants		718,729	990,238
Payment to suppliers and employees		(543,474)	(625,932)
Cash provided by operations		175,255	364,306
Interest received	5	182	45
Interest and costs of finance paid		(13,847)	(11,392)
Income tax paid		(17,909)	(68,872)
Net cash provided by operating activities	28(b)	143,681	284,087
Cash flows from investing activities			
Proceeds from sale of plant and equipment		236	273
Purchase of plant and equipment		(6,934)	(21,252)
Payments for business combinations (net of cash acquired)		(5,484)	(51,064)
Net cash used in investing activities		(12,182)	(72,043)
Cash flows from financing activities			
Principal portion of lease payments		(106,105)	(91,687)
Payments for treasury shares	20	(891)	(4,944)
Repayment of borrowings		(34,500)	(100,000)
Proceeds from borrowings		100,500	–
Dividends paid	24	(96,880)	(24,218)
Dividend paid to minority interest in controlled entities		–	(61)
Net cash used in financing activities		(137,876)	(220,910)
Net (decrease)/increase in cash and cash equivalents		(6,377)	(8,866)
Foreign exchange differences on cash holdings		(40)	5
Cash and cash equivalents at the beginning of the year		26,372	35,233
Cash and cash equivalents at the end of the year	28(a)	19,955	26,372

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

for the year ended 30 June 2023

Note 1: Summary of Significant Accounting Policies

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

(a) Basis of preparation

The general purpose financial report has been prepared in accordance with Australian Accounting Standards, interpretations issued by the Australian Accounting Standards Board (AASB), all other applicable authoritative pronouncements of the AASB and the *Corporations Act 2001*.

The financial report includes financial statements for the Consolidated Group ('the Group') consisting of Australian Clinical Labs Limited ('Parent Company' or 'Company') and its subsidiaries. Australian Clinical Labs Limited is a for-profit entity domiciled in Australia.

The financial report was authorised for issue by the Directors on 21 August 2023.

Compliance with IFRS

The financial report of the Group complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Parent Company financial information included in Note 30 also complies with IFRS.

Basis of measurement

The financial report has been prepared on the basis of historical cost except for the revaluation of financial assets and liabilities at fair value through profit or loss. Cost is based on the fair values of the consideration given in exchange for assets.

Where applicable, comparatives may be restated in line with current year presentation.

Going concern

As at 30 June 2023, the Group recorded a deficiency in net current assets of \$72.0m. This has been caused by AASB 16 Leases, whereby \$101.1m of lease liability has been recognised as current, however the corresponding right-of-use asset is non-current. Excluding the current portion of the lease liability, the Group has a current asset surplus of \$29.1m.

The Directors have concluded that the Group will be able to pay its debts as and when they fall due with consideration of the above factors, profitability and operating cash flows of the Group. Accordingly, the financial report has been prepared on a going concern basis.

(b) Basis of consolidation

The financial report incorporates the assets and liabilities of all subsidiaries controlled by Australian Clinical Labs Limited as at 30 June 2023 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

When control of an entity is obtained during a financial year, its results are included in the statement of profit and loss from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

Non-controlling interests in the results and equity of controlled entities are shown separately in the statement of profit and loss, statement of comprehensive income, statement of financial position and statement of changes in equity.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Associates

An associate is an entity over which the Group is able to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's interests in associates are accounted for using the equity method after initially being recognised at cost. Under the equity method, the Group's share of the profits or losses of the associate is recognised in the Group's profit or loss and the Group's share of other comprehensive income items is recognised in the Group's other comprehensive income.

Unrealised gains and losses on transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate.

Notes to the financial statements continued

for the year ended 30 June 2023

Note 1: Summary of Significant Accounting Policies (continued)

(c) Business combination

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method unless it is a common control acquisition.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree. Deferred consideration payable is measured at its acquisition-date fair value. Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. At each reporting date subsequent to the acquisition, contingent consideration payable is measured at its fair value with any changes in the fair value recognised in profit or loss unless the contingent consideration is classified as equity, in which case the contingent consideration is carried at its acquisition-date fair value.

Goodwill is recognised initially at the excess of: (a) the aggregate of the consideration transferred, the amount of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition); over (b) the acquisition date amount of the identifiable assets acquired and liabilities assumed.

If the net fair value of the acquirer's interest in the identifiable assets acquired and liabilities assumed is greater than the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest, the difference is immediately recognised as a gain in profit or loss. Acquisition related costs are expensed as incurred.

Common control acquisition

A common control acquisition is a transaction whereby the direct ownership changes as a result of a restructure, however there is ultimately no change in control over the assets.

Common control acquisitions are recognised in accordance with Australian Accounting Standards and are presented as a continuation of the pre-existing entity.

(d) Foreign currency translation and balances

Functional and presentation currency

The financial statements for each entity within the Group are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars which is the Group's functional currency.

Transactions and balances

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year. All resulting exchanges arising on settlement or restatement are recognised as revenue or expenses for the financial year.

Foreign subsidiaries

Subsidiaries that have a functional currency different to the presentation currency of the consolidated Group are translated as follows:

- Assets and liabilities are translated at the closing rate on reporting date;
- Income and expenses are translated at actual exchange rates or average exchange rates for the period, where appropriate; and
- All resulting exchange differences are recognised in other comprehensive income.

Note 1: Summary of Significant Accounting Policies (continued)

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates or other similar allowances.

Rendering of services

Revenue from the provision of services is recognised when the related services are completed. Revenue is accrued at balance date for services which are completed but yet to be invoiced.

Clinic revenue

Clinic revenue represents support services provided to doctors (enabling them to treat patients), in consideration for a percentage share of billings as determined by each doctor's medical services agreement. Revenue is recognised in the period in which doctors' services are rendered to patients.

(f) Other income

Government grant income is only recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it, and the grant will be received.

(g) Income tax

Income tax expense or benefit represents the sum of the tax currently payable and deferred tax.

Current tax

The current tax payable is based on taxable profit for the year. Taxable profit differs from 'profit before income tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial report and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Notes to the financial statements continued

for the year ended 30 June 2023

Note 1: Summary of Significant Accounting Policies (continued)

Tax consolidation

Australian Clinical Labs Limited and its wholly-owned Australian controlled entities have implemented the Australian tax consolidation legislation on 6 November 2020.

Australian Clinical Labs Limited and subsidiaries in the tax-consolidated group have entered into a tax funding agreement such that each entity in the tax-consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;
- the subsidiaries in the tax-consolidated group recognise current or deferred tax amounts arising in respect of their own transactions, events and balances; and
- current tax liabilities and deferred tax assets arising in respect of tax losses are transferred from the subsidiaries in the tax-consolidated group to the head entity as inter-company payables or receivables.

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and on-demand deposits. Cash equivalents are short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(i) Inventories

Inventories represent medical and laboratory supplies. They are measured at the lower of cost and net realisable value.

(j) Plant and equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and accumulated impairment losses.

- Plant and equipment is measured on the cost basis.
- Leasehold improvements are measured on the cost basis.

Depreciation

The depreciable amount of all fixed assets, including buildings and capitalised lease assets, but excluding freehold land is depreciated over their useful lives to the Group, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful lives of the improvements. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual accounting period, with the effect of any changes recognised on a prospective basis.

The ranges of depreciation rates used for each class of depreciable assets are:

Class of property, plant and equipment	Depreciation rate
Leasehold improvements	2% to 100%
Plant and equipment	5% to 50%

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in operating profit before income tax of the Group in the year of disposal.

(k) Leases

At the commencement date of a lease (other than leases of 12 months or less and leases of low value assets), the Group recognises a lease asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Note 1: Summary of Significant Accounting Policies (continued)

Lease assets

Lease assets are initially recognised at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date of the lease, less any lease incentives received, and any initial direct costs incurred by the Group, unless those costs are incurred to produce inventories.

Subsequent to initial recognition, lease assets are measured at cost (adjusted for any re-measurement of the associated lease liability), less accumulated depreciation and any accumulated impairment loss.

Lease assets are depreciated over the shorter of the lease term and the estimated useful life of the underlying asset, consistent with the estimated consumption of the economic benefits embodied in the underlying asset.

Lease liabilities

Lease liabilities are initially recognised at the present value of the future lease payments. These lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Group's incremental borrowing rate.

Subsequent to initial recognition, lease liabilities are measured at the present value of the remaining lease payments reduced by rental accruals for missed lease payments. Interest expense on lease liabilities is recognised in profit or loss (presented as a component of finance costs). Lease liabilities are remeasured to reflect changes to lease terms, changes to lease payments (once confirmed) and any lease modifications not accounted for as separate leases.

Variable lease payments not included in the measurement of lease liabilities are recognised as an expense when incurred.

Leases of 12 months or less and leases of low value assets

Lease payments made in relation to leases of 12 months or less and leases of low value assets (for which a lease asset and a lease liability has not been recognised) are recognised as an expense as incurred.

(l) Intangible assets

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identifiable or separately recognised. Goodwill is initially recognised at an amount equal to the excess of: (a) the aggregate of the consideration transferred, the amount of any non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in the case of a step acquisition); over (b) the net fair value of the identifiable assets acquired and liabilities assumed. For accounting purposes, such measurement is treated as the cost of goodwill at that date.

Goodwill is not amortised, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangibles acquired in a business combination are initially recognised at fair value (which, for accounting purposes, is treated as the cost of the intangible asset), and are subsequently amortised over their estimated useful lives commencing from the time the asset is available for use. The amortisation method applied to an intangible asset is consistent with the estimated consumption of economic benefits of the asset. Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost, less accumulated amortisation and any accumulated impairment losses.

(m) Impairment testing of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Notes to the financial statements continued

for the year ended 30 June 2023

Note 1: Summary of Significant Accounting Policies (continued)

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives such as goodwill and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the impairment is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit other than goodwill) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) Financial instruments

Recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

Classification of financial assets

Financial assets recognised by the Group are subsequently measured in their entirety at either amortised cost or fair value, subject to their classification and whether the Group irrevocably designates the financial asset on initial recognition at fair value through other comprehensive income (FVtOCI) in accordance with the relevant criteria in AASB 9.

Financial assets not irrevocably designated on initial recognition at FVtOCI are classified as subsequently measured at amortised cost, FVtOCI or fair value through profit or loss (FVtPL) on the basis of both:

- (a) the Group's business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial asset.

Classification of financial liabilities

Financial liabilities classified as held-for-trading, contingent consideration payable by the Group for the acquisition of a business, and financial liabilities designated at FVtPL, are subsequently measured at fair value.

All other financial liabilities recognised by the Group are subsequently measured at amortised cost.

Trade and other receivables

Trade and other receivables arise from the Group's transactions with its customers.

Consistent with both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the assets, trade and other receivables are subsequently measured at amortised cost.

Impairment of financial assets

Receivables from customers are tested for impairment by applying the 'expected credit loss' impairment model.

The Group applies the simplified approach under AASB 9 to measuring the allowance for credit losses for both receivables from contracts with customers and contract assets. Under the AASB 9 simplified approach, the Group determines the allowance for credit losses for receivables from contracts with customers and contract assets on the basis of the lifetime expected credit losses of the financial asset. Lifetime expected credit losses represent the expected credit losses that are expected to result from default events over the expected life of the financial asset.

Note 1: Summary of Significant Accounting Policies (continued)

The Group consider a range of information when assessing whether the credit risk has increased since initial recognition. This includes such factors as the identification of significant changes in external market indicators of credit risk, significant adverse changes in the financial performance or financial position of the counterparty, significant changes in the value of collateral, and past due information.

The Group assumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 120 days past due.

The Group determines expected credit losses using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the financial asset as well as current and future expected economic conditions relevant to the financial asset. When material, the time value of money is incorporated into the measurement of expected credit losses. There has been no change in the estimation techniques or significant assumptions made during the reporting period.

The gross carrying amount of a financial asset is written off (i.e. reduced directly) when the counterparty is in severe financial difficulty and the Group has no realistic expectation of recovery of the financial asset. Financial assets written off remain subject to enforcement action by the Group. Recoveries, if any, are recognised in profit or loss.

(o) Employee benefits

Short-term employee benefit obligations

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal value, using the remuneration rate expected to apply at the time of settlement.

Long-term employee benefit obligations

Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Retirement benefit obligations

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payments

The Group operates share-based payment employee share and option schemes for accounting purposes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. In respect of share-based payments that are dependent on the satisfaction of performance conditions, the number of shares and options expected to vest is reviewed and adjusted at each reporting date. The amount recognised for services received as consideration for these equity instruments granted is adjusted to reflect the best estimate of the number of equity instruments that eventually vest.

Bonus plan

The Group recognises a provision when a bonus is payable in accordance with the employee's contract of employment, and the amount can be reliably measured.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(q) Australian Clinical Labs Employee Share Trust ('ACLEST')

The Group has formed a trust to obtain and hold shares for the purpose of providing shares under Australian Clinical Labs Limited Rights Plan. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group. Shares held by ACLEST are disclosed as treasury shares and deducted from contributed equity.

Notes to the financial statements continued

for the year ended 30 June 2023

Note 1: Summary of Significant Accounting Policies (continued)

(r) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(s) Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that instrument, amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Some numerical figures included in this report have been subject to rounding adjustments. Any differences between totals and sums of components in tables or figures contained in this report are due to rounding.

(t) Significant accounting estimates and assumptions

In the financial report, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The following are the estimates and judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial report:

Employee entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- Future increases in salaries and wages;
- Future on-cost rates;
- Experience of employee departures and period of service; and
- Appropriate discount rate to reflect long-term liabilities at present value.

Impairment of tangible and intangible assets

Determining whether assets are impaired requires an estimation of recoverable amount for the cash-generating units to which these assets have been allocated. The recoverable amount of each cash-generating unit is the greater of its value in use or fair value less costs to sell.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form. Value in use is determined by applying assumptions specific to the Group's continued use and cannot take into account future development. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the day on which they are granted. The fair value is determined using a Black-Scholes model (Service Rights) or Monte Carlo model (Performance Rights) and is recognised as an expense over the vesting period, with a corresponding increase to an equity account.

Deferred tax balances

The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Note 1: Summary of Significant Accounting Policies (continued)

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

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal including penalties to terminate, the value of leasehold improvements remaining plus current and future expected economic performance from use of the asset.

After the commencement date, the Group generally can only make a reasonable certainty assessment if there is a significant event or change in circumstances that is within its control and affects the ability to exercise (or not exercise) the option to renew.

Calculation of incremental borrowing rates

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

(u) Adoption of new and revised Accounting Standards

The Group has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2022. These standards do not have a material impact on the Group's financial results or position.

(v) Standards and interpretations issued but not yet effective

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided not to early adopt any of these new and amended pronouncements. These pronouncements are not expected to have a material impact on the entity in the current or future reporting periods or on foreseeable future transactions.

Note 2: Segment Information

The Group's Chief Executive Officer and the Board of Directors (the chief operating decision makers) review the Group's performance of the business to assess performance and determine the allocation of resources. Discrete financial information is reported to the chief operating decision makers on at least a monthly basis. The discrete financial information is provided by one operating segment and one geographical segment, being Australia.

The Group has the one reportable segment:

Pathology

Pathology/clinical laboratory services provided in Australia.

Notes to the financial statements continued

for the year ended 30 June 2023

Note 3: Revenue and Other Income

	2023 \$'000	2022 \$'000
An analysis of the Group's revenue for the year is as follows:		
Pathology revenue	677,731	976,564
Clinic revenue	14,372	12,734
Rental revenue from subleasing right-of-use assets	870	645
Other revenue	4,099	5,661
Total revenue	697,072	995,604
Other		
Insurance claim proceeds	2,684	1,561
Reassessment of Medlab contingent consideration	5,000	–
Total other income	7,684	1,561

During the 2022 financial year, one of our laboratories based in Queensland was flooded with extensive damage caused to the laboratory equipment and consumables on hand. Insurance claim proceeds have been recognised for specific equipment verified by the insurers at 30 June 2023 and 2022. This is not the expected total insurance claim proceeds for the claim and as such, a contingent asset exists. Refer to Note 32 for full details.

Note 4: Expenses

	2023 \$'000	2022 \$'000
Profit before income tax includes the following specific expenses:		
(a) Depreciation expense		
Leasehold improvements	4,517	3,732
Plant and equipment	9,743	8,413
Right-of-use assets	108,267	93,724
	122,527	105,869
(b) Lease rental expense		
Short term/low value lease payments	12,213	14,676

Note 5: Finance Income and Expenses

	2023 \$'000	2022 \$'000
Finance Income		
Bank deposits	182	45
Finance Expenses		
Interest expense – bank facilities	(3,142)	(1,339)
Interest expense – leasing arrangements	(10,325)	(10,410)
Other borrowing costs	(398)	–
	(13,865)	(11,749)
Net finance costs	(13,683)	(11,704)

Note 6: Income Tax

	2023 \$'000	2022 \$'000
(a) Components of income tax expense		
Current tax	9,952	70,367
Deferred tax	2,316	6,131
	12,268	76,498
(b) Income tax reconciliation		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Profit before tax	48,310	254,900
Domestic tax rate	30%	30%
Expected income tax expense	14,493	76,470
Adjustments for non-temporary differences:		
Net non-taxable and non-deductable items	(2,225)	28
Actual income tax expense	12,268	76,498

Notes to the financial statements continued

for the year ended 30 June 2023

Note 7: Trade and Other Receivables

	2023 \$'000	2022 \$'000
CURRENT		
Trade receivables	51,352	64,888
Allowance for expected credit loss	(5,606)	(4,199)
	45,746	60,689
Accrued revenue	24,517	26,782
Other receivables	3,447	3,643
	73,710	91,114

(a) At 30 June, the ageing analysis of trade receivables is as follows:

	2023 \$'000	2022 \$'000
Current	26,379	32,684
30 to 60 days	6,964	16,871
60 to 90 days	3,625	4,994
90 to 120 days	1,795	1,932
120 days +	12,589	8,407
Closing balance at 30 June	51,352	64,888

(b) Allowance for expected credit loss

The Group applies the simplified approach to measure the expected credit losses, using a provision matrix for all trade receivables and adjusts for any known forward-looking issues specific to the debtors and the economic environment. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The provision matrix assesses all debtors based on past experience.

Movement in allowance for expected credit losses:

	2023 \$'000	2022 \$'000
Opening balance at 1 July	4,199	2,342
Provision for impairment expensed	3,098	2,907
Receivables written off	(1,691)	(1,050)
Closing balance at 30 June	5,606	4,199

Amounts charged to the allowance for expected credit loss are generally written off when there is no expectation of recovering additional cash in excess of the cost of recovery.

Note 7: Trade and Other Receivables (continued)

(c) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 29. All carrying amounts of the Group's trade debtors are denominated in functional currency.

(d) Fair value and credit risk

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

Note 8: Inventories

	2023 \$'000	2022 \$'000
Consumable supplies at cost	15,092	20,088

Note 9: Other Assets

	2023 \$'000	2022 \$'000
CURRENT		
Prepayments	5,323	4,137
Bonds and securities	632	1,134
	5,955	5,271
NON-CURRENT		
Prepayments	566	–
Other	545	150
	1,111	150

Other assets include convertible notes acquired in Geneseq.

Note 10: Current Tax Balances

	2023 \$'000	2022 \$'000
Income tax payables/receivables		
Tax receivables	1,247	26
Tax payables	(8)	(5,615)

Notes to the financial statements continued

for the year ended 30 June 2023

Note 11: Plant and Equipment

2023	Leasehold improvements \$'000	Plant and equipment \$'000	Capital work in progress \$'000	Total \$'000
Gross carrying amount	53,964	111,744	1,694	167,402
Accumulated depreciation	(39,790)	(77,313)	–	(117,103)
Total plant and equipment as at 30 June 2023	14,174	34,431	1,694	50,299

2022				
Gross carrying amount	51,727	106,269	3,348	161,344
Accumulated depreciation	(35,294)	(67,905)	–	(103,199)
Total plant and equipment as at 30 June 2022	16,433	38,364	3,348	58,145

2023	Leasehold improvements \$'000	Plant and equipment \$'000	Capital work in progress \$'000	Total \$'000
Gross carrying amount				
Balance at 1 July 2022	51,727	106,269	3,348	161,344
Additions	2,124	4,050	346	6,520
Disposals	(17)	(425)	–	(442)
Capitalisation of work in progress	137	1,863	(2,000)	–
Net exchange differences	(7)	(13)	–	(20)
Balance at 30 June 2023	53,964	111,744	1,694	167,402
Accumulated depreciation				
Balance at 1 July 2022	(35,294)	(67,905)	–	(103,199)
Disposals	17	325	–	342
Depreciation	(4,517)	(9,743)	–	(14,260)
Net exchange differences	4	10	–	14
Balance at 30 June 2023	(39,790)	(77,313)	–	(117,103)
Carrying amount at 30 June 2023	14,174	34,431	1,694	50,299

Note 11: Plant and Equipment (continued)

2022	Leasehold improvements \$'000	Plant and equipment \$'000	Capital work in progress \$'000	Total \$'000
Gross carrying amount				
Balance 1 July 2021	44,973	87,762	1,687	134,422
Additions	5,579	14,599	1,696	21,874
Additions through business combination	1,031	4,412	1,603	7,046
Disposals	(4)	(2,020)	–	(2,024)
Capitalisation of work in progress	139	1,499	(1,638)	–
Net exchange differences	9	17	–	26
Balance at 30 June 2022	51,727	106,269	3,348	161,344
Accumulated depreciation				
Balance 1 July 2021	(31,559)	(60,576)	–	(92,135)
Disposals	–	1,092	–	1,092
Net exchange differences	(3)	(8)	–	(11)
Depreciation	(3,732)	(8,413)	–	(12,145)
Balance at 30 June 2022	(35,294)	(67,905)	–	(103,199)
Carrying amount at 30 June 2022	16,433	38,364	3,348	58,145

Note 12: Right-of-use Assets

	2023 \$'000	2022 \$'000
Carrying amount of lease assets, by class of underlying asset:		
Buildings under lease arrangements	238,139	252,055
Opening balance		
Buildings under lease arrangements	252,055	196,057
Additions and remeasurement of leases during the year	94,351	116,180
Additions due to business combinations	–	33,552
Depreciation	(108,267)	(93,724)
Other movements	–	(10)
Closing balance	238,139	252,055

Notes to the financial statements continued

for the year ended 30 June 2023

Note 13: Intangible Assets

	Goodwill \$'000	Brand names \$'000	Customer lists \$'000	Total \$'000
2023				
Gross carrying amount	158,684	5,600	1,370	165,654
Accumulated amortisation	–	–	(482)	(482)
Total intangibles as at 30 June 2023	158,684	5,600	888	165,172

2022				
Gross carrying amount	158,684	5,600	1,370	165,654
Accumulated amortisation	–	–	(254)	(254)
Total intangibles as at 30 June 2022	158,684	5,600	1,116	165,400

	Goodwill \$'000	Brand names \$'000	Customer lists \$'000	Total \$'000
2023				
Gross carrying amount				
Balance at 1 July 2022	158,684	5,600	1,370	165,654
Balance at 30 June 2023	158,684	5,600	1,370	165,654
Accumulated amortisation				
Balance at 1 July 2022	–	–	(254)	(254)
Amortisation	–	–	(228)	(228)
Balance at 30 June 2023	–	–	(482)	(482)
Carrying amount at 30 June 2023	158,684	5,600	888	165,172

	Goodwill \$'000	Brand names \$'000	Customer lists \$'000	Total \$'000
2022				
Gross carrying amount				
Balance at 1 July 2021	105,983	5,600	1,350	112,933
Additions through business combination	52,701	–	20	52,721
Balance at 30 June 2022	158,684	5,600	1,370	165,654
Accumulated amortisation				
Balance at 1 July 2021	–	–	(27)	(27)
Amortisation	–	–	(227)	(227)
Balance at 30 June 2022	–	–	(254)	(254)
Carrying amount at 30 June 2022	158,684	5,600	1,116	165,400

On 20 December 2021, the Group acquired Medlab Pathology, refer to Note 25 for details.

Note 13: Intangible Assets (continued)

Impairment testing of goodwill and intangibles with indefinite useful lives

Goodwill is allocated to a cash-generating unit or units (CGU) according to management's expectations regarding which assets will be expected to benefit from the synergies arising from the business combination that gave rise to the goodwill. Management has assessed that only one CGU exists, being the Australian pathology business.

The recoverable amount of a CGU is based on value-in-use calculations. These calculations use cash projections based on financial budgets/forecasts approved by management for covering a minimum period of one year (maximum of five years). Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. The present value of future cash flows has been calculated using an average growth rate of 4.5% (2022: 5.4%) for cash flows in years two to five which is based on historic growth rate and industry trends, a terminal value growth rate of 3.4% (2022: 3.1%) and a discount rate of 7.6% (2022: 9.2%) to determine value-in-use.

The carrying value of brand names at 30 June 2023 relates solely to SunDoctors. The recoverable amount of the SunDoctors brand is based on value-in-use calculations via the relief from royalty valuation method. Under this method, the fair value is based on the present value of future foregone royalty payments over the life of the asset by virtue of owning the asset. The present value of future cash flows has been calculated using a royalty rate of 3.0% (2022: 3.0%), an indefinite useful life and a discount rate of 8.7% (2022: 8.7%).

Management has determined that this brand will be used as part of the wider pathology business with synergies from the existing pathology operations and as such, the brand relates solely to the existing one CGU and the recoverable amounts are assessed as part of the recoverable amount of the CGU.

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

Notes to the financial statements continued

for the year ended 30 June 2023

Note 14: Deferred Tax Assets

Deferred taxes arising from temporary differences and unused tax losses are summarised as follows:

	2023 \$'000	2022 \$'000
Expected credit loss	1,682	1,260
Employee benefits	14,502	17,103
Sundry accruals	(50)	1,813
Lease liability	74,336	78,219
Share issue and transaction costs	2,844	2,657
Less: deferred tax liabilities offset against deferred tax assets	(85,081)	(91,631)
	8,233	9,421
Deferred tax liabilities offset against deferred tax assets		
Prepayments and sundry debtors	(365)	(337)
Inventories	(4,528)	(6,026)
Accrued revenue	(450)	(468)
Right-of-use assets	(70,598)	(75,135)
Intangibles	(1,944)	(2,013)
Plant and equipment	(7,196)	(7,652)
	(85,081)	(91,631)
	2023 \$'000	2022 \$'000
Movement		
Opening balance at 1 July	9,421	15,625
Amounts recognised in profit or loss	(1,188)	(5,685)
Amounts recognised in business combination	—	(144)
Amounts recognised directly in equity	—	(375)
Closing balance at 30 June	8,233	9,421

Note 15: Trade and Other Payables

	2023 \$'000	2022 \$'000
CURRENT		
Trade creditors	17,966	26,468
Sundry creditors and accruals	23,398	32,721
	41,364	59,189

Due to the short-term nature of these payables, the carrying values are assumed to approximate their fair value.

Note 16: Lease Liabilities

	2023 \$'000	2022 \$'000
Lease liabilities		
Current lease liabilities	101,085	94,767
Non-current lease liabilities	149,538	167,610
Total carrying amount of lease liabilities	250,623	262,377

	2023 \$'000	2022 \$'000
Cash outflow		
Total cash outflow in relation to lease liabilities and associated interest	(116,430)	(102,097)

Lease arrangements

The above information is presented in accordance with AASB 16 *Leases*. Leases relate to properties leased by the Group with lease terms between 1 and 15 years. Leases can contain market review/fixed increments/CPI increments within the lease period and can contain additional clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Note 17: Borrowings

	2023 \$'000	2022 \$'000
NON-CURRENT		
Unsecured – at amortised cost		
Bank loans	65,696	–

Details of the fair values and interest rate risk exposure relating to each of the unsecured liabilities are set out in Note 29.

Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

Loan	Currency	Nominal interest rate	Year of maturity	2023 \$'000	2022 \$'000
Bank loans	AUD	BBSY + 1.55% - 2.45%	2025	65,696	–

Notes to the financial statements continued

for the year ended 30 June 2023

Note 18: Provisions

	2023 \$'000	2022 \$'000
CURRENT		
Employee benefits	43,788	46,331
Other	1,535	7,439
	45,323	53,770
NON-CURRENT		
Employee benefits	3,083	2,712

Note 19: Deferred Consideration

	2023 \$'000	2022 \$'000
CURRENT		
Deferred and contingent consideration	145	10,235

The majority of deferred and contingent consideration in the 2022 financial year (\$10.0m) is in relation to the Medlab business acquisition. Refer to Note 25 for details.

During the 2023 financial year \$5.0m contingent consideration has been adjusted due to criteria in business purchase agreement not being satisfied while the remaining \$5.0m was paid in February 2023.

Note 20: Issued Capital

(a) Share capital

	30 Jun 2023 Shares	30 Jun 2022 Shares	30 Jun 2023 \$'000	30 Jun 2022 \$'000
Fully paid ordinary shares	201,834,015	201,834,015	797,975	797,975
Other equity securities				
Treasury shares	(1,330,743)	(1,023,715)	(5,835)	(4,944)
	200,503,272	200,810,300	792,140	793,031

(b) Ordinary shares

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at shareholders' meetings of Australian Clinical Labs Limited.

(c) Options and performance rights

Details of options and performance rights issued, exercised and forfeited during the financial year and options and performance rights outstanding at the end of the financial year are set out in Note 22.

(d) Treasury shares

Treasury shares in Clinical Labs are held by the Australian Clinical Labs Employee Share Trust ('ACLEST'). For further details, please refer to Note 1(q).

Note 20: Issued Capital (continued)

Date 2023	Details	Number of shares	Value of shares \$'000
1/07/2022	Opening balance of the Group	(1,023,715)	(4,944)
15/09/2022	Treasury shares acquired on market	(208,732)	(891)
15/09/2022	Dividend reinvestment plan	(98,296)	–
30/06/2023	Closing balance of the Group	(1,330,743)	(5,835)

Date 2022	Details	Number of shares	Value of shares \$'000
1/07/2021	Opening balance of the Group	–	–
9/12/2021	Treasury shares acquired on market	(100,000)	(450)
10/12/2021	Treasury shares acquired on market	(100,000)	(458)
13/12/2021	Treasury shares acquired on market	(100,000)	(474)
14/12/2021	Treasury shares acquired on market	(100,000)	(481)
15/12/2021	Treasury shares acquired on market	(100,000)	(478)
16/12/2021	Treasury shares acquired on market	(100,000)	(491)
17/12/2021	Treasury shares acquired on market	(100,000)	(488)
20/12/2021	Treasury shares acquired on market	(100,000)	(504)
21/12/2021	Treasury shares acquired on market	(100,000)	(543)
22/12/2021	Treasury shares acquired on market	(100,000)	(577)
21/04/2022	Dividend reinvestment plan	(23,715)	–
30/06/2022	Closing balance of the Group	(1,023,715)	(4,944)

Notes to the financial statements continued

for the year ended 30 June 2023

Note 21: Reserves and Retained Earnings

	Share-based payment reserve \$'000	Foreign currency translation reserve \$'000	Common control reserve \$'000	Loss reserve \$'000	Total reserves \$'000
2022					
Opening balance at 1 July 2021	43	106	(645,632)	(132,788)	(778,271)
Exchange differences on translation of foreign operations	–	6	–	–	6
Management share scheme – LTVR	1,458	–	–	–	1,458
Closing balance at 30 June 2022	1,501	112	(645,632)	(132,788)	(776,807)
2023	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance at 1 July 2022	1,501	112	(645,632)	(132,788)	(776,807)
Exchange differences on translation of foreign operations	–	(40)	–	–	(40)
Management share scheme – LTVR	1,883	–	–	–	1,883
Closing balance at 30 June 2023	3,384	72	(645,632)	(132,788)	(774,964)

(a) Share-based payment reserve

The share based payment reserve reflects the fair value of equity-settled share-based payments.

The Group established a Long-Term Variable Remuneration (LTVR) Plan commencing 25 May 2021. Refer to Note 1(t), Note 27 and the Remuneration Report for full details.

(b) Foreign currency translation reserve

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

(c) Common control reserve

On 17 December 2020, a restructure took place that resulted in a newly incorporated company, Australian Clinical Labs Limited (formerly ACL Holdco Pty Ltd), obtaining control over Clinical Laboratories Pty Ltd and its controlled entities.

The financial report is presented on the basis of historical cost however the debt and restructure occurred based on the fair value of the business which has not been reflected in the financial report resulting in the recognition of a common control reserve.

(d) Loss reserve

The reserve is comprised of losses up to 30 June 2019 (\$120.3m), and a \$12.5m payment to Advanced Medical Technology Pty Ltd as a result of the restructure, where the Group recognised and settled a promissory note in the 2021 financial year.

Note 22: Share-Based Payments

The Group has an equity-settled share-based compensation plan for executives and employees. The fair value of equity remuneration granted under the plan is recognised as an expense with a corresponding increase in equity. Please refer to Note 1(t) for further details.

(a) Australian Clinical Labs Limited Rights Plan

Performance rights are granted under the Australian Clinical Labs Limited Rights Plan for no consideration and they carry no dividend or voting rights. When exercisable, each performance right is convertible into one ordinary share.

Type 2023	Grant date	Expiry date	Exercise price	Balance at start of year	Granted during the year	Forfeited during the year	Balance at end of year	Exercisable at end of year	Balance at date of this report
Performance rights	25-May-21	24-May-26	Nil	804,532	–	–	804,532	–	804,532
Performance rights	13-Jul-21	12-Jul-26	Nil	77,452	–	(37,672)	39,780	–	39,780
Service rights	20-Nov-21	19-Nov-26	Nil	792,702	–	(114,087)	678,615	–	678,615
Performance rights	13-Mar-23	12-Mar-28	Nil	–	896,374	–	896,374	–	896,374
Service rights	13-Mar-23	12-Mar-28	Nil	–	379,912	–	379,912	–	379,912
Total				1,674,686	1,276,286	(151,759)	2,799,213	–	2,799,213

Type 2022	Grant date	Expiry date	Exercise price	Balance at start of year	Granted during the year	Forfeited during the year	Balance at end of year	Exercisable at end of year	Balance at date of this report
Performance rights	25-May-21	24-May-26	Nil	804,532	–	–	804,532	–	804,532
Performance rights	13-Jul-21	12-Jul-26	Nil	–	104,025	(26,573)	77,452	–	77,452
Service rights	20-Nov-21	19-Nov-26	Nil	–	811,641	(18,939)	792,702	–	792,702
Total				804,532	915,666	(45,512)	1,674,686	–	1,674,686

Fair value of rights granted

The average assessed fair value of performance rights granted during the year ended 30 June 2023 was \$1.180 per right (2022: \$1.927). The average assessed fair value of service rights granted during the year ended 30 June 2023 was \$3.405 per right (2022: \$4.054). The service rights generally have a higher value than the performance rights given that the only condition is a service period and not Group performance. The valuation model inputs for rights granted during the year ended 30 June 2023 and 30 June 2022 included:

Notes to the financial statements continued

for the year ended 30 June 2023

Note 22: Share-Based Payments (continued)

Type	Grant date	Expiry date	Exercise price	Share price at time of grant	Expected life (years from date of issue)	Share price volatility	Risk free rate	Dividend yield
Performance rights	13-Jul-21	12-Jul-26	Nil	\$3.46	3.0	45%	0.21%	3.00%
Service rights	20-Nov-21	19-Nov-26	Nil	\$4.34	2.0	31%	1.15%	3.40%
Performance rights	13-Mar-23	12-Mar-28	Nil	\$3.60	2.3	33%	3.26%	4.49%
Service rights	13-Mar-23	12-Mar-28	Nil	\$3.63	0.8 - 1.8	33%	4.70%	3.86%

A Monte Carlo simulation was applied to fair value the TSR performance condition element of performance rights granted. The model simulated the Group's TSR and compared it against the peer group over the vesting periods. The service rights are valued using a Black-Scholes model.

(b) Expenses arising from share-based payment transactions

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

	2023 \$'000	2022 \$'000
Share-based payments expense	1,883	1,458

Note 23: Earnings Per Share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share ("EPS") has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares.

	2023 Cents	2022 Cents
Basic earnings per share	17.90	88.55
Diluted earnings per share	17.85	88.46

Earnings	2023 \$'000	2022 \$'000
The earnings used in the calculation of basic and diluted earnings per share are the same and can be reconciled to the consolidated statement of profit or loss and other comprehensive income as follows:		
Profit for the year	36,042	178,402
Net (profit) attributable to non-controlling interests	(141)	(158)
Earnings used in calculating basic and diluted earnings per share	35,901	178,244

Note 23: Earnings Per Share (continued)

Weighted average number of shares	2023	2022
The weighted average number of shares used in the calculation of basic earnings per share	200,568,042	201,291,659
The weighted average number of shares and potential ordinary shares used in the calculation of diluted earnings per share	201,115,660	201,486,594

Performance rights under the Australian Clinical Labs Performance Rights Plan are determined to be contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time and therefore they are not included in the determination of diluted 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 22.

Note 24: Dividends

	2023 \$'000	2022 \$'000
(a) Dividends paid or declared		
Interim dividend for the half-year ended 31 December 2022 of 7.00 cents (2022: 12.00 cents) per share paid on 26 April 2023 fully franked.	14,128	24,218
Final dividend for the year ended 30 June 2022 of 41.00 cents (2021: Nil cents) per share paid on 12 September 2022 fully franked.	82,752	–
	96,880	24,218
(b) Dividends declared after the reporting period and not recognised		
Final dividend for the year ended 30 June 2023 of 7.00 cents per share (2022: 41.00 cents) has been declared with a record date of 15 September 2023 and payable on 3 October 2023, fully franked.	14,128	82,752
(c) Franked dividends		
Franking credits available at year end for subsequent financial years based on a tax rate of 30%.	46,716	69,994

Notes to the financial statements continued

for the year ended 30 June 2023

Note 25: Changes to the Composition of the Group

Business combinations

Acquisition of Medlab Pathology (prior year)

On 20 December 2021, the Group successfully completed the acquisition of Medlab Pathology (Medlab), a leading Australian privately-owned independent pathology provider, with two laboratories and around 300 collection centres across New South Wales and Queensland.

For full details of the business combination refer to the 2022 Annual Report.

Contingent consideration

Contingent consideration of \$5.0m was payable if certain revenue targets were met.

During the 2023 financial year the contingent consideration has been reversed due to criteria in a business purchase agreement not being satisfied.

Note 26: Controlled Entities

The financial report includes the financial statements of Australian Clinical Labs Limited and its controlled entities as listed below:

	Country of incorporation	Percentage owned (%) 2023	Percentage owned (%) 2022
<i>Parent Entity:</i>			
Australian Clinical Labs Limited	Australia		
<i>Subsidiaries of Australian Clinical Labs Limited:</i>			
ACL MidCo Pty Ltd	Australia	100	100
ACL Finco Pty Ltd	Australia	100	100
Clinical Laboratories Pty Ltd	Australia	100	100
Clinical Laboratories (WA) Pty Ltd	Australia	100	100
Perth Medical Laboratories Pty Ltd	Australia	100	100
ACL Employee Share Trusco Pty Ltd	Australia	100	100
Malvern Pathology Laboratories Sdn Bhd.	Malaysia	100	100
Southern Sun Clinics Pty Ltd	Australia	100	100
SunDoctors Kalowen Pty Ltd	Australia	85	85
Southern Sun Practices Pty Ltd	Australia	100	100
SunDoctors Taree Pty Ltd	Australia	100	100
SunDoctors Coffs Harbour (Southern Cross) Pty Ltd	Australia	100	100
SunDoctors Pottsville Pty Ltd	Australia	100	100
SunDoctors Byron Bay Pty Ltd	Australia	100	100
SunDoctors Burleigh Heads Pty Ltd	Australia	100	100
SunDoctors Novocastrian Pty Ltd	Australia	100	100
Dermaphath AI Pty Ltd	Australia	100	100
Southern Sun Pathology (Helix) Pty Ltd	Australia	100	100
Southern Sun Healthcare Pty Ltd	Australia	100	100
SunDoctors Nelson Bay Pty Ltd (formerly known as SunDoctors Joondalup Pty Ltd)	Australia	100	100
WSCC Healthcare Pty Ltd	Australia	50	50
Orange Skin Cancer Clinic Pty Ltd	Australia	100	100
Ryde Skin Cancer Clinic Pty Ltd	Australia	100	100
Bolton Street Cancer Clinic Pty Ltd	Australia	100	100
Gosford SCC Pty Ltd	Australia	100	100
Southern Sun Pathology Pty Ltd	Australia	100	100
Skin Cancer Clinic Parramatta Pty Ltd	Australia	100	100
Aussie Skin Cancer Clinics Pty Ltd	Australia	100	100
Wollongong SCC Pty Ltd	Australia	100	100

Malvern Pathology Laboratories Sdn Bhd. recharges its costs plus a mark-up to Clinical Laboratories Pty Ltd which is eliminated upon consolidation.

Notes to the financial statements continued

for the year ended 30 June 2023

Note 27: Related Parties

(a) Parent entities and subsidiaries

Australian Clinical Labs Limited is the ultimate Parent Company in the Group comprising the Company and its subsidiaries as detailed in Note 26.

(b) Key management personnel compensation

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

	2023 \$'000	2022 \$'000
Short-term employee benefits	2,238	3,508
Long-term employee benefits	14	18
Post-employment benefits	98	107
Share-based payments	242	195
	2,592	3,828

There were no transactions which occurred with entities controlled by Related Parties.

Note 28: Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial period as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

	2023 \$'000	2022 \$'000
Cash and cash equivalents – at amortised cost	19,955	26,372

(b) Reconciliation of net profit for the year to net cash flows from operating activities

	2023 \$'000	2022 \$'000
Profit for the year before taxation	48,310	254,900
Non-cash flows in operating profit		
Depreciation and amortisation	122,755	106,096
(Gain)/loss on sale of assets	(136)	668
Reassessment of Medlab contingent consideration	(5,000)	–
Share-based payments expense	1,883	1,458
Accrued interest expense on borrowings	(485)	97
Capitalised borrowing costs	504	260
	167,831	363,479
Changes in assets and liabilities		
Decrease/(increase) in trade and other receivables	17,404	(28,119)
(Increase)/decrease in other assets	(1,248)	509
Decrease/(increase) in inventories	4,996	(3,898)
(Decrease)/increase to trade and other payables	(17,729)	16,487
(Decrease)/increase to provisions	(8,076)	2,915
(Decrease)/increase to other liabilities	(1,588)	1,587
Income tax paid	(17,909)	(68,873)
Net cash provided by operating activities	143,681	284,087

(c) Non-cash financing and investing activities

The following non-cash financing and investing activities occurred during the year and are not reflected in the statement of cash flows:

- Acquisition of right-of-use assets (Note 12)
- Options and rights issued to employees for no cash consideration (Note 22)

Notes to the financial statements continued

for the year ended 30 June 2023

Note 28: Notes to the Statement of Cash Flows (continued)

(d) Bank facilities and guarantees

At 30 June 2023, the Group had a bank overdraft available of \$6.0m which had not been utilised at year end (2022: \$6.3m, nil utilised).

Financial guarantees also existed in relation to rental properties. The Group has extended its existing facility on 2 June 2023 and has utilised \$6.0m (2022: \$5.9m) of its \$12.5m (2022: \$6.2m) facility with the Commonwealth Bank at 30 June 2023.

In order to enhance the Group's liquidity, the Group also has available the following unsecured debt facilities:

- \$30.0m funded jointly with Commonwealth Bank and HSBC, which includes the bank overdraft, short-term loan and facility in relation to the financial guarantees above, \$6.0m utilised (2022: \$5.9m utilised, \$20m limit).
- \$110.0m funded jointly by Commonwealth Bank and HSBC of which the Group has utilised \$66.0m as at 30 June 2023 (2022: \$100.0m which had not been utilised).

Note 29: Financial Risk Management

The Group's activities expose it to a variety of financial risks which includes market risk (including currency and interest rate risk), credit risk and liquidity risk. The Group's risk management is coordinated at its head office, in close cooperation with the Board of Directors, and focuses actively in ensuring the Group's short-to medium-term cash flows by minimising potential adverse effects on the financial performance of the Group.

The Group's financial instruments consist mainly of deposits with banks, debt facilities, trade receivables and trade payables. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The below is an outline of key financial risks and the Group management's strategies for managing them.

Risk	Description	Strategy for management
Capital management risk	The Group manages its capital with the aim to ensure the Group's ability to continue to operate as a going concern so that it can continue to provide returns to its shareholders. The Group aims to optimise its debt and equity balance to reduce the cost of capital.	The Group proactively manages its capital structure and may issue new shares, or enter into rights issues or vary the amount of dividends paid to shareholders. The capital structure of the Group is mainly monitored on the basis of the following ratios, which are also covenants under the Group's debt facilities: • Leverage Ratio. The Group's leverage ratio as at 30 June 2023 is 0.63, which is under the upper threshold of 3.50. • Fixed Charge Cover Ratio. The Group's fixed charge ratio as at 30 June 2023 is approximately 1.53, which is over the bottom threshold of 1.45.
Market risk		
Interest rate risk	The Group's exposure to market risk from changes interest rates relates primarily to its short-term cash investments and bank borrowings at variable interest rates.	The Group may enter into interest rate swap contracts to hedge against exposure to fluctuations in interest rates. The Group did not enter into any interest rate swaps in the current year.

Note 29: Financial Risk Management (continued)

Risk	Description	Strategy for management
Foreign exchange risk	The Group has minimum foreign currency risk from the following: - Translation of the net assets of the Group's foreign controlled entity, which operates using a different functional currency. - The Group has a limited number of transactions that are required to be settled in foreign currencies.	The Group may enter into cash flow hedges for committed, large and known expenditure denominated in foreign currency to manage its foreign exchange risk.
Price risk	The Group does not have significant exposure to fluctuations in the fair values or future cash flows of financial instruments associated with changes in market prices.	The Group does not currently invest in equity securities or other financial instruments with market prices risk.
Credit risk	The exposure to credit risk at the balance date is the carrying amount of those assets, net of any of provisions for impairment as disclosed in Note 7 of the financial report. The Group does not have any material exposure to any individual customers or counterparty other than certain government or statutory funded bodies in which the Group operates.	The Group manages credit risk by performing ageing analysis on receivable balances on an ongoing basis. The Group also has a rigorous process in place to minimise bad debts which involves sending out reminder notices, demand for repayments and referral to debt collection agencies. The Group has not renegotiated any material collection/repayment terms of any financial assets in the current or previous financial year.
Liquidity risk	The Group is required to maintain a high level of liquidity to ensure that it is capable of meeting its obligations associated with its financial liabilities and to fund its long-term strategic initiatives and expansion plans.	The Group manages its liquidity risk by: - The Group has adequate debt facilities in place should they be required to refinance any short-term liabilities. - Ongoing cash flow forecasting and reporting.

(a) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity period is set out in the below table. Exposure predominantly arises from the Group's borrowings at floating interest plus a fixed margin.

	Average interest rate %	Variable interest rate \$'000	Fixed interest rate			Total \$'000
			Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	
2023						
Financial assets						
Cash	3.16%	19,955	–	–	–	19,955
Financial liabilities						
Bank loans	BBSY + 1.55% - 2.45%	(65,696)	–	–	–	(65,696)
Lease liabilities	2.05% - 7.00%	–	(101,085)	(138,675)	(10,863)	(250,623)
Total		(45,741)	(101,085)	(138,675)	(10,863)	(296,364)

Notes to the financial statements continued

for the year ended 30 June 2023

Note 29: Financial Risk Management (continued)

	Average interest rate %	Variable interest rate \$'000	Fixed interest rate			Total \$'000
			Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	
2022						
Financial assets						
Cash	0.17%	26,372	–	–	–	26,372
Financial liabilities						
Bank loans	BBSY + 1.5% - 2.40%	–	–	–	–	–
Lease liabilities	2.05% - 7.00%	–	(94,767)	(154,374)	(13,236)	(262,377)
Total		26,372	(94,767)	(154,374)	(13,236)	(236,005)

(b) Sensitivity Analysis

The following table summarises the sensitivity of the Group's financial asset and liabilities to interest rate risk. The analysis has been determined based on the Group's exposure to variable interest rates during the financial year projecting a reasonably possible change taking place at the beginning of the financial year, held constant throughout the financial year and applied to variable interest payments made throughout the financial year.

	Carrying amount \$'000	Result		Equity	
		1.0%/100BP increase \$'000	1.0%/100BP decrease \$'000	1.0%/100BP increase \$'000	1.0%/100BP decrease \$'000
2023					
Financial assets					
Cash	19,955	200	(200)	200	(200)
Financial liabilities					
Bank loans	(65,696)	(657)	657	(657)	657
Total	(45,741)	(457)	457	(457)	457

	Carrying amount \$'000	Result		Equity	
		1.0%/100BP increase \$'000	1.0%/100BP decrease \$'000	1.0%/100BP increase \$'000	1.0%/100BP decrease \$'000
2022					
Financial assets					
Cash	26,372	264	(264)	264	(264)
Financial liabilities					
Bank loans	–	–	–	–	–
Total	26,372	264	(264)	264	(264)

Note 30: Parent Entity Information

	2023 \$'000	2022 \$'000
Assets		
Current assets	225,505	230,613
Non-current assets	585,469	585,468
Total assets	810,974	816,081
Liabilities		
Current liabilities	336	148
Total liabilities	336	148
Equity		
Issued capital	797,975	797,975
Reserves	3,385	1,501
Retained earnings	9,278	16,457
Total equity	810,638	815,933
	2023 \$'000	2022 \$'000
Financial performance		
Profit for the year	89,702	25,995
Total comprehensive income	89,702	25,995

Note 31: Auditor's Remuneration

	2023 \$'000	2022 \$'000
Auditor of Australian Clinical Labs Limited – Audit Services		
Audit of the financial report for the financial year	230	243
Review of the financial report for the half year	80	69
Total audit and other assurance services	310	312

Note 32: Contingent Asset

During the 2022 financial year, one of our laboratories based in Queensland was flooded with extensive damage caused to the laboratory equipment and consumables on hand.

An insurance claim process is ongoing, however at 30 June 2023 the insurance claim had not been verified in its entirety and as such a receivable for the entire claim has not been recorded at 30 June 2023. The Group received a progress payment from the insurers and was also able to get the insurers to agree to some specific items and as such, there was insurance income recorded for \$2.7m (2022: \$1.6m) in the Statement of profit and loss.

The Group has a contingent asset for the remaining balance of the claim that has yet to be quantified and verified by the insurers, which has not been recognised in the financial statements.

Notes to the financial statements continued

for the year ended 30 June 2023

Note 33: Deed of Cross Guarantee

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Instrument that the relevant holding entity and each of the relevant subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that each holding entity guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries in each Group under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the *Corporations Act 2001*, each holding entity will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that each holding entity is wound up.

The parent entity and subsidiaries subject to the Deed of Cross Guarantee as at 30 June 2023 are as follows:

- ACL MidCo Pty Ltd
- ACL Finco Pty Ltd
- Clinical Laboratories Pty Ltd
- Clinical Laboratories (WA) Pty Ltd
- Southern Sun Clinics Pty Ltd
- Southern Sun Pathology Pty Ltd
- Southern Sun Pathology (Helix) Pty Ltd
- Southern Sun Healthcare Pty Ltd

The following subsidiaries were added as parties to the Deed on 28 June 2023 and are also part of the Closed Group:

- Southern Sun Practices Pty Ltd
- SunDoctors Nelson Bay Pty Ltd
- SunDoctors Taree Pty Ltd
- SunDoctors Coffs Harbour (Southern Cross) Pty Ltd
- SunDoctors Pottsville Pty Ltd
- SunDoctors Byron Bay Pty Ltd
- SunDoctors Burleigh Heads Pty Ltd
- SunDoctors Novocastrian Pty Ltd
- Dermapath AI Pty Ltd
- Orange Skin Cancer Clinic Pty Ltd
- Ryde Skin Cancer Clinic Pty Ltd
- Bolton Street Cancer Clinic Pty Ltd
- Gosford SCC Pty Ltd
- Skin Cancer Clinic Parramatta Pty Ltd
- Aussie Skin Cancer Clinics Pty Ltd
- Wollongong SCC Pty Ltd
- Perth Medical Laboratories Pty Ltd
- ACL Employee Share Trusco Pty Ltd

These entities above represent a 'Closed Group' for the purposes of the Instrument.

Note 33: Deed of Cross Guarantee (continued)

(a) Consolidated statement of profit or loss of the Closed Group

	2023 \$'000	2022 \$'000
Revenue	689,069	985,212
Other income	7,684	1,561
Total	696,753	986,773
Consumables	(125,951)	(207,143)
Labour costs	(290,697)	(307,527)
Labour costs – Healius transaction	(1,201)	–
Property costs	(15,049)	(17,096)
Repairs and maintenance	(8,011)	(7,972)
Healius transaction costs	(7,080)	–
Acquisition, restructuring and other one-off expenses	(2,627)	(8,940)
Other operating expenses	(62,917)	(67,462)
Depreciation	(13,794)	(10,888)
Depreciation of right-of-use assets	(108,267)	(93,724)
Amortisation of acquired intangible assets	(1)	196
Total operating costs	(635,595)	(720,556)
Earnings before interest and tax	61,158	266,217
Net finance costs	(13,661)	(11,635)
Profit before income tax	47,497	254,582
Income tax expense	(12,035)	(76,519)
Profit for the year	35,462	178,063
Net (profit) attributable to non-controlling interests	(141)	(158)
Net profit attributable to members of the Closed Group	35,321	177,905

Notes to the financial statements continued

for the year ended 30 June 2023

Note 33: Deed of Cross Guarantee (continued)

(b) Consolidated statement of other comprehensive income of the Closed Group

	2023 \$'000	2022 \$'000
Profit for the year	35,462	178,063
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	—	—
Other comprehensive income for the year, net of tax	—	—
Total comprehensive income for the year	35,462	178,063
Total comprehensive income attributable to:		
Members of the Closed Group	35,321	177,905
Non-controlling interests	141	158
	35,462	178,063

(c) Reconciliation of retained earnings of the Closed Group

	2023 \$'000	2022 \$'000
Retained earnings at the beginning of the financial year	215,511	61,823
Profit from ordinary activities after income tax expense	35,321	177,906
Dividends paid during the year	(14,128)	(24,218)
Effect on retained profits from addition of entities to the Closed Group	(84,190)	—
Retained earnings at the end of the financial year	152,514	215,511

Note 33: Deed of Cross Guarantee (continued)

(d) Consolidated statement of financial position of the Closed Group

	2023 \$'000	2022 \$'000
CURRENT ASSETS		
Cash and cash equivalents	18,463	25,098
Trade and other receivables	73,160	90,834
Inventories	15,070	19,980
Other assets	4,544	12,516
Current tax assets	1,240	–
TOTAL CURRENT ASSETS	112,477	148,428
NON-CURRENT ASSETS		
Plant and equipment	49,975	56,940
Right-of-use assets	237,856	250,308
Intangible assets	164,157	163,739
Other assets	1,111	150
Deferred tax assets	8,457	9,803
TOTAL NON-CURRENT ASSETS	461,556	480,940
TOTAL ASSETS	574,033	629,368
CURRENT LIABILITIES		
Trade and other payables	41,159	58,934
Lease liabilities	100,832	93,964
Provisions	45,270	53,593
Current tax liabilities	–	5,659
Deferred consideration	145	10,000
Other liabilities	–	1,587
TOTAL CURRENT LIABILITIES	187,406	223,737
NON-CURRENT LIABILITIES		
Lease liabilities	149,484	166,571
Borrowings	65,696	–
Provisions	3,082	2,712
TOTAL NON-CURRENT LIABILITIES	218,262	169,283
TOTAL LIABILITIES	405,668	393,020
NET ASSETS	168,365	236,348

Notes to the financial statements continued

for the year ended 30 June 2023

Note 33: Deed of Cross Guarantee (continued)

	2023 \$'000	2022 \$'000
EQUITY		
Issued capital	790,964	797,975
Reserves	(775,367)	(777,251)
Retained earnings	152,514	215,511
Total parent entity interest	168,111	236,235
Non-controlling Interest	254	113
TOTAL EQUITY	168,365	236,348

Note 34: Subsequent Events

There were no other significant changes in the Group's state of affairs that occurred following the end of the financial year and up to the date of the financial report, other than those referred to elsewhere in this report.

Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 66 to 109 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 33 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 33.

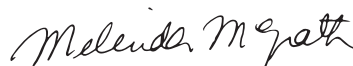
Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required under section 295A of the *Corporations Act 2001*.

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



Daren McKennay
Chair
21 August 2023



Melinda McGrath
CEO and Executive Director
21 August 2023

Independent Auditor's Report



AUSTRALIAN CLINICAL LABS LIMITED
AND CONTROLLED ENTITIES
ABN: 94 645 711 128

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
AUSTRALIAN CLINICAL LABS LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australian Clinical Labs Limited "the Company" and its controlled entities "the Group", which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
<i>Carrying value of Goodwill</i> Refer to Note 1(l) and Note 13	
At 30 June 2023 the Group's balance sheet includes goodwill relating to one cash generating unit ("CGU"). We believe due to the significance of the goodwill balance, that the carrying value is a key audit matter.	Our procedures included, amongst others: Assessing management's determination of the Group's CGU based on our understanding of the nature of the Group's business and the economic environment in which it operates.

Pitcher Partners. An independent Victorian Partnership ABN 27 975 255 196, Level 13, 664 Collins Street, Docklands, VIC 3008
Pitcher Partners is an association of independent firms. Liability limited by a scheme approved under Professional Standards Legislation.
Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities

Adelaide Brisbane Melbourne Newcastle Sydney Perth

pitcher.com.au



**AUSTRALIAN CLINICAL LABS LIMITED
AND CONTROLLED ENTITIES
ABN: 94 645 711 128**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
AUSTRALIAN CLINICAL LABS LIMITED**

Specifically, the key audit matter for us was whether the Group's value in use model for impairment included appropriate consideration and support for significant estimates and judgements and the selection of key external and internal inputs.

Management's assessment of impairment of the Group's goodwill balances incorporated significant estimates and judgements in respect of factors such as forecast:

- revenues;
- expenses;
- capital expenditure; and
- economic assumptions in the cash flow model such as, discount rates, growth rates and terminal growth rate.

- Understanding and evaluating the design and implementation of management's processes and controls regarding valuation of the Group's goodwill assets to determine any asset impairment including the procedures around the preparation and review of forecasts.

- Evaluating the Group's significant estimates and judgements used to determine the recoverable value of its assets, including those relating to forecast revenue, expenses, capital expenditure, and other economic assumptions.
- Engaging an auditor's expert to evaluate the key economic assumptions to external market data.
- Recalculating the mathematical accuracy of the cash flow model.
- Assessing the historical accuracy of forecasting of the Group.
- Performing sensitivity analysis in relation to the significant estimates and judgements made by management.
- Assessing the adequacy of disclosure in the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

Pitcher Partners. An independent Victorian Partnership ABN 27 975 255 196. Level 13, 664 Collins Street, Docklands, VIC 3008

Pitcher Partners is an association of independent firms. Liability limited by a scheme approved under Professional Standards Legislation.

Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities

Adelaide Brisbane Melbourne Newcastle Sydney Perth

pitcher.com.au

Independent Auditor's Report continued



**AUSTRALIAN CLINICAL LABS LIMITED
AND CONTROLLED ENTITIES
ABN: 94 645 711 128**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
AUSTRALIAN CLINICAL LABS LIMITED**

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Pitcher Partners. An independent Victorian Partnership ABN 27 975 255 196. Level 13, 664 Collins Street, Docklands, VIC 3008

Pitcher Partners is an association of independent firms. Liability limited by a scheme approved under Professional Standards Legislation.

Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities

Adelaide Brisbane Melbourne Newcastle Sydney Perth

pitcher.com.au



**AUSTRALIAN CLINICAL LABS LIMITED
AND CONTROLLED ENTITIES
ABN: 94 645 711 128**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
AUSTRALIAN CLINICAL LABS LIMITED**

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 36 to 49 of the directors' report for the year ended 30 June 2023. In our opinion, the Remuneration Report of Australian Clinical Labs Limited, for the year ended 30 June 2023, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

S D WHITCHURCH
Partner

PITCHER PARTNERS
Melbourne

21 August 2023

Pitcher Partners. An independent Victorian Partnership ABN 27 975 255 196. Level 13, 664 Collins Street, Docklands, VIC 3008
Pitcher Partners is an association of independent firms. Liability limited by a scheme approved under Professional Standards Legislation.
Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities

Adelaide Brisbane Melbourne Newcastle Sydney Perth

pitcher.com.au

Shareholder Information

for the year ended 30 June 2023

Number of shareholders

As at 11 September 2023, there were 201,834,015 fully paid ordinary shares held by 7,351 shareholders.

Distribution of ordinary shares as at 11 September 2023

Number of shares held	No. of individuals
1–1,000	3,568
1,001–5,000	2,491
5,001–10,000	740
10,001–100,000	503
100,001 and over	49
TOTAL	7,351

No shareholders held less than a marketable parcel of shares.

Number of Rights holders

As at 11 September 2023, there were 2,799,213 Rights held by 57 persons.

Distribution of Rights at 11 September 2023

Number of Rights held	No. of individuals
1–1,000	–
1,001–5,000	–
5,001–10,000	1
10,001–100,000	46
100,001 and over	10
TOTAL	57

Number of Options holders

As at 11 September 2023, the Company did not have any Options on issue.

Shares held in escrow

As at 11 September 2023, there are no shares held in escrow.

Securities Exchange Listing

On 14 May 2021, Australian Clinical Labs Limited became a listed public company, incorporated and operating in Australia. The shares of the Company are listed on the ASX under the code 'ACL'.

Voting rights

The voting rights of members are governed by ACL's constitution, which provides that each member is entitled to be present at any general meeting of ACL and to vote on any resolution on a show of hands or upon a poll. A member can attend personally or by appointing a proxy, attorney or corporate representative, as appropriate. Every member present in person, by proxy, attorney or corporate representative, has one vote for every share held.

ACL's fully paid ordinary shares carry voting rights of one vote per share.

ACL Rights do not carry voting rights. Restricted shares following exercise of a Right carry voting rights.

Top 20 Shareholders as at 11 September 2023

Rank	Name	No. of shares	% of shares on issue
1	CRESCENT CAPITAL PARTNERS V LP.	34,579,411	17.13
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	33,314,369	16.51
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	25,262,126	12.52
4	CITICORP NOMINEES PTY LIMITED	20,122,838	9.97
5	NATIONAL NOMINEES LIMITED	13,940,616	6.91
6	INSTANZ NOMINEES PTY LTD	9,514,668	4.71
7	CCP TRUSCO 1 PTY LTD	8,919,642	4.42
8	BNP PARIBAS NOMS PTY LTD	5,961,920	2.95
9	CCP TRUSCO 2 PTY LTD	3,908,488	1.94
10	MELINDA McGRATH	2,173,867	1.08
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,131,656	1.06
12	PERPETUAL CORPORATE TRUST LTD	2,084,287	1.03
13	PERPETUAL CORPORATE TRUST LTD	1,786,533	0.89
14	ACL EMPLOYEE SHARE TRUSCO PTY LTD	1,330,743	0.66
15	MR NICHOLAS BARRY DEBENHAM & MRS ANNETTE CECILIA DEBENHAM	1,080,800	0.54
16	DR ANTHONY JAMES LANDGREN	838,211	0.42
17	ANTHONY FRIEDLI	754,390	0.37
18	A.C.N. 633 176 100 PTY LTD	749,464	0.37
19	AKAT INVESTMENTS PTY LIMITED	600,000	0.30
20	PAUL GERARD RICHARD	574,649	0.28
TOTAL		169,628,678	84.04

Substantial shareholders as per most recent notice

Name	Number of fully paid ordinary shares	% of total issued capital as at the date of latest notice
Crescent Capital Partners (various holdings)	60,793,029	30.12
Ethical Partners Funds Management Pty Ltd	17,538,246	8.73
Superannuation Funds Management Corporation of South Australia	12,206,607	6.05

Shareholder Information continued

for the year ended 30 June 2023

Indicative corporate calendar*

2023 AGM	23 October 2023
FY24 half year results announcement	23 February 2024
FY24 year end	30 June 2024
FY24 full year results announcement	22 August 2024
2024 AGM	24 October 2024

* These dates are indicative only and are subject to change.

Shareholders are reminded that under the Company’s constitution any shareholder wishing to nominate themselves or another person as candidate for election as a Director must serve a signed notice of nomination and a consent to the nomination on the Company by no later than 35 business days before an AGM.

Corporate Directory

Company's registered office and principal administrative office

Australian Clinical Labs Limited
1868-1892 Dandenong Road
Clayton VIC 3168

Tel: 1300 453 688

Share registry

Link Market Services
Level 12
680 George Street
Sydney NSW 2000

Tel: 1300 554 474

For personal use only



ABN 94 645 711 128

Australian Clinical Labs Limited
1868-1892 Dandenong Road
Clayton VIC 3168