



MEDIA RELEASE – 26 JULY 2006

AUCKLAND LABORATORY CONTRACT UPDATE

On Friday 14 July 2006, the combined Auckland District Health Boards (ADHB) advised Sonic Healthcare's Auckland subsidiary, Diagnostic Medlab Limited (DML), that its contract to provide laboratory services to the Auckland region will terminate on 30 June 2007.

A NZ\$560 million contract, over 8 years, has been awarded exclusively to Labtests Auckland Limited (Labtests), a newly constituted entity which is 76.7% owned by Healthscope Limited and 16.7% owned by interests associated with Dr Tony Bierre, who is the company's designated CEO.

Commenting on the decision, Sonic's Managing Director and pathologist, Dr Colin Goldschmidt, said that there were potentially serious consequences flowing from the decision which should be discussed openly.

"The decision to hand responsibility for all of Auckland's community pathology to a new company, with no infrastructure or track record in Auckland, raises matters of grave concern. Regardless of what expertise Healthscope may have in Australia and elsewhere, there are serious risks to public health inherent in the establishment of such a large and complex operation in a new facility, by a new operator, and there is no satisfactory explanation of how Labtests will achieve this", he said.

"DML is proudly New Zealand's premier community laboratory company, which has progressively developed into a renowned and world-class pathology practice over decades. The company employs over 700 staff, including 37 Specialist Pathologists. DML is highly respected by the doctors of Auckland and has outstanding management, culture, values and professional ethic."

Dr Goldschmidt added that this was the first time ever that Auckland's community pathology had been subject to a tender process, instead of the usual negotiated contract renewal. "It is most disappointing that, after many decades of fine service, a business with the quality of DML can be simply "put out to tender". The ADHB decision to end DML's existence is a tragedy for New Zealand, for the doctors and people of Auckland and for the entire Australasian pathology community", he added.

1. DML's Bid

DML's offer to the ADHB represented a saving to them of approximately NZ\$5 million per annum over the forecast spend under current pricing.

Sonic and DML management worked intensively over the months before and during the RFP (Request for Proposal) tender process to structure an offer which was considered fair to the ADHB. The return that DML proposed on the contract would have been modest and, given DML's known and benchmarked efficiency, it is not clear how Labtests will be able to deliver the same level of service and quality for the price it bid.



2. Community Pathology in Auckland

DML has been the leading pathology practice providing services to the Auckland community for many decades and is currently the sole provider in the Auckland community sector. The ADHB decision in favour of Labtests will make Labtests the sole provider of laboratory services to the Auckland community, commencing 1 July 2007.

DML is one of the most efficient of all Sonic's laboratories in Australia, New Zealand, the UK, Germany and the USA. Over the years, it has reached world-class standards of professional service through the expertise, experience and commitment of its pathologists, managers, scientists and other staff. DML currently operates out of a modern world-class, high-volume, rapid-throughput laboratory facility in Ellerslie, Auckland.

Labtests and Healthscope do not have a pathology operation in Auckland and will therefore be required to set up a new laboratory facility. Sonic's Ellerslie laboratory is not available to Labtests, as Sonic intends to make use of this facility and its equipment for other purposes.

The operation of high volume laboratories is extremely complex. It involves large scale automated and manual equipment, requiring IT interfacing between equipment and mainframe databases. Electronic connectivity between laboratory IT systems and referring doctors is also required. Quality systems need to be rigorously tested and staff trained, in order to achieve accuracy, consistency and timely turnaround of results. The operation of many collection centre facilities and courier runs adds to the complexity. The planning and commissioning of a new high-volume laboratory operation demands the input of a team of qualified and experienced incumbent professionals, including Specialist Pathologists, who are engaged well before, during and after the start-up date. This does not seem possible in the Labtests start-up scenario.

In order to satisfy its own current contractual obligations with the ADHB - to provide services to the Auckland community until 30 June 2007 - DML will need all its staff to remain employed up to and including that date and possibly beyond. On 1 July 2007, the commencement date of the newly awarded contract, Labtests will be required to process more than 30,000 tests per day, representing the specimens of 10,000 patients, in a newly established facility and with staff who are unfamiliar with the facility and its systems.

The sudden transfer of such a high specimen volume to a new facility and to a new operator presents a grave risk to the continuity of pathology services in Auckland and will threaten the viability of an essential public service. High-volume laboratories are only successful because they have adjusted slowly to incremental volume growth over many years. Sonic is unaware of such immediate high volumes, in a start-up laboratory, having ever been attempted before, anywhere in the world.



3. Probity Issues

Dr Tony Bierre is a 16.7% shareholder of Labtests and is its designated CEO. Dr Bierre has been an elected Board member of the ADHB since 2004. In this capacity, his input into laboratory issues leading into the RFP tender process has been publicly acknowledged. Although Dr Bierre declared to the ADHB in August 2005 that he had a conflict of interest because of the upcoming RFP, he took leave of absence - but did not resign - from the ADHB in February 2006, for the period of the RFP tender process.

Sonic is concerned about the ADHB's decision to award a NZ\$560 million contract to a company in which its own Board member holds a significant financial interest.

4. Current Status

Since the announcement was made DML has received overwhelming reaction from the public and medical community of Auckland in support of its cause. Sonic continues to explore all available options to redress the current situation.

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