SONIC HEALTHCARE LIMITED

20 May 2010

SONIC HEALTHCARE EARNINGS UPDATE

Sonic Healthcare Limited ("Sonic") (SHL.AX) advises that largely due to an unexpected and temporary impact on Australian pathology revenues, the company is likely to fall short of its guidance for the 2010 financial year.

The revenue shortfall follows from Government cuts to Australian Medicare fees for pathology services, effective 1 November 2009. Although Sonic introduced billing policy changes to offset these cuts, two significant and simultaneous market events have impacted revenue growth and therefore earnings for the year:

- Sonic Queensland pathology volumes – The introduction of distinctive new billing arrangements in Sonic's Queensland operations resulted in loss of market share. Following the subsequent reversal of these arrangements, almost all lost volume has recently returned to Sonic.
- Australian pathology market volumes – Since the introduction of the Medicare fee cuts, growth rates have fallen to abnormally low levels, with negative growth in the March quarter (refer Australian Medicare statistics). It is anticipated that the normal drivers of pathology demand (preventative medicine, growth and ageing of population, new tests etc) are likely to resume their long-term and increasing influence on volume growth in coming months. Volumes in recent weeks suggest that this may have already commenced.

A contributing factor to Sonic's current position is the lower than expected revenue growth of its Australian radiology division. The anticipated benefit from recent Medicare fee increases (applicable exclusively to "bulk-bill" or Medicare-fee-only examinations) has been offset by lower average fees and increased competition from bulk-billing competitors, including State government subsidised public hospital radiology operations. Where necessary, Sonic has modified its billing strategies to accommodate this market dynamic.

Sonic Healthcare CEO, Dr Colin Goldschmidt said: "The issues impacting our full-year guidance are confined to our Australian operations only and reflect industry destabilisation flowing from Government interventions in billing arrangements. These are short-term external influences and do not reflect on the sound fundamentals of our operations. I wish to emphasise that Sonic Healthcare remains in a strong and healthy position across all key operating regions and businesses. In particular, our European and USA operations continue to perform strongly and to expectation. It is disappointing and unfortunate that the world-class Australian pathology industry has been stressed to this extent by Medicare fee cuts and related impacts. The temporary setback in our Queensland pathology operations has been exacerbated by an unexpected concurrent drop in national pathology market growth levels. It is likely that national pathology demand has fallen temporarily as a result of the recent market instability and the widespread publicity surrounding pathology billing changes. However, our Australian pathology division continues to hold its strong and market-leading position and there is evidence of market share gains in States other than Queensland".

With two months' trading still to follow, Sonic's net profit for FY 2010 is now estimated to be in the range of A$290-295 million, slightly exceeding the prior year's profit on a constant currency basis. Excluding future business acquisitions and on a constant (FY 2010) currency basis, it is expected that net earnings growth of 10-15% will be achieved for FY 2011.

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