Sonic Healthcare Limited

ABN 24 004 196 909

ASX APPENDIX 4D AND HALF YEAR REPORT – 31 DECEMBER 2010

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 2010 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET
For the six months ended 31 December 2010

Financial Results

$'000	Six months ended 31.12.10 Constant Currency	Six months ended 31.12.10 Statutory	Six months ended 31.12.09 Statutory	% Change 31.12.10 Constant Currency v 31.12.09 Statutory	% Change 31.12.10 Statutory v 31.12.09 Statutory
Revenue from ordinary activities	**1,611,987**	**1,513,693**	1,489,021	**8.3%**	**1.7%**
Earnings before interest, tax, depreciation and intangibles amortisation (**EBITDA**)	**283,434**	**265,365**	275,151	3.0%	
Depreciation and lease amortisation	**(48,995)**	**(46,801)**	(47,263)	3.7%	
Earnings before interest, tax and intangibles amortisation (**EBITA**)	**234,439**	**218,564**	227,888	2.9%	
Amortisation of intangibles	**(8,955)**	**(8,470)**	(6,156)	45.5%	
Net interest expense	**(33,422)**	**(28,989)**	(21,401)	56.2%	
Income tax attributable to Operating Profit	**(48,450)**	**(46,165)**	(44,767)	8.2%	
Net loss/(profit) attributable to Outside Equity Interests	**67**	**64**	(324)		
Net Profit attributable to shareholders of Sonic Healthcare Limited	**143,679**	**135,004**	155,240	**(7.4)%**	**(13.0)%**
Cash generated from operations		**220,727**	197,506		11.8%

Dividends

Cents per share	2010	2009
Interim dividend	**24¢**	24¢
Interim dividend franked amount per security	**6.7¢**	8.4¢

The record date for determining entitlements to the interim dividend will be 10 March 2011. The interim dividend will be paid on 24 March 2011. The Company's Dividend Reinvestment Plan (DRP) remains suspended for this dividend and until further notice. The 2011 interim dividend includes no conduit foreign income.

Earnings per share

Cents per share	Six months ended 31.12.10 Constant Currency	Six months ended 31.12.10 Statutory	Six months ended 31.12.09 Statutory	% Change 31.12.10 Constant Currency v 31.12.09 Statutory	% Change 31.12.10 Statutory v 31.12.09 Statutory
Basic earnings per share	**37.0¢**	**34.8¢**	40.0¢	(7.5)%	(13.0)%
Diluted earnings per share	**36.8¢**	**34.6¢**	39.7¢	(7.3)%	(12.8)%

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

COMMENTARY ON RESULTS
For the half year ended 31 December 2010

1. Highlights

- Business performing strongly, financial result impacted by fee cuts and new collection centre regulations in Australian pathology.
- Volume growth returning to the Australian pathology market.
- Market share gains in Australian pathology.
- Margin expansion in all major divisions except Australian pathology, with significant further synergy potential in USA and Europe.
- Five synergistic offshore laboratory acquisitions completed in the past six months.
- Active acquisition pipeline, with ~A$500M of funding headroom available after payment of the interim dividend.
- Full year Net Profit growth expected towards the lower end of 5-15% guidance range (on a constant currency basis) given in August 2010, excluding the impact of acquisitions through the year.

2. Explanation of results

(a) Constant currency

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

The average currency exchange rates for the six months to 31 December 2010 for the Australian dollar ("A$", "AUD" or "$") versus the currencies of Sonic's offshore earnings (USD, Euro, GBP, CHF, NZD) were significantly higher than in the comparative period, reducing Sonic's AUD reported earnings ("Statutory" earnings).

The underlying earnings in foreign currency are not affected, and as Sonic does not physically convert these earnings to AUD, there is no real economic effect of the currency rate volatility.

Sonic's results for the half year have therefore also been presented on a "constant currency" basis (i.e. using the same exchange rates to convert the current period foreign earnings as applied in the comparative period) to give a true reflection of the Group's performance.

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

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

As Sonic's foreign currency earnings grow and debt is repaid, the natural hedges become less effective, so AUD reported earnings do fluctuate. Sonic believes it is inappropriate to hedge translation risk (a non-cash risk) with real cash hedging instruments.

COMMENTARY ON RESULTS
For the half year ended 31 December 2010 (continued)

2. Explanation of results (continued)

(b) Revenue

Total revenue growth for the half year was 8.3% at constant currency exchange rates (i.e. applying the average rates for the six months ended 31.12.09 to the current period results).

Revenue breakdown
AUD M

	Six months ended 31.12.10 Statutory Revenue	% of 31.12.10 Statutory Revenue	Six months ended 31.12.10 Constant Currency Revenue	Six months ended 31.12.09 Revenue	Growth 31.12.10 Constant Currency v 31.12.09
Pathology – Australia	457	30%	457	462	(1.1)%
Pathology – USA	342	23%	372	337	10.4%
Pathology – Europe	384	26%	449	375	19.7%
Pathology – NZ	33	2%	35	41	(14.6)%
Radiology	184	12%	185	181	2.2%
Medical centres	110	7%	110	85	29.4%
Revenue excluding interest income	1,510	100%	1,608	1,481	
Interest income	4		4	8	
Total revenue	1,514		1,612	1,489	8.3%

Australian pathology revenue declined by 1% as a result of Government cuts to Medicare fees. Industry volume growth was unusually low in the September 2010 quarter, but improved from October. Sonic's organic volume growth was 4.1% for the half year, versus market growth (per Medicare data) of 3.3%, evidencing market share gains.

Sonic's USA and European revenue growth was augmented by synergistic business acquisitions during the current period and prior year including:

- Piedmont Medical Laboratory, Virginia, USA (31 July 2009)
- East Side Clinical Laboratory, Rhode Island, USA (30 November 2009)
- Labor Lademannbogen, Hamburg, Germany (4 January 2010)
- Medhold Group, Belgium (12 February 2010)
- CBLPath, New York, USA (1 December 2010)

New Zealand pathology revenue declined significantly as a result of Sonic's Auckland community laboratory contract finishing on 6 September 2009. The new Auckland contract awarded to Sonic in October 2009 is for ~10% of the previous volume.

Radiology revenue growth was 2.2%. Sonic remains the second largest participant in the Australian radiology market.

Sonic's medical centre business, Independent Practitioner Network ("IPN"), achieved revenue growth of 29.4% through a combination of strong organic growth in existing medical centres and greenfield sites (backed by successful doctor recruitment strategies), and acquisitions of additional centres.

Revenue was impacted by currency exchange rate movements, which decreased reported (Statutory) revenue by A$98M compared to the comparative period.

COMMENTARY ON RESULTS
For the half year ended 31 December 2010 (continued)

2. Explanation of results (continued)

(c) EBITDA

EBITDA grew 3.0% at constant currency exchange rates versus the comparative period.

EBITDA from Australian pathology declined by A$30M as a result of the impact of Government fee cuts (effective 1 November 2009) and new collection centre regulations. The new collection centre regulations have led to a blowout in the number of collection centres in the market of almost 50%. Sonic has managed to continue to grow market share while opening relatively fewer new centres than its main competitors. Sonic's patient volume growth for the half (at 4.1%) was above market growth but lower than Sonic's long term trend.

EBITDA margin expansion of 120 bps was achieved in the USA, and 60 bps in Germany, where synergy capture from acquisitions in the last few years continues. This excludes margin dilution from the acquisitions of businesses during the current and prior year which have lower margins than the average of Sonic's existing operations in those markets. Sonic's UK operations also achieved 50 bps of margin improvement.

New Zealand pathology was severely impacted by the change of the Auckland contracts, and the adverse funding system now operating in New Zealand, which comprises fixed fee contracts.

Sonic's Radiology division margins grew by 110 bps as the result of changes made following an extensive review of operations and cost structures.

IPN's margins grew by 90 bps as a result of strong organic revenue growth.

EBITDA was also impacted by the expensing of acquisition related costs, totalling A$1.3M in the half year (2009: A$0.8M), following a change to accounting standards (AIFRS). Under accounting standards applying to periods prior to 1 July 2009, these costs would have been capitalised into the carrying value of the acquisitions to which they relate. There was also a one off cost in the half year of $1.6M relating to a claim associated with an acquisition made by IPN prior to Sonic taking control.

(d) Depreciation and lease amortisation

Depreciation and leased asset amortisation has increased 3.7% on the comparative period (at constant currency rates) as a result of business acquisitions and growth. As a percentage of revenue, depreciation and amortisation at 3% is consistent with the comparative period.

(e) Intangibles amortisation

Intangibles amortisation mainly relates to internally developed software.

COMMENTARY ON RESULTS
For the half year ended 31 December 2010 (continued)

2. Explanation of results (continued)

(f) Interest expense and debt facilities

Net interest expense has increased 56% (A$12M) on the comparative period (at constant currency rates) due to increased net debt relating to acquisitions completed since July 2009 (~A$8M of additional interest), and higher margin costs as debt facilities are refinanced at current market rates (~A$4M effect in the period).

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

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

Sonic's net interest bearing debt at 31 December 2010 comprised:

	Facility Limit M	**Drawn M**	**AUD $M Available**
Notes held by US investors – USD	US$250	US$250	-
Bank debt facilities			
- USD limits	US$541	US$535	6
- Euro limits	€632	€546	112
- AUD (Multicurrency) limits	A$251	A$182	69
Minor debt/leasing facilities	n/a	A$15*	-
Cash	n/a	A$(238)*	238
Available funds at 31 December 2010			425

* Various currencies, cash mainly AUD

In addition to the available funds noted above, Sonic issued notes to investors in the United States private placement market in January 2011, raising US$250M of 10 year debt. After allowing for cash generation and settlement of acquisitions since 31 December 2010, and payment of Sonic's 2011 interim dividend, available funding/headroom is currently ~A$500M.

Sonic's credit metrics at 31 December 2010 were as follows:

	31.12.10	**30.6.10**	**31.12.09**
Gearing ratio	37.1%	37.0%	31.3%
Interest cover (times)	8.0	9.4	9.7
Debt cover (times)	2.6	2.6	1.9

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

COMMENTARY ON RESULTS
For the half year ended 31 December 2010

2. Explanation of results (continued)

(f) Interest expense and debt facilities (continued)

Sonic's senior debt facilities at 22 February 2011 expire as follows (**note that the figures shown are the facility limits, not drawn debt**):

	AUD M	USD M	Euro M
2011	56	182	205
2012	16	310	215
2014	-	49	26
2015	179	-	186
2017	-	95	-
2020	-	155	-
2021	-	250	-
	251	1,041	632

Sonic is currently in the process of refinancing the 2011 maturities with its existing lenders as a 3 and 5 year revolving syndicated bank facility, and expects this to be successfully completed by 15 March 2011. Sonic's excellent relationships with its banks, its investment grade credit metrics, and its strong and reliable cash flows significantly reduce refinancing risk.

(g) Tax expense

The effective tax rate of 25% is in line with the guidance provided in August 2010, and is higher than in the comparative period (22%), reflecting Sonic's growth in higher tax rate jurisdictions (US and Belgium). Ignoring the impact of future acquisitions, the effective tax rate for the remainder of the 2011 financial year is expected to be approximately 25%.

(h) Cashflow from operations

Cash generated from operations was extremely strong at $221M, up 12% on the comparative period, and significantly exceeded cash profit (net profit plus depreciation, intangibles amortisation, equity instrument expense and outside equity interests), mainly as a result of improved debtor collection and billing processes, and the timing of tax payments.

(i) Full year (2011) guidance

Sonic gave full year guidance in August 2010 of Net Profit growth of 5-15% over the 2010 level of A$293M, on a constant currency basis (applying 2010 average currency exchange rates to 2011). Sonic now expects its 2011 result to be towards the lower end of this range due to the regulatory issues in Australian pathology, and the recent severe weather experienced in Queensland and the northern hemisphere. This guidance excludes the impact of business acquisitions through the year.

STATUTORY
HALF YEAR REPORT

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report and annual financial statements for the year ended 30 June 2010 and any public announcements made by Sonic Healthcare Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

Directors' report

Your directors present their report on the Group consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2010.

1. Names of directors

The directors of the Company in office during the half year and up to the date of this report are:

Mr R.P. Campbell – Chairman (Chairman from 27 October 2010)
Dr C.S. Goldschmidt – Managing Director
Mr C.D. Wilks – Finance Director
Dr P.J. Dubois
Mr C.J. Jackson
Mr L.J. Panaccio
Ms K.D. Spargo (from 1 July 2010)
Dr E.J. Wilson (from 1 July 2010)

Mr B.S. Patterson was a director and Chairman from the beginning of the financial year until his retirement on 27 October 2010.

2. Review of operations

Revenue for the period increased 1.7% to $1,513,693,000. On a constant currency basis revenue grew 8.3% reflecting organic growth augmented by a number of synergistic business acquisitions during the current period and prior year. Revenue growth was negatively impacted by Government fee cuts in Australian pathology and the finalisation of Sonic's Auckland laboratory contract in September 2009 (a new, smaller contract was won in October 2009).

Net profit decreased 13.0% to $135,004,000 (7.4% on a constant currency basis) as a result of regulatory issues in Australian pathology, higher interest costs and a higher effective tax rate.

Diluted earnings per share ("EPS") decreased in line with net profit.

Summary of the operations:

- Business performing strongly, financial result impacted by fee cuts and new collection centre regulations in Australian pathology.
- Volume growth returning to the Australian pathology market.
- Market share gains in Australian pathology.
- Margin expansion in all major divisions except Australian pathology, with significant further synergy potential in the USA and Europe.
- Five synergistic offshore laboratory acquisitions completed in the past six months.
- Active acquisition pipeline, with ~A$500M of funding headroom available.
- Full year net profit growth expected towards the lower end of 5-15% range (on a constant currency basis) given in August 2010, excluding the impact of acquisitions through the year.

Further information can be found in the accompanying *Commentary on Results for the half year ended 31 December 2010.*

Directors' report (continued)

3. Subsequent events

Since the end of the financial period, the directors are not aware of any matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years other than as follows:

On 13 January 2011 Sonic issued notes to investors in the United States private placement market, raising US$250M of long term (10 years) debt funding.

On 21 February 2011 Sonic's directors declared a dividend of 24 cents (2009: 24 cents) per ordinary share 28% franked (at 30%) payable on 24 March 2011 with a record date of 10 March 2011. The interim dividend includes no conduit foreign income. The Company's Dividend Reinvestment Plan ("DRP") remains suspended for this dividend and until further notice.

4. Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached to this half year report.

5. Rounding of amounts to nearest thousand dollars

The Company is a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

Dr C.S. Goldschmidt
Director

C.D. Wilks
Director

Sydney
21 February 2011

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Auditor's Independence Declaration

As lead auditor for the review of Sonic Healthcare Limited for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

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

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

Matthew Lunn
Partner

Sydney
21 February 2011

PricewaterhouseCoopers

CONSOLIDATED INCOME STATEMENT
For the half year ended 31 December 2010

	Notes	Six months ended 31.12.10 $'000	Six months ended 31.12.09 $'000
Revenue from operations		**1,506,989**	1,479,982
Other income		**6,704**	9,039
Total		**1,513,693**	1,489,021
Labour and related costs (including $2,147,000 (2009: $3,724,000) of equity remuneration expense)		**(686,718)**	(660,159)
Consumables used		**(254,450)**	(261,468)
Operating lease rental expense		**(75,232)**	(69,884)
Depreciation and amortisation of physical assets		**(46,801)**	(47,263)
Transportation		**(43,103)**	(44,309)
Utilities		**(37,121)**	(32,409)
Repairs and maintenance		**(33,640)**	(34,529)
Borrowing costs expense		**(32,993)**	(29,145)
Amortisation of intangibles		**(8,470)**	(6,156)
Other expenses from ordinary activities (including $1,255,000 (2009: $790,000) of acquisition costs)		**(114,060)**	(103,368)
Profit from ordinary activities before income tax expense		**181,105**	200,331
Income tax expense	3	**(46,165)**	(44,767)
Profit from ordinary activities after income tax expense		**134,940**	155,564
Net loss/(profit) attributable to minority interests		**64**	(324)
Profit attributable to members of Sonic Healthcare Limited		**135,004**	155,240
Basic earnings per share (cents per share)	5	**34.8**	40.0
Diluted earnings per share (cents per share)	5	**34.6**	39.7

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 31 December 2010

	Six months ended 31.12.10 $'000	Six months ended 31.12.09 $'000
Profit from ordinary activities after income tax expense	**134,940**	155,564
Other comprehensive income		
Exchange differences on translation of foreign operations	**(123,372)**	(67,686)
Cash flow hedges	**6,481**	3,178
Actuarial gains on retirement benefit obligations	**179**	1,713
Other comprehensive income for the period, net of tax	**(116,712)**	(62,795)
Total comprehensive income for the period	**18,228**	92,769
Total comprehensive income attributable to:		
Members of Sonic Healthcare Limited	**18,454**	92,425
Minority interests	**(226)**	344
	18,228	92,769

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET
As at 31 December 2010

	Notes	31.12.10 $'000	30.6.10 $'000
Current assets			
Cash assets and cash equivalents		**238,095**	300,354
Other financial assets (interest rate hedging)		**2,601**	-
Receivables		**353,037**	406,988
Inventories		**52,071**	53,993
Assets classified as held for sale		**9,054**	9,688
Other		**30,276**	27,571
Total current assets		**685,134**	798,594
Non current assets			
Receivables		**2,297**	3,222
Other financial assets (investments)		**21,521**	29,385
Property, plant and equipment		**542,234**	530,106
Intangible assets		**3,301,407**	3,466,457
Deferred tax assets		**31,534**	34,902
Other		**360**	1,059
Total non current assets		**3,899,353**	4,065,131
Total assets		**4,584,487**	4,863,725
Current liabilities			
Payables		**212,512**	237,619
Interest bearing liabilities		**497,863**	448,827
Current tax liabilities		**21,625**	26,293
Provisions		**113,750**	124,236
Other financial liabilities (interest rate hedging)		**25,787**	34,746
Other		**12,420**	12,051
Total current liabilities		**883,957**	883,772
Non current liabilities			
Interest bearing liabilities		**1,180,409**	1,352,618
Deferred tax liabilities		**34,131**	23,537
Provisions		**39,494**	40,430
Other		**4,430**	4,627
Total non current liabilities		**1,258,464**	1,421,212
Total liabilities		**2,142,421**	2,304,984
Net assets		**2,442,066**	2,558,741
Equity			
Parent entity interest			
Contributed equity	8	**2,346,485**	2,345,145
Reserves		**(195,227)**	(78,357)
Accumulated profits		**288,713**	289,480
Total parent entity interest		**2,439,971**	2,556,268
Minority interests		**2,095**	2,473
Total equity		**2,442,066**	2,558,741

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half year ended 31 December 2010

	Six months ended 31.12.10 $'000	Six months ended 31.12.09 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**1,604,090**	1,538,411
Payments to suppliers and employees (inclusive of goods and services tax)	**(1,319,534)**	(1,289,036)
	284,556	249,375
Interest received	**4,004**	7,745
Borrowing costs	**(35,883)**	(27,748)
Income taxes paid	**(31,950)**	(31,866)
Net cash inflow from operating activities	**220,727**	197,506
Cash flows from investing activities		
Payment for purchase of controlled entities, net of cash acquired	**(160,184)**	(107,374)
Payments for property, plant and equipment	**(76,165)**	(63,468)
Proceeds from sale of non current assets	**1,226**	1,794
Payments for investments	**(56)**	(12,478)
Payments for restructuring and surplus leased space provisions	**(1,077)**	(6,444)
Payments for intangibles	**(15,494)**	(16,032)
Repayment of loans by other entities	**3,249**	2,089
Loans to other entities	**(1,542)**	(2,012)
Net cash (outflow) from investing activities	**(250,043)**	(203,925)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	**2,550**	31,557
Payments for shares acquired by the Sonic Healthcare Employee Share Trust	**(3,498)**	-
Proceeds from borrowings	**304,897**	95,597
Repayment of borrowings	**(159,625)**	(99,699)
Dividends paid to Company's shareholders	**(135,950)**	(135,950)
Dividends paid to minority interests in controlled entities	**(156)**	(162)
Net cash inflow/(outflow) from financing activities	**8,218**	(108,657)
Net (decrease) in cash and cash equivalents	**(21,098)**	(115,076)
Cash and cash equivalents at the beginning of the financial period	**300,354**	557,932
Effects of exchange rate changes on cash and cash equivalents	**(41,161)**	(11,509)
Cash and cash equivalents at the end of the financial period	**238,095**	431,347

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half year ended 31 December 2010

	Share capital $'000	Reserves $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total $'000
Balance at 1 July 2010	2,345,145	(78,357)	289,480	2,556,268	2,473	2,558,741
Profit for period	-	-	135,004	135,004	(64)	134,940
Other comprehensive income for the period	-	(116,729)	179	(116,550)	(162)	(116,712)
Total comprehensive income for the period	-	(116,729)	135,183	18,454	(226)	18,228
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(135,950)	(135,950)	-	(135,950)
Shares issued	-	(948)	-	(948)	-	(948)
Transfers to share capital	1,340	(1,340)	-	-	-	-
Share based payments	-	2,147	-	2,147	-	2,147
Dividends paid to minority interests in controlled entities	-	-	-	-	(152)	(152)
Balance at 31 December 2010	2,346,485	(195,227)	288,713	2,439,971	2,095	2,442,066
Balance at 1 July 2009	2,299,256	4,557	226,346	2,530,159	1,924	2,532,083
Profit for period	-	-	155,240	155,240	324	155,564
Other comprehensive income for the period	-	(64,528)	1,713	(62,815)	20	(62,795)
Total comprehensive income for the period	-	(64,528)	156,953	92,425	344	92,769
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(135,950)	(135,950)	-	(135,950)
Shares issued	40,445	(8,857)	-	31,588	-	31,588
Transaction costs on shares issued, net of tax	(21)	-	-	(21)	-	(21)
Transfers to share capital	5,465	(5,465)	-	-	-	-
Share based payments	-	3,724	-	3,724	-	3,724
Minority interest on acquisition of subsidiary	-	-	-	-	581	581
Dividends paid to minority interests in controlled entities	-	-	-	-	(162)	(162)
Balance at 31 December 2009	2,345,145	(70,569)	247,349	2,521,925	2,687	2,524,612

The above statement should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2010

Note 1 Summary of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 31 December 2010 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Sonic Healthcare Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Working capital deficiency

Sonic is required to disclose $493.8M of debt drawn under bank debt facilities which expire in March and July 2011 as a current liability as at 31 December 2010. As a result the Consolidated Balance Sheet shows a deficiency of working capital of $198.8M. Sonic is currently in the process of refinancing the 2011 maturities with its existing lenders as a 3 and 5 year revolving syndicated bank facility, and expects this to be successfully completed by 15 March 2011. Sonic's excellent relationships with its banks, its investment grade credit metrics, and its strong and reliable cash flows significantly reduce refinancing risk. Any portion of the debt not refinanced could be repaid out of existing unutilised credit lines and cash. The financial report has therefore been presented on a "going concern" basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2010

Note 2 Segment information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer and the Board of Directors (the chief operating decision makers) in assessing performance and determining the allocation of resources.

The operating segments are identified by management based on the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the Chief Executive Officer and the Board of Directors on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return. The Group has the following reportable segments.

(i) Pathology
Pathology/clinical laboratory services provided in Australia, New Zealand, the United Kingdom, the United States of America, Germany, Switzerland, Belgium and Ireland.

(ii) Radiology
Radiology and diagnostic imaging services provided in Australia and New Zealand.

(iii) Other
Includes the corporate office function, medical centre operations (IPN) and other minor operations.

Half Year ended 31 December 2010	**Pathology $'000**	**Radiology $'000**	**Other $'000**	**Eliminations $'000**	**Consolidated $'000**
Total segment revenue	1,219,748	184,223	110,555	(4,837)	1,509,689
Interest income					4,004
Total revenue					**1,513,693**
Segment EBITA	203,790	21,573	(6,799)	-	218,564
Amortisation expense					(8,470)
Unallocated net interest expense					(28,989)
Profit before tax					**181,105**
Income tax expense					(46,165)
Profit after income tax expense					**134,940**
Depreciation expense	26,243	14,826	5,732	-	46,801

Half Year ended 31 December 2009	**Pathology $'000**	**Radiology $'000**	**Other $'000**	**Eliminations $'000**	**Consolidated $'000**
Total segment revenue	1,218,348	180,787	84,824	(2,682)	1,481,277
Interest income					7,744
Total revenue					**1,489,021**
Segment EBITA	222,942	18,088	(13,142)	-	227,888
Amortisation expense					(6,156)
Unallocated net interest expense					(21,401)
Profit before tax					**200,331**
Income tax expense					(44,767)
Profit after income tax expense					**155,564**
Depreciation expense	26,627	15,605	5,031	-	47,263

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2010

	Six months ended 31.12.10 $'000	Six months ended 31.12.09 $'000
Note 3 Income Tax		
Reconciliation of income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit before income tax expense	**181,105**	200,331
Tax at the Australian tax rate of 30% (2009: 30%)	**54,332**	60,099
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Research and development incentives	**(556)**	(563)
Investment allowance	**-**	(1,456)
Sundry items	**(7,611)**	(13,313)
Income tax expense	**46,165**	44,767

Note 4 Dividends

Dividends paid during the half year	**135,950**	135,950

Dividends not recognised at the end of the half year

Since the end of the half year the directors have declared an interim dividend of 24 cents (2009: 24 cents) franked to 28% (2009: 35%).

The dividend was declared on 21 February 2011 and is payable on 24 March 2011 with a record date of 10 March 2011. The interim dividend includes no conduit foreign income.

Based on the number of shares on issue at 21 February 2011 the aggregate amount of the proposed interim dividend to be paid out of retained profits at the end of the half year, but not recognised as a liability is:	**93,223**	93,223
Australian franking credits available for subsequent financial periods based on a tax rate of 30%	**8,376**	8,677

The impact on the franking account of the dividend declared by the directors since balance date, but not recognised as a liability at balance date, will be a reduction in the franking account of $11,187,000 (2009: $13,983,000), based on the number of shares on issue at 21 February 2011. Franking credits arising from Australian tax paid after balance date will maintain the franking account in surplus after payment of the 2011 interim dividend.

It is expected that the 2011 final dividend will be franked to ~28%.

The Company's Dividend Reinvestment Plan remains suspended for this dividend and until further notice.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2010

Note 5 Earnings per share

	Six months ended 31.12.10 Cents	Six months ended 31.12.09 Cents
Basic earnings per share	**34.8**	40.0
Diluted earnings per share	**34.6**	39.7

Weighted average number of ordinary shares used as the denominator

	Six months ended 31.12.10 Shares	Six months ended 31.12.09 Shares
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**388,429,875**	387,856,469
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**390,081,835**	390,784,189

Note 6 Business combinations

Acquisitions of subsidiaries/business assets in the period included:

- On 1 December 2010, Sonic acquired 100% of CBLPath, based in New York, USA.
- On 31 December 2010, Sonic acquired 100% of Physician's Automated Laboratory, based in California, USA.
- IPN, a member of the Group, acquired a number of medical centre businesses during the period.

The acquisitions outlined above represent valuable synergistic acquisitions for Sonic, adding further momentum to Sonic's growth in these regions.

The contribution these acquisitions made to the Group's profit during the period was immaterial individually and in total. It is impracticable to determine the contribution these immaterial acquisitions made to the net profit of the Group during the period, and what they are likely to contribute on an annualised basis, as the majority of the acquisitions were merged with other entities in the Group. The initial accounting for these business combinations has only been determined provisionally at the date of this report, as the Group is still in the process of reviewing acquisition balance sheets and identifying assets and liabilities not previously recorded, so as to determine the fair values of the identifiable assets, liabilities and contingent liabilities acquired. Therefore no comparisons of book and fair values are shown.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2010

Note 6 Business combinations (continued)

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

	Total $'000
Consideration - cash paid	**156,882**
Less: Cash of entities acquired	**(1,631)**
	155,251
Deferred consideration	**4,851**
Total consideration	**160,102**
Carrying/fair value of identifiable net assets of subsidiaries acquired:	
Debtors & other receivables	**10,344**
Prepayments	**1,896**
Inventory	**1,170**
Deferred tax assets	**1,283**
Property, plant & equipment	**11,269**
Other non current assets	**29**
Identifiable intangibles	**1,344**
Trade payables	**(3,978)**
Sundry creditors and accruals	**(3,780)**
Income tax receivable	**3,514**
Deferred tax liabilities	**(512)**
Borrowings	**(808)**
Lease liabilities	**(1,351)**
Provisions	**(439)**
	19,981
Goodwill	**140,121**

The goodwill arising from the business combinations is attributable to their reputation in the local market, the benefit of marginal profit and synergies expected to be achieved from integrating the business with existing operations, expected revenue growth, future market development, the assembled workforce and knowledge of local markets. These benefits are not able to be individually identified or recognised separately from goodwill. $133,342,000 of the purchased goodwill recognised is expected to be deductible for income tax purposes, over a fifteen year period.

Acquisition related costs of $1,255,000 are included in other expenses in the statement of comprehensive income.

The fair value of acquired debtors and other receivables is $10,344,000. The gross contractual amount due is $14,371,000, of which $4,027,000 is expected to be uncollectible.

Sonic completed two separate 100% acquisitions in Belgium, KBL-BML-Unilabo Laboratory on 6 January 2011 based in Antwerp and the Woestyn Laboratory on 13 January 2011 based in Mouscron. Physician's Automated Laboratory (based in California, USA) was also fully acquired on 31 December 2010. The combined purchase price for the three laboratories is expected to equate to an enterprise value of ~6 times EBITDA once synergies are realised.

The purchase price for Physician's Automated Laboratory includes a performance based earn-out of up to an additional USD$2M payable between 90 and 105 days post acquisition date. An additional USD$2M relates to a retention amount to be paid twelve months after acquisition date less amounts offset relating to final working capital.

On 4 February 2011, Sonic acquired the laboratory business of Central Coast Pathology Consultants, based in California, USA. The purchase price is expected to equate to an FY2012 EBITDA (post synergies) multiple of ~6 times, after allowing for the net present value of tax deductions for goodwill amortisation.

Due to the recent timing of these acquisitions, information relating to the fair value of assets/liabilities assumed and goodwill acquired is not yet available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2010

Note 7 Goodwill

	31.12.10 $'000	30.6.10 $'000
Cost	**3,150,289**	3,325,261
Accumulated impairment	**(80,804)**	(86,459)
Net book amount	**3,069,485**	3,238,802
Opening cost	**3,325,261**	3,075,258
Acquisition of subsidiaries and minority interests	**143,941**	471,185
Foreign exchange movements	**(318,913)**	(221,182)
Closing cost	**3,150,289**	3,325,261
Opening accumulated impairment	**(86,459)**	(85,006)
Foreign exchange movements	**5,655**	(1,453)
Closing accumulated impairment	**(80,804)**	(86,459)

Note 8 Contributed equity

	31.12.10 Shares	30.6.10 Shares	31.12.10 $'000	30.6.10 $'000
Share capital				
Fully paid ordinary shares	**388,429,875**	388,429,875	**2,346,485**	2,345,145

Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$'000
1/7/10	Opening balance	388,429,875		2,345,145
Various	Transfers from equity remuneration reserve	-		1,340
31/12/10	Closing balance	388,429,875		2,346,485

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2010

Note 9 **Unlisted share options**

Exercise Price	Expiry Date	Options at 30.6.10	Options Exercised	Options at 31.12.10
$7.50	22/08/2010	340,000	(340,000)	**-**
$12.69	24/05/2011	20,000	-	**20,000**
$7.50	22/08/2011	1,540,000	-	**1,540,000**
$13.10	15/09/2011	1,025,000	-	**1,025,000**
$13.10	30/09/2011	1,400,000	-	**1,400,000**
$13.10	30/09/2012	300,000	-	**300,000**
$13.10	30/09/2013	300,000	-	**300,000**
$13.00*	30/09/2012	1,000,000	-	**1,000,000**
$13.00	13/06/2012	200,000	-	**200,000**
$7.50	24/08/2012	1,540,000	-	**1,540,000**
$14.16	03/08/2012	1,000,000	-	**1,000,000**
$13.30	25/05/2013	500,000	-	**500,000**
$13.65	31/05/2013	110,000	-	**110,000**
$7.50	22/08/2013	1,540,000	-	**1,540,000**
$12.98	22/11/2013	2,625,000	-	**2,625,000**
$11.10	27/01/2014	1,500,000	-	**1,500,000**
$10.57	10/04/2015	1,000,000	-	**1,000,000**
		15,940,000	(340,000)	**15,600,000**

* or where the closing market share price for Sonic's shares on 30 May 2012 is less than $15.00, $2.00 less than the closing price on that day.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2010

Note 10 Reserves

	31.12.10 $'000	31.12.09 $'000
Foreign currency translation reserve	**(220,158)**	(88,875)
Hedging reserve	**(11,633)**	(17,117)
Equity remuneration reserve	**16,865**	15,121
Share option reserve	**16,427**	16,427
Revaluation reserve	**3,272**	3,875
	(195,227)	(70,569)
Movements		
Foreign currency translation reserve		
Balance 1 July	**(96,948)**	(21,169)
Net exchange movement on translation of foreign subsidiaries	**(123,210)**	(67,706)
Balance	**(220,158)**	(88,875)
Hedging reserve		
Balance 1 July	**(18,114)**	(20,295)
Revaluation (net of deferred tax)	**884**	(3,120)
Transfer to net profit (net of deferred tax)	**5,597**	6,298
Balance	**(11,633)**	(17,117)
Equity remuneration reserve		
Balance 1 July	**17,006**	25,719
Share based payments	**2,147**	3,724
Employee share scheme issue	**(948)**	(8,857)
Transfer to share capital (options exercised)	**(1,340)**	(5,465)
Balance	**16,865**	15,121
Share option reserve		
Balance 1 July	**16,427**	16,427
Movement in period	**-**	-
Balance	**16,427**	16,427
Revaluation reserve		
Balance 1 July	**3,272**	3,875
Movement in period	**-**	-
Balance	**3,272**	3,875

Note 11 Net tangible asset backing

	31.12.10	30.6.10
Net tangible asset backing per ordinary security	**($2.21)**	($2.34)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2010

Note 12 Non-cash financing and investing activities

The following non-cash financing and investing activities occurred during the period and are not reflected in the Cash Flow Statement:

- Plant and equipment with an aggregate fair value of $nil (2009: $2,253,000) was acquired by means of finance leases.

Note 13 Events occurring after the balance sheet date

Since the end of the financial period no matter or circumstance not otherwise dealt with in these financial statements has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years other than as follows:

On 13 January 2011 Sonic issued notes to investors in the United States private placement market, raising US$250M of long term (10 years) debt funding.

On 21 February 2011 Sonic's directors declared a dividend of 24 cents (2009: 24 cents) per ordinary share 28% franked (at 30%) payable on 24 March 2011 with a record date of 10 March 2011. The interim dividend includes no conduit foreign income. The Company's Dividend Reinvestment Plan ("DRP") remains suspended for this dividend and until further notice.

Forward-looking statements

This Half Year Report and ASX Appendix 4D may include forward-looking statements about our financial results, guidance and business prospects that may involve risks and uncertainties, many of which are outside the control of Sonic Healthcare. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date that they are made and which reflect management's current estimates, projections, expectations or beliefs and which involve risks and uncertainties that could cause actual results and outcomes to be materially different. Risks and uncertainties that may affect the future results of the Company include, but are not limited to, adverse decisions by Governments and healthcare regulators, changes in the competitive environment and billing policies, lawsuits, loss of contracts and unexpected growth in costs and expenses. The statements being made in this report do not constitute an offer to sell, or solicitation of an offer to buy, any securities of Sonic Healthcare. No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including Sonic Healthcare). In particular, no representation, warranty or assurance (express or implied) is given in relation to any underlying assumption or that any forward-looking statement will be achieved. Actual future events may vary materially from the forward-looking statements and the assumptions on which the forward-looking statements are based. Given these uncertainties, readers are cautioned to not place undue reliance on such forward-looking statements.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 12 to 25 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 consolidated entity's financial position as at 31 December 2010 and of its performance for the half year ended on that date; and

(b) there are reasonable grounds to believe that Sonic Healthcare Limited will be able to pay its debts as and when they become due and payable.

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

Dr C.S. Goldschmidt
Director

C.D. Wilks
Director

Sydney
21 February 2011

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Independent auditor's review report to the members of Sonic Healthcare Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Sonic Healthcare Limited, which comprises the balance sheet as at 31 December 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Sonic Healthcare Limited Group (the consolidated entity). The consolidated entity comprises both Sonic Healthcare Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Sonic Healthcare Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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Independent auditor's review report to the members of Sonic Healthcare Limited (continued)

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Sonic Healthcare Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
21 February 2011