Sonic Healthcare Limited

ABN **24 004 196 909**

Annual report – 30 June 2006

Contents

Corporate directory

Directors	Mr B.S. Patterson	*Chairman*
	Dr C.S. Goldschmidt	*Managing Director*
	Mr C.D. Wilks	*Finance Director*
	Mr R.P. Campbell	
	Dr P.J. Dubois	
	Mr C.J. Jackson	
	Mr L.J. Panaccio	
	Dr H.F. Scotton	
Company secretary	Mr P.J. Alexander	

Principal registered office in Australia

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Website:	www.sonichealthcare.com.au

Share registry

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

Ph:	1300 556 161	(Within Australia)
Ph:	61 3 9415 4000	(Outside Australia)
Fax:	61 8 8236 2305	
Website:	www.computershare.com	

Auditor

PricewaterhouseCoopers

Solicitors

Allens Arthur Robinson
Baker McKenzie

Bankers

Australia and New Zealand Banking Group Limited
Citibank, N.A.
Commonwealth Bank of Australia
National Australia Bank Limited
The Royal Bank of Scotland plc
Westpac Banking Corporation
Dresdner Bank AG

Stock exchange listings

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

Directors' report

Your directors present their report on the consolidated entity consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the year ended 30 June 2006.

Directors

The following persons were directors of Sonic Healthcare Limited during the whole of the financial year and up to the date of this report:

Mr B.S. Patterson	*Chairman*
Dr C.S. Goldschmidt	*Managing Director*
Mr C.D. Wilks	*Finance Director*
Mr R.P. Campbell	
Dr P.J. Dubois	
Mr C.J. Jackson	
Dr H.F. Scotton	
Mr L.J. Panaccio	

Principal activities

During the year the principal continuing activities of the consolidated entity consisted of the provision of medical diagnostic services and the provision of administrative services and facilities to medical practitioners.

Dividends

Details of dividends in respect of the current year and previous financial year are as follows:

	2006 **$'000**	2005 $'000
Interim dividend paid	**44,172**	35,665
Final dividend paid	**76,784**	63,367
Total dividend for the year	**120,956**	99,032

On 21 August 2006, the Board declared a final dividend in respect of the year ended 30 June 2006 of 26 cents per ordinary share, 100% franked (at 30%) to be paid on 19 September 2006 with a record date of 5 September 2006. An interim dividend of 15 cents per ordinary share 100% franked (at 30%) was paid on 20 March 2006.

A final dividend of 23 cents per ordinary share was paid on 19 September 2005 in respect of the year ended 30 June 2005, out of profits of that year as recommended by the directors in last year's Directors' report. The interim dividend in respect of the year ended 30 June 2005 was 13 cents per ordinary share, paid on 17 March 2005.

The company's dividend reinvestment plan (DRP) was suspended in respect of the 2005 and 2006 interim and final dividends and remains so until further notice.

Review of operations

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

	2006 $'000	2005 $'000	Movement %
Total Revenue	**1,656,367**	1,380,905	19.9%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**360,307**	301,189	19.6%
Depreciation and lease amortisation	**(54,274)**	(48,184)	12.6%
Earnings before interest, tax and intangibles amortisation (EBITA)	**306,033**	253,005	21.0%
Amortisation of intangibles	**(1,823)**	(1,708)	6.7%
Net interest expense	**(40,435)**	(41,490)	(2.5)%
Income tax attributable to operating profit	**(77,960)**	(62,633)	24.5%
Net (profit) attributable to minority interests	**(13,786)**	(11,821)	16.6%
Net profit attributable to shareholders of Sonic Healthcare Limited	**172,029**	135,353	27.1%

Note that all comparatives in this report have been restated (where applicable) as a result of the application of the Australian equivalents to International Financial Reporting Standards (AIFRS).

(a) Revenue

Revenue for the year increased by 19.9% from the prior year reflecting the following factors:

- Strong organic (excluding acquisitions) growth of around 7%.
- The acquisition of Clinical Pathology Laboratories, Inc. (CPL) from 1 October 2005.
- A full year of the businesses acquired during the 2005 year, including Independent Practitioner Network Limited (IPN) (August 2004), Accord Pathology (November 2004) and the acquisition by IPN of Endeavour Healthcare's medical centres (November 2004).

(b) Profit

The net profit (after minority interests) of the consolidated entity for the year was $172,029,000 (2005: $135,353,000), after deducting income tax expense of $77,960,000 (2005: $62,633,000). Diluted earnings per share increased 19.8% from 48.9 cents to 58.6 cents.

Operating margin:

	2006	2005
EBITA as a % of Revenue	**18.5%**	18.3%

Margin expansion was strong in the Pathology division due to revenue growth, extraction of synergies and efficiency improvements. Margin expansion has been mitigated by the acquisition of CPL (acquired 1 October 2005) and by a full 12 months of IPN (acquired 26 August 2004). Both of these entities reported lower margins than the average of Sonic's other businesses. Sonic's Australian Pathology operations increased margins by 60 bps in the year. The Radiology division experienced margin decline in the period, mainly due to wage pressures. Strategies to address the wage pressures are underway.

Review of operations (continued)

The results for the year were within the revenue and EBITA guidance ranges provided by Sonic in August 2005. 2006 was Sonic's eleventh successive year of double-digit core earnings per share growth.

Net interest expense decreased 2.5% on the prior year (despite increased debt as a result of the CPL acquisition) due to lower margins on Sonic's senior debt facility, which was refinanced during the year, and a change in the mix of currencies borrowed after the acquisition of CPL (funded in USD) and subsequent capital raisings (in AUD). Appropriate interest rate hedging arrangements are in place.

Tax expense has increased 24.5% on the prior year reflecting growth in earnings.

Significant changes in the state of affairs

Significant changes in the state of affairs of the consolidated entity during the course of the financial year included the following:

- The acquisition of an ~82% interest in CPL, the largest privately owned pathology business in the United States, and its integration into the Sonic group. CPL's results have been consolidated into Sonic from 1 October 2005.

- The successful raising of over $250m of equity comprising a combination of an institutional placement and a Shareholder Purchase Plan. The proceeds of both were used to retire debt associated with the CPL acquisition.

- Sonic completed a restructuring and expansion of its senior debt facility, leading to the establishment of a $1 billion facility which is more flexible, has a lower cost of funds and which provides Sonic with significant "head room" for expansion.

Matters subsequent to the end of the financial year

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

- On 21 August 2006 Sonic's directors declared a final dividend for 2006 of 26 cents per ordinary share which was paid on 19 September 2006. Sonic's dividend reinvestment plan remained suspended for this dividend and until further notice.

Likely developments and expected results of operations

Sonic's main focus during the 2007 and future financial years will be to continue to grow shareholder value through both acquisitions and organic growth, and by extracting efficiencies from its existing businesses.

Sonic is poised for significant expansion both in North America and Europe and is currently progressing negotiations with a number of acquisition and outsourcing targets in these markets. The solid base, synergies and local market knowledge provided to Sonic by CPL (USA), Schottdorf (Germany) and TDL (UK) provide the ideal platform for further expansion in international markets.

On 22 August 2006 Sonic provided guidance ranges to the market in relation to the 2007 financial year as follows:

Organic revenue growth	~ 5% (~ 9% including full year effect of CPL)
EPS Growth	~ 10%

This guidance includes a full year contribution from CPL, but excludes any further acquisitions.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would prejudice Sonic's competitive position in the market place.

Information on directors

(a) Directors' profiles

Barry Patterson
Chairman
A.S.M.M., M.I.M.M., F.A.I.C.D.

Mr Patterson is an engineer and has a corporate mining background, but in more recent years has held directorial positions in a number of both public and private companies. Mr Patterson is considered to be an independent director and is the Chairman of both the Remuneration Committee and the Nominations Committee, and is a member of the Audit Committee. Mr Patterson is currently Chairman and a non-executive director of Silex Systems Limited (since 1992). Mr Patterson was formerly a non-executive director of National 1 Limited from June 2003 to July 2004.

Dr Colin Goldschmidt
Managing Director
M.B., B.Ch., F.R.C.P.A., F.A.I.C.D.

Dr Goldschmidt became the Managing Director of Sonic Healthcare Limited and its subsidiaries in 1993, prior to which he was the Medical Director of Douglass Hanly Moir Pathology. He joined the company after completing his Australian Pathology Fellowship training in Sydney in 1986. Dr Goldschmidt is a member of the Risk Management Committee and the Nominations Committee. Dr Goldschmidt is currently a non-executive director of Silex Systems Limited (since 1992), a non-executive director of Independent Practitioner Network Limited (since August 2005), and was formerly a non-executive director of SciGen Ltd from 1999 to October 2005.

Christopher Wilks
Finance Director
B.Comm. (Univ Melb), A.S.A., F.C.I.S., F.A.I.C.D.

Mr Wilks has a background in chartered accounting and investment banking. He was previously a partner in a private merchant bank and has held positions on the boards of a number of public companies. Mr Wilks has been a director of Sonic since 1989. Mr Wilks is a member of the Risk Management Committee. Mr Wilks is currently a non-executive director of Independent Practitioner Network Limited (since August 2005), an executive director of Silex Systems Limited (since 1988), and was formerly a non-executive director of SciGen Ltd from 1999 to October 2005.

Peter Campbell
F.C.A., F.T.I.A., F.A.I.C.D.

Mr Campbell is a Chartered Accountant with his own practice based in Sydney. He is a Fellow of the Institute of Chartered Accountants in Australia, the Taxation Institute of Australia and the Australian Institute of Company Directors. He is a Registered Company Auditor. Mr Campbell is considered to be an independent director and is the Chairman of the Audit Committee and a member of both the Remuneration Committee and the Nominations Committee. Mr Campbell is currently a non-executive director of Silex Systems Limited (since 1996), and was formerly a non-executive director of SciGen Ltd from 1999 to February 2005.

Information on directors (continued)

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

Dr Dubois is Chairman of the Sonic Imaging Executive Committee and is Chairman and CEO of Queensland X-Ray. A neuroradiologist and nuclear imaging specialist, he is currently an Associate Professor of Radiology at University of Queensland Medical School. He has served on numerous government and craft group bodies including the Diagnostic Economic Committee and the Council of the Royal Australian and New Zealand College of Radiologists (RANZCR) and the Diagnostic Imaging Management Committee. He is currently Vice President of the Australian Diagnostic Imaging Association (ADIA), a Councillor and the Radiology Craft Group Representative of the Australian Medical Association (AMA), and member of the Nuclear Imaging Consultative Committee. Dr Dubois is a member of Sonic's Risk Management Committee. Dr Dubois is currently a non-executive director of Magnetica Limited (since December 2004).

Colin Jackson
O.A.M., F.C.P.A., F.C.A., F.T.I.A., F.A.I.C.D.

Mr Jackson is a senior Executive Director of Sonic Healthcare. He plays an active role at Sonic corporate level and, as Sonic Commercial Director, heads up Sonic's procurement department. As Treasurer of the Australian Association of Pathology Practices, he plays an active role representing Sonic at national industry level. Until recently, Mr Jackson was the Chief Executive Officer of Diagnostic Services Pty Limited (Sonic's Tasmanian practice). Mr Jackson's background is in professional accounting practice. He is a Fellow of the Australian Society of Certified Practising Accountants, the Taxation Institute of Australia and the Institute of Chartered Accountants in Australia. Mr Jackson was appointed as Chairman and non-executive Director of Independent Practitioner Network Limited in August 2004, and was a member of the IPN Audit Committee from August 2004 until June 2006.

Lou Panaccio
B.Ec, C.A., M.A.I.C.D.

Mr Panaccio is a chartered accountant with strong management experience in business and healthcare services. He is currently Chairman of CPW Group, a director of the Inner Eastern Community Health Service in Victoria, Executive Chairman of Health Networks Australia, and was formerly a non-executive director of Primelife Corporation Limited from 2001 until November 2005. Mr Panaccio was the Chief Executive Officer and an Executive Director of Melbourne Pathology for ten years to 2001. Mr Panaccio is considered to be an independent director and is a member of the Audit Committee.

Dr Hugh Scotton
M.B., B.S., F.R.A.N.Z.C.R., D.D.U., F.A.I.C.D.

Dr Scotton trained in radiology in Adelaide and Brisbane prior to entering private practice in the Hunter Valley in 1972. He was Chairman of Pacific Medical Imaging, incorporating radiology groups in the Hunter Valley, Sydney and Illawarra from 1999 until the acquisition of the group in 2001 by Sonic. Prior to the formation of Pacific Medical Imaging, Dr Scotton was Chairman of the Hunter Imaging Group, the largest imaging practice in the Hunter Valley. He currently retains that position.

(b) Company secretary

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

Mr Alexander has been the Group Financial Controller of Sonic Healthcare Limited since 1997 and Sonic's Company Secretary since 2001. Prior to joining Sonic, Mr Alexander gained 10 years experience in professional accounting practice, mainly with Price Waterhouse, and was also Financial Controller and Company Secretary of a subsidiary of a multinational company for two years. Mr Alexander is a non-executive director of IPN (since August 2005) and a member of the IPN Audit Committee (since June 2006).

Information on directors (continued)

(c) Directors' interests in shares and options as at 29 September 2006

Director's name	Class of shares	Number of shares	Interest	Options
B.S. Patterson	Ordinary	3,816,646	Beneficially	-
Dr C.S. Goldschmidt	Ordinary	60,000 1,200,000	Personally Beneficially	3,000,000 -
C.D. Wilks	Ordinary	107,250 773,000	Personally Beneficially	1,620,000 -
R.P. Campbell	Ordinary	-	-	-
Dr P.J. Dubois	Ordinary	4,009 120,714	Personally Beneficially	- -
C.J. Jackson	Ordinary	490,590	Personally	-
L.J. Panaccio	Ordinary	-	-	-
Dr H.F. Scotton	Ordinary	180,634	Personally	-

Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2006, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees: Audit		Remuneration		Risk Management		Nominations	
	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held
B.S. Patterson	8	13	4	4	2	2	-	-	2	2
Dr C.S. Goldschmidt	13	13	-	-	-	-	2	2	2	2
C.D. Wilks	13	13	-	-	-	-	2	2	-	-
R.P. Campbell	13	13	4	4	2	2	-	-	2	2
Dr P.J. Dubois	13	13	-	-	-	-	2	2	-	-
C.J. Jackson	12	13	-	-	-	-	-	-	-	-
L.J. Panaccio	12	13	4	4	-	-	-	-		
Dr H.F. Scotton	13	13	-	-	-	-	-	-	-	-

Insurance of officers

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

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

Information on directors (continued)

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

Non-audit services
The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are detailed in Note 37 – Remuneration of auditors.

The board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001*. In the opinion of the directors none of the services provided undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

Share options
Information on share options are detailed in Note 38 - Share based payments.

Rounding of amounts
The company is of 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. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Remuneration report
The directors of Sonic Healthcare Limited present the Remuneration Report for the year ended 30 June 2006 in accordance with section 300A of the Corporations Act.

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

The Remuneration Committee, consisting of 2 non-executive independent directors, makes specific recommendations to the Board on remuneration packages and other terms of employment for the Managing Director and Finance Director and advises the Board in relation to equity based incentive schemes for other employees.

Sonic Healthcare Limited's remuneration policy links the remuneration of the Managing Director and the Finance Director to Sonic's performance through the award of conditional entitlements. These conditional entitlements (cash bonuses, share and share option grants) are dependant on the earnings per share performance of the consolidated entity and thus align reward with the creation of value for shareholders.

Remuneration and other terms of employment for other executives are reviewed annually by the Managing Director having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, performance-related bonuses, share and option grants, and fringe benefits.

Cash bonuses and equity grants to other executive directors and employees are made solely at the discretion of the Managing Director, the Remuneration Committee and the Board of directors based on individual and company performance. These bonuses and option grants reward the creation of value for shareholders.

Remuneration report (continued)

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by the shareholders. At a General Meeting on 31 July 2001 shareholders approved a maximum amount of $800,000 be available as remuneration for the services of the non-executive directors. Following a review of current market practice and non-executive director fees for entities of similar complexity, the Board resolved that with effect from 1 June 2006, the non-executive director fee of $50,000 per annum, which had remained unchanged for over seven years, be increased to $80,000 per annum plus $10,000 per annum for each board committee upon which the director serves. Options are not issued and bonuses are not payable to non-executive directors.

Other than contributions to superannuation funds during employment periods and notice periods under normal employment law and in certain executive service contracts, the consolidated entity does not contract to provide retirement benefits to directors or executives.

Performance of the consolidated entity

Sonic Healthcare Limited's total shareholder return over the five year period to June 2006 was 108%. This measure is calculated as the increase in share price over that period plus the dividends declared for those years (grossed up for franking credits) as a percentage of the share price at the start of the five year period. This total shareholder return calculation incorporates the value of the SciGen equity issue to Sonic shareholders in November 2002. Earnings over the five year period were as follows:

	2002	**2003**	**2004**	**2005**	**2006**	**Compound Average Annual Growth Rate***
Core earnings per share (cps)	29.4	35.7	41.0	50.4	60.4	19.7%
Net profit attributable to members ($'000)**	72,081	94,434	108,212	135,353	172,029	24.3%

* The compound average annual growth rate is calculated over the period shown.
** Net profit attributable to members and core earnings per share have been restated to reflect the application of AIFRS in prior periods.

The total remuneration of the directors of Sonic Healthcare Limited and the five most highly remunerated executives of the consolidated entity was as follows:

	Consolidated		**Parent entity**	
	2006	2005*	**2006**	2005*
	$	$	**$**	$
Short term employee benefits	**7,338,846**	7,260,282	**148,633**	227,500
Post employment benefits	**769,412**	695,117	**14,700**	22,500
Share based payments	**5,210,123**	4,284,159	**-**	-
	13,318,381	12,239,558	**163,333**	250,000

* The directors and executives in the current period differ from those in the comparative period.

Remuneration report (continued)

Details of the nature and amount of each element of the emoluments of each director of Sonic Healthcare Limited and each of the five most highly remunerated executives of the consolidated entity are set out below.

(a) Non-executive directors of Sonic Healthcare Limited

Name	2006 Directors' fee $	2005 Directors' fee $
B.S. Patterson (Chairman)	55,000	50,000
R.P. Campbell	55,000	50,000
L.J. Panaccio*	53,333	-

Superannuation contributions required by the Superannuation Guarantee Charge legislation are deducted from gross Directors' fees as appropriate.

*Appointment effective 30 June 2005.

(b) Executive directors of Sonic Healthcare Limited

12 months to 30 June 2006

Name	Salary & fees $	Other benefits* $	Cash bonus $	Superannuation $
Dr C.S. Goldschmidt *Managing Director*	559,442	170,419	586,000	20,139
C.D. Wilks *Finance Director*	447,861	-	316,440	12,139
Dr P.J. Dubois *Director*	443,026	9,518	70,000	4,500
C.J. Jackson *Director*	459,614	4,803	-	22,754
Dr H.F. Scotton *Director*	304,418	-	-	105,072

* Other benefits include fringe benefits tax.

12 months to 30 June 2005

Name	Salary & fees $	Other benefits* $	Cash bonus $	Superannuation $
Dr C.S. Goldschmidt *Managing Director*	584,890	145,525	526,000	19,585
C.D. Wilks *Finance Director*	448,415	-	284,040	11,585
Dr P.J. Dubois *Director*	375,018	1,830	-	4,500
C.J. Jackson *Director*	429,088	8,859	-	21,191
Dr H.F. Scotton *Director*	242,864	-	-	100,480

Remuneration report (continued)

Under the Executive Incentive Plan for Dr C.S. Goldschmidt and C.D. Wilks, fully paid up ordinary shares and options over unissued ordinary shares of Sonic Healthcare Limited are issuable upon the achievement of performance conditions (as set out in (d) below). The fair values of the options and shares at the time of grant have been determined and have been allocated equally over the service periods up to the vesting dates. In addition to the remuneration disclosed above, the calculated values of shares and options allocated to Dr C.S. Goldschmidt for the 12 month period to 30 June 2006 were $210,561 and $3,172,978 respectively (2005: $249,601 and $2,339,825). In addition to the remuneration disclosed above, the calculated values of shares and options allocated to C.D. Wilks for the 12 month period to 30 June 2006 were $113,176 and $1,713,408 respectively (2005: $134,160 and $1,263,505).

Cash bonuses, fully paid up ordinary shares and options over unissued ordinary shares of Sonic Healthcare Limited are performance related components of Dr C.S. Goldschmidt’s and C.D. Wilks’ remuneration. In aggregate, these components make up 84% of Dr C.S. Goldschmidt’s remuneration for the 12 months to 30 June 2006 (2005: 81%), and 82% of C.D. Wilks’ remuneration for the 12 months to 30 June 2006 (2005: 79%). Cash bonuses are a performance related component of Dr. P.J. Dubois’ remuneration and made up 13% of his remuneration for the 12 months to 30 June 2006 (2005: 0%).

(c) Other executives of the consolidated entity

“Other executives” are the five most highly remunerated executives in the consolidated group who are involved with the management of the affairs of Sonic Healthcare Limited and/or its controlled entities.

12 months to 30 June 2006

Name	Salary & fees $	Other benefits $	Cash bonus $	Superannuation $
D. Byrne* *CEO* *The Doctors Laboratory*	445,951	65,155	345,423	128,066
Dr R. Prudo* *Executive Chairman* *The Doctors Laboratory*	242,626	65,402	173,233	437,438
Dr B. Schottdorf** *Executive Chairman* *The Schottdorf Group*	943,178	26,835	-	-
G. Schottdorf** *CEO* *The Schottdorf Group*	827,092	26,568	-	-
D. Schultz *** *President and COO* *Clinical Pathology Laboratories, Inc.*	329,996	6,838	320,374	24,605

* D. Byrne and Dr R. Prudo are employed by The Doctors Laboratory Limited (TDL) in the United Kingdom. They are remunerated in British Pounds.

** Dr B. Schottdorf and G. Schottdorf are employed by the Schottdorf Group in Germany. They are remunerated in Euros.

*** D. Schultz is employed by CPL in the United States of America, and is remunerated in US dollars. The remuneration shown is for the period from 1 October 2005.

Remuneration report (continued)

12 months to 30 June 2005

Name	Salary & fees $	Other benefits $	Cash bonus $	Superannuation $
D. Byrne* *CEO* *The Doctors Laboratory*	423,514	66,111	123,305	122,308
Dr R. Prudo* *Executive Chairman* *The Doctors Laboratory*	251,541	79,428	88,779	396,814
Dr B. Schottdorf** *Executive Chairman* *The Schottdorf Group*	977,887	27,822	167,398	-
G. Schottdorf** *CEO* *The Schottdorf Group*	773,126	27,033	334,796	-
R.E. Shreeve**** *Managing Director* *Independent Practitioner Network Limited*	407,013	-	375,000	9,654

**** R.E. Shreeve resigned as Managing Director of IPN on 26 July 2005 and was appointed Chief Executive Officer of IPN on the same date. He resigned as Chief Executive Officer on 30 November 2005.

In addition to the remuneration disclosed above fully paid ordinary shares were issued to both Dr R. Prudo and D. Byrne under the terms of their service contracts during the 12 months to 30 June 2005. The market values of these shares at the time of grant to Dr. R. Prudo and D. Byrne were $100,118 and $129,366 respectively.

The relative proportions of conditional entitlements awarded to total remuneration for the 12 months to 30 June 2006 were; D. Byrne 35% (2005: 29%), Dr R. Prudo 19% (2005: 21%), Dr B. Schottdorf 0% (2005: 14%), G. Schottdorf 0% (2005: 29%), and D. Schultz 47%.

R.E. Shreeve was issued options over unissued ordinary IPN shares on 20 August 2002. The fair value of these options at the time of the grant has been allocated equally over the service periods up to the vesting dates. In addition to the remuneration disclosed above the calculated value of IPN options allocated to the period to 30 June 2005 was $67,584. Options over unissued ordinary shares in IPN granted in August 2002 accounted for 8% of R.E. Shreeve's remuneration in the 12 months to 30 June 2005. No options were issued to or exercised by R.E. Shreeve during the current or prior financial year. All options held by R.E. Shreeve were forfeited upon his resignation from IPN on 30 November 2005.

Remuneration report (continued)

(d) Service agreements

None of the directors of Sonic Healthcare Limited have a service contract. Rather the terms and entitlements of employment are governed by normal employment law.

Remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks were revised in February 2004, with effect from 1 July 2003, following a detailed review by the Remuneration Committee and subsequent approval by shareholders at the 2004 and 2005 Annual General Meetings. The key terms of the revised arrangements, (the "Executive Incentive Plan") which are to run for 5 consecutive years until 30 June 2008, are set out below:

Dr C.S. Goldschmidt

- Base salary, inclusive of superannuation of $750,000 per annum.

Short term incentives:

- Cash bonus, payable half yearly based on a 1,000,000 multiple of earnings per share for each 6 month period.
- Issue of 20,000 fully paid ordinary shares per annum if core earnings per share are at least 10% higher than the previous year. If core earnings per share growth falls below 10%, no shares will be issued. However, if core earnings per share growth in the subsequent year exceeds 10% and makes up for the previous year's shortfall, then the prior year's shares that were foregone will be issued.

Long term incentive:

- Issue of 1,000,000 options per annum exercisable at $7.50 (Sonic's share price at the time (February 2004) the revised arrangements were agreed between the Remuneration Committee and the Executive Directors) if core earnings per share are at least 10% higher than the previous year. If this growth is not achieved in one year but is made up in the subsequent year, then the previously forfeited options will be issued. Up to 50% of the options may be exercised 24 months from the date of issue and 100% may be exercised 36 months from the date of issue. The options expire after 60 months from the date of issue. These options are an equity settled share based payment.

C.D. Wilks

- Base salary, inclusive of superannuation of $460,000 per annum.

Short term incentives:

- Cash bonus, payable half yearly based on a 540,000 multiple of earnings per share for each 6 month period.
- Issue of 10,750 fully paid ordinary shares per annum if core earnings per share are at least 10% higher than the previous year. If core earnings per share growth falls below 10%, no shares will be issued. However, if core earnings per share growth in the subsequent year exceeds 10% and makes up for the previous year's shortfall, then the prior year's shares that were foregone will be issued.

Long term incentive:

- Issue of 540,000 options per annum exercisable at $7.50 if core earnings per share are at least 10% higher than the previous year. If this growth is not achieved in one year but is made up in the subsequent year, then the previously forfeited options will be issued. Up to 50% of the options may be exercised 24 months from the date of issue and 100% may be exercised 36 months from the date of issue. The options expire after 60 months from the date of issue. These options are an equity settled share based payment.

During the financial year 20,000 fully paid up ordinary shares and 1,000,000 options over unissued ordinary shares in Sonic Healthcare Limited were issued to Dr C.S. Goldschmidt, and 10,750 shares and 540,000 options were issued to C.D. Wilks, under the Executive Incentive Plan. These performance related issues represented the short term and long term incentive awards in relation to the 2005 financial year.

Since the end of the financial year, but prior to the date of this report, identical issues of fully paid up ordinary shares and options over unissued ordinary shares have been made to Dr C.S. Goldschmidt and C.D. Wilks under the Executive Incentive Plan. These performance related issues represented the short term and long term incentive awards in relation to the 2006 financial year.

The maximum number of shares and options issuable in future years under the Executive Incentive Plan is 61,500 shares and 3,080,000 options.

Options over unissued ordinary shares in Sonic Healthcare Limited accounted for 67% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2006. Options issued to Dr C.S. Goldschmidt during the 12 months to 30 June 2006 had an aggregate value of $3,939,610.

Remuneration report (continued)

(d) Service agreements (continued)

Options over unissued ordinary shares in Sonic Healthcare Limited accounted for 66% of C.D. Wilks' remuneration for the 12 months to 30 June 2006. Options issued to C.D. Wilks during the 12 months to 30 June 2006 had an aggregate value of $2,127,390. 200,000 options issued in April 2000 were exercised during the financial year. The value at exercise date of these options (being the difference between the market price and the exercise price) was $2,044,000. The total value of options issued in the financial year and the value of options issued in prior years exercised in this financial year is $4,171,390.

The remuneration amounts disclosed relating to shares and options issued under the Executive Incentive Plan represent the assessed fair values at the date they were granted allocated equally over the service periods up to the vesting dates. Fair values for these shares and options have been determined using appropriate pricing models that take into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and risk-free interest rate for the term of the option. Sonic has applied no discount to the calculated fair value of these options for service continuity risk.

Service agreements for other executives are detailed below.

D. Byrne
Following the acquisition of TDL in April 2002, a 5 year service contract was established with the following key terms:
- Initial base salary of £150,000 per annum, plus superannuation and other benefits to be reviewed annually on 1 September each year.
- Cash bonus arrangement based on the satisfaction of performance conditions relating to the earnings of TDL.
- Issue of £50,000 of fully paid ordinary Sonic shares following the award of a revenue contract or completion of an acquisition by TDL deemed to be of strategic significance.
- Twelve month notice period by either party.

Dr R. Prudo
Following the acquisition of TDL, a 5 year service contract was established with the following key terms:
- Initial base salary of £165,000 per annum, plus superannuation and other benefits to be reviewed annually on 1 September each year.
- Cash bonus arrangement based on the satisfaction of performance conditions relating to the earnings of TDL.
- Issue of £50,000 of fully paid ordinary Sonic shares following the award of a revenue contract or completion of an acquisition by TDL deemed to be of strategic significance.
- Twelve month notice period by either party.

Dr B. Schottdorf
Following the acquisition of The Schottdorf Group in June 2004, a rolling service contract was established with the following key terms:
- Base salary of €579,000.
- Cash bonus arrangement (capped at €165,000) based on the satisfaction of performance conditions relating to the earnings of the Schottdorf Group.
- Twelve month notice period by either party.

G. Schottdorf
Following the acquisition of The Schottdorf Group, a rolling service contract was established with the following key terms:
- Base salary of €508,000.
- Cash bonus arrangement (capped at €330,000) based on the satisfaction of performance conditions relating to the earnings of the Schottdorf Group.
- Twelve month notice period by either party.

Remuneration report (continued)

(d) Service agreements (continued)

D. Schultz
No formal service contract exists. The terms and entitlements of employment are governed by normal employment law. The key terms are as follows:

- Base salary of US$325,000
- Cash bonus arrangement (capped at 100% of base salary) based on the satisfaction of performance conditions relating to the earnings of CPL.

Under Sonic's strategy for investment in new offshore markets, Sonic seeks to acquire a majority stake but leaves local management with an ownership interest. Dr B. Schottdorf and G. Schottdorf own 44.1% of the Schottdorf business, and D. Schultz is one of the ~18% minority owners of CPL. These executives are therefore incentivised to create value in their businesses via personal ownership. As part of the acquisition consideration for the Schottdorf business, Dr B. Schottdorf and G. Schottdorf were issued 3,000,000 options over Sonic shares which further align their interests with those of Sonic's shareholders.

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

Dr C.S. Goldschmidt
Director

C.D. Wilks
Director

Sydney
29 September 2006

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Auditors' Independence Declaration

As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

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

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

B K Hunter

Partner
PricewaterhouseCoopers

Sydney
29 September 2006

Corporate governance statement

The board of Sonic Healthcare continues to place great importance on the governance of the company, which it believes is vital to its well being and success. There are two elements to the governance of companies: performance and conformance. Both are important but it is critical that focus on conformance does not detract from the principal function of a business, which is to undertake prudent activities to:

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

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

In this framework it is crucial that shareholders have clear visibility of the actions of the company and that they can rely on reported financial information. The Sonic board has committed itself to provide relevant, accurate information to shareholders on a timely basis and has adopted policies and procedures designed to ensure that the group's financial reports are true and fair, meet high standards of disclosure integrity and provide all material information necessary to understand the group's financial performance.

Sonic's board and management are committed to governance which recognises that all aspects of the group's operations are conducted ethically, responsibly and with the highest standards of integrity. The board has adopted practices and policies designed to achieve these aims. In March 2003, the ASX Corporate Governance Council published its Principles of Good Corporate Governance and Best Practice Recommendations (Recommendations). Sonic supports the Recommendations in advancing good corporate governance. Sonic's board has reviewed Sonic's compliance with the Recommendations, and in areas where Sonic's existing practices and policies were not in accordance with the Recommendations, Sonic has implemented change in a prudent manner. Sonic's website (www.sonichealthcare.com.au) includes a Corporate Governance section which sets out the information required by the Recommendations plus other relevant information, including copies of all Policies, Charters and Codes referred to herein.

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

- Commit to Service Excellence
  To willingly serve all those with whom we deal with unsurpassed excellence.

- Treat each other with Respect & Honesty
  To grow a workplace where trust, team spirit and equity are an integral part of everything we do.

- Demonstrate Responsibility & Accountability
  To set an example, to take ownership of each situation to the best of our ability and to seek help when needed.

- Be Enthusiastic about Continuous Improvement
  To never be complacent, to recognise limitations and opportunities for ourselves and processes and to learn through these.

- Maintain Confidentiality
  With regard to patient records and all information pertaining to patients as well as other professional and commercial issues.

A description of the company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place throughout the year.

1. Board of directors

(a) Role of the board

The board of directors is accountable to shareholders for the performance of the parent entity and the consolidated group and is responsible for the corporate governance practices of the group.

The board's principal objective is to maintain and increase shareholder value while ensuring that the group's overall activities are properly managed.

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

The board's overall responsibilities include:

- providing strategic direction and approving corporate strategies;
- monitoring management and financial performance and reporting;
- monitoring and ensuring the maintenance of adequate risk management controls and reporting mechanisms, and
- ensuring the business is conducted ethically and transparently.

The board delegates responsibility for day-to-day management of the business to the Managing Director and senior executives. The Managing Director also oversees the implementation of strategies approved by the board. The board uses a number of committees to support it in matters that require more intensive review and involvement. Details of the board committees are provided below.

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

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

(b) Composition of the board

The directors of the company in office at the date of this statement are:

Name	*Age*	*Term of office (Years)*	*Position*	*Expertise*	*Committees*
Mr Barry Patterson	65	13	Chairman Non-Executive, independent Director	Company Management	Chairman of Remuneration and Nominations Committees, member of Audit Committee
Dr Colin Goldschmidt	52	13	Managing Director	Healthcare Industry and Company Management	Chairman of Risk Management Committee, member of Nominations Committee
Mr Chris Wilks	48	16	Finance Director	Finance, Accounting, Banking, Secretarial and Company Management	Member of Risk Management Committee
Mr Peter Campbell	61	13	Non-Executive, independent Director	Finance and Accounting, Computing and Company Management	Chairman of Audit Committee, member of Remuneration and Nominations Committees
Dr Philip Dubois	60	5	Executive Director	Radiology Industry and Company Management	Member of Risk Management Committee
Mr Colin Jackson	58	6	Executive Director	Finance, Pathology Industry and Company Management	
Mr Lou Panaccio	49	1	Non-Executive, independent Director	Finance, Pathology Industry and Company Management	Member of Audit Committee
Dr Hugh Scotton	64	5	Executive Director	Radiology Industry and Company Management	

The composition of Sonic's board is consistent with the principle of medical management and leadership which has been a core strategy of Sonic's since 1992. Sonic's Managing Director is a qualified pathologist, and the board also includes two radiologists, ensuring that it has the capacity to understand complex medical issues and be in close touch with the medical marketplace. The presence of medical practitioners on Sonic's board also gives comfort both to referring doctors (Sonic's customers) and to owners of diagnostic practices which Sonic seeks to acquire. This strategy has resulted in a board which has a relatively high proportion of executive directors.

Dr Dubois, Mr Jackson and Dr Scotton were appointed to the board following acquisitions of practices in which they held leadership positions. Their presence on the board has played an important role in consolidating several of the larger independent practices acquired by Sonic into a cohesive group.

Sonic's non-executive directors, including the Chairman, are considered independent and perform major roles in the board committees.

For the reasons described above, Sonic does not comply with ASX Corporate Governance Council Recommendation 2.1: "A majority of the board should be independent directors". Due to the importance to Sonic of medical leadership and representation of major medical practice subsidiaries on the board, it is envisaged that Sonic will not fully comply with Recommendation 2.1 in the short to medium term, however the appointment of a Nominations Committee in July 2003, the retirements of two executive directors at the 2003 Annual General Meeting and the appointment of Mr Lou Panaccio (June 2005) as an additional independent director were significant steps towards compliance.

The board has resolved that the position of Chairman of the board be held by an independent director, and the position of Chairman and Managing Director will be held by different persons. The board has also resolved that the mere fact that a director has been in office for a period greater than 10 years does not change that director's status as an independent. The board has specifically considered the position of Mr Barry Patterson and has determined that he is independent.

The size and composition of the board is determined by the full board acting on recommendations of the Nominations Committee. Sonic's constitution requires that the board comprise no more than 12 and no less than 3 directors at any time. Sonic's constitution also requires all directors other than the Managing Director to offer themselves for re-election at an Annual General Meeting, such that they do not hold office without re-election for longer than three years.

(c) Board meetings

The board meets formally at least 10 times a year to consider a broad range of matters, including strategy, financial performance reviews, capital management and acquisitions. Details of meetings (both full board and committees) and attendances are set out in the Directors' report.

(d) Independent professional advice and access to information

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

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

(e) Conflicts of interest of directors

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

(f) Share trading

Under Sonic's Share Trading Policy all Sonic employees are prohibited from buying or selling Sonic shares at any time they are aware of any material price sensitive information that has not been made public, and are reminded of the laws against "insider trading". Certain "Designated Officers", including all directors and senior executives, are also prohibited from trading in periods other than in 8 week windows following the release of half year and full year results, and 2 week periods following the provision to the market at any time by Sonic of definitive guidance regarding the next result to be released. Exceptions to this prohibition can be approved by the Chairman (for other directors) or the Managing Director (for all other employees) in circumstances of financial hardship. Prohibitions also apply to financial instruments related to Sonic's shares and to trading in the shares of other entities using information obtained through employment with Sonic. In addition, the Managing Director and Finance Director are required to obtain approval from the Chairman of the Remuneration Committee before selling any shares. All Sonic share dealings by directors are promptly notified to the Australian Stock Exchange (ASX).

2. Board committees

To assist the board in fulfilling its duties, there are currently four board committees whose terms of reference and powers are determined by the board.

(a) Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the board on remuneration packages and policies applicable to the Managing Director and Finance Director and to advise the board in relation to equity based incentive schemes for other employees. In addition, the Committee ensures appropriate disclosure is provided to shareholders in relation to remuneration policies and that equity based remuneration is within plans approved by shareholders. The Remuneration Committee, when deemed necessary, obtains independent advice on the appropriateness of remuneration packages.

The members of the Remuneration Committee during the year were:

Mr B.S. Patterson (Chairman)
Mr R.P. Campbell

The Remuneration Committee operates under a formal Charter and meets on an as required basis.

The current remuneration for non-executive directors is $80,000 per annum plus $10,000 per annum for each Board Committee upon which they serve. Further details of Sonic's remuneration policies for executive directors and senior executives of the company, and the relationship between such policy and the company's performance is provided in the Directors' report.

(b) Audit Committee

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

The members of the Audit Committee are:

Mr R.P. Campbell (Chairman)
Mr L.J. Panaccio
Mr B.S. Patterson

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

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

- Assisting the board in its oversight responsibilities by monitoring and advising on:
  - the integrity of the financial statements of the company
  - the company's accounting policies and practices in accordance with current and emerging accounting standards
  - the external auditors' independence and performance
  - compliance with legal and regulatory requirements and policies in this regard
  - compliance with the policy framework in place from time to time
  - internal controls, and the overall efficiency and effectiveness of financial operations
- Providing a forum for communication between the board, executive leadership and external auditors.
- Providing a conduit to the board for external advice on audit and financial risk management.

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

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

(c) Risk Management Committee

The members of the Risk Management Committee are:

Dr C.S. Goldschmidt (Chairman)
Mr C.D. Wilks
Dr P.J. Dubois

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

- Assisting the board in its oversight responsibilities by monitoring and advising on:
  - the management of operational risks, including but not limited to:
    - the company's insurance program
    - environmental risks
    - disaster recovery strategy
    - litigation against the company
    - industry related regulatory compliance
  - compliance with the policy framework in place from time to time.
  - internal controls over operational risks.
  - the company's overall operational risk management program.
- Providing a forum for communication between the board, management and external risk management advisors.
- Providing a conduit to the board for external advice on operational risk management.

The Risk Management Committee does not have any responsibility in relation to strategic and financial risk management, which is the responsibility of the company's Audit Committee.

The Committee meets at least twice per year.

(d) Nominations Committee

The Nominations Committee's role, as set out in its Charter, is to:

- Review the board structure regularly.
- Advise the board on the recruitment, appointment and removal of directors.
- Assess and promote the enhancement of competencies of directors.
- Review board succession plans.
- Make recommendations on remuneration of non-executive directors.

Members of the Nominations Committee are:

Mr B.S. Patterson (Chairman)
Mr R.P. Campbell
Dr C.S. Goldschmidt

The Committee meets on an as required basis.

3. Identifying and managing business risks

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

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

(a) Responsibilities

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

To assist the board in fulfilling its duties, it is aided by the Audit Committee (in relation to strategic and financial risk management) and the Risk Management Committee (in relation to operational and compliance risk management). The board has delegated to these Committees responsibility for ensuring:

- the principal strategic, financial, operational and compliance risks are identified.
- systems are in place to assess, manage, monitor and report on those risks, and that those systems are operating effectively.
- management compliance with board approved policies.
- internal controls are operating effectively across the business.
- all group companies are in compliance with laws and regulations relating to their activities.

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

Management is responsible for the identification, assessment and management of business risks and reports on these matters to the Audit Committee or Risk Management Committee through various mechanisms depending on the nature of the risks.

(b) Risk management systems and processes

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

- clearly defined management responsibilities, management accountabilities and organisational structures.
- established policies and procedures that are widely disseminated to, and understood by, employees.
- regular internal review of policy compliance and the effectiveness of systems and controls.
- comprehensive training programs for staff in relation to pathology and radiology operational practices and compliance requirements.
- strong management reporting framework for both financial and operational information.
- creation of an open culture to share risk management information and to continuously improve the effectiveness of Sonic's risk management approach.
- benchmarking across operations to share best practice and further reduce the operational risk profile.
- Sonic Core Values, a uniting code of conduct embraced by Sonic employees.
- centrally administered group insurance program ensuring a consistent and adequate approach across all operating areas.

(c) Regulatory compliance

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

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

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

In addition, practising pathologists and radiologists are required to be registered and licensed in accordance with Medical Board and Government regulations. The accreditation and licensing of locations, equipment and personnel is subject to regular, random audits by Government experts and medical peer groups. Sonic also undertakes internal reviews to ensure continued best practice and compliance.

Sonic's established procedures, focus on best practice, structured staff training and the external review activities serve to mitigate operational risk and support regulatory compliance.

(d) Managing Director and Finance Director sign-off

Sonic has adopted a policy requiring the Managing Director and the Finance Director to state to the board in writing that to the best of their knowledge the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board, and which operates efficiently and effectively in all material respects.

4. Ethical standards

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

5. Continuous disclosure

The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

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

All information disclosed to the ASX is posted on the company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the company's operations, the material used in the presentation is released to the ASX and posted on the company's website.

6. The role of shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the group's state of affairs. Information is communicated to shareholders as follows:

- The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document). The board ensures that the annual report includes relevant information about the operations of the group during the year, changes in the state of affairs of the group and details of likely future developments, in addition to the other disclosures required by law;
- Proposed major changes in the group which may impact on share ownership rights are submitted to a vote of shareholders.

To further facilitate communication with shareholders the company has established electronic shareholder communication processes via its share registry. Shareholders are able to access annual reports, notices of meetings, proxy forms and voting, and electronic statements (e.g. holding statements) by email. The company has an arrangement with eTree by which it donates up to $2 to Landcare Australia for each shareholder email address recorded.

The board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are responsible for voting on the appointment of directors.

7. External auditors

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

8. Performance evaluation of the board, its committees and directors, and key executive officers

(a) The board and its committees

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

- the Chairman discusses with each director their individual performance and ideas for improvement based on surveys completed by each director assessing their own and each other directors' performance, and
- the board as a whole discusses and analyses its own performance including suggestions for change or improvement. This includes an assessment of the extent to which the board has discharged its responsibilities as set out in the Board Charter.

The performance review covers matters such as contribution to strategy development, interaction with management, operation and conduct of meetings, and specific performance objectives for the year ahead.

The board also obtains feedback on their performance and operations from key people such as the external auditors.

Each committee of the board is required to undertake an annual performance evaluation and report the results of this review to the board.

Performance evaluation results are discussed by the board, and initiatives undertaken, where appropriate, to strengthen the effectiveness of the board's operation and that of its committees. The board periodically reviews the skills, experience and expertise of its directors and its practices and procedures for both the present and future needs of the company.

(b) The Managing Director and Finance Director

The performances of the Managing Director and Finance Director are formally reviewed by the board. The performance criteria include:

- economic results of the consolidated group.
- fulfilment of objectives and duties.
- personnel and resource management.
- personal conduct and Sonic Core Values.
- corporate governance and compliance.
- risk management.
- feedback from clients and investors.

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

(c) Key executives

The Managing Director evaluates key executives at least annually with qualitative and quantitative measures against agreed business and personal objectives. These business and personal objectives are consistent with those used in the performance reviews for the Managing Director and Finance Director.

Sonic Healthcare Limited ABN 24 004 196 909
Financial report
30 June 2006

Contents

Income statements

For the year ended 30 June 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Revenue from operations	3	**1,645,184**	1,374,841	**114,773**	98,318
Other income	4	**11,183**	6,064	**2,443**	-
Total revenue		**1,656,367**	1,380,905	**117,216**	98,318
Labour and related costs		**(745,392)**	(613,873)	**(5,675)**	(4,218)
Consumables used		**(247,158)**	(213,085)	**-**	-
Operating lease rental expense	5	**(80,127)**	(67,486)	**-**	-
Depreciation and amortisation of physical assets	5	**(54,274)**	(48,184)	**(528)**	(609)
Transportation		**(44,300)**	(37,028)	**-**	-
Borrowing costs expense	5	**(42,925)**	(43,411)	**(121)**	(2,341)
Repairs and maintenance		**(38,343)**	(33,152)	**-**	-
Utilities		**(37,821)**	(32,820)	**(367)**	(2)
Amortisation of intangibles	5	**(1,823)**	(1,708)	**-**	-
Other expenses from ordinary activities		**(100,429)**	(80,351)	**(809)**	(1,201)
Profit from ordinary activities before income tax expense		**263,775**	209,807	**109,716**	89,947
Income tax expense	7	**(77,960)**	(62,633)	**(2,071)**	(1,450)
Profit from ordinary activities after income tax expense		**185,815**	147,174	**107,645**	88,497
Net (profit) attributable to minority interests		**(13,786)**	(11,821)	**-**	-
Profit attributable to members of Sonic Healthcare Limited	30 (b)	**172,029**	135,353	**107,645**	88,497

	Notes	Cents	Cents
Basic earnings per share	40	**59.8**	49.8
Diluted earnings per share	40	**58.6**	48.9

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

Balance sheets
As at 30 June 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Current assets					
Cash assets and cash equivalents	41(a)	**68,156**	31,914	**139**	64
Other financial assets	8	**3,357**	-	**-**	-
Receivables	9	**188,386**	146,110	**4,467**	173
Inventories	10	**26,926**	23,813	**-**	-
Other	11	**16,174**	10,253	**152**	139
Total current assets		**302,999**	212,090	**4,758**	376
Non-current assets					
Receivables	12	**4,452**	4,017	**398,015**	181,142
Other financial assets	13	**8,068**	10,682	**1,080,160**	1,081,383
Property, plant and equipment	14	**306,800**	260,062	**10,929**	1,698
Investment properties	15	**-**	-	**22,844**	23,372
Intangible assets	16	**1,690,239**	1,271,648	**-**	-
Deferred tax assets	17	**31,611**	37,173	**11**	-
Other	18	**1,051**	1,211	**-**	-
Total non-current assets		**2,042,221**	1,584,793	**1,511,959**	1,287,595
Total assets		**2,345,220**	1,796,883	**1,516,717**	1,287,971
Current liabilities					
Payables	19	**122,319**	102,282	**3,303**	2,956
Interest bearing liabilities	20	**28,403**	40,035	**-**	-
Current tax liabilities	21	**3,338**	6,629	**656**	3,812
Provisions	22	**70,545**	61,266	**-**	-
Other	23	**6,873**	5,028	**-**	-
Total current liabilities		**231,478**	215,240	**3,959**	6,768
Non-current liabilities					
Payables	24	**-**	35	**293,599**	356,158
Interest bearing liabilities	25	**782,253**	616,610	**-**	-
Deferred tax liabilities	26	**7,052**	633	**-**	450
Provisions	27	**18,592**	19,100	**-**	-
Other	28	**3,500**	-	**-**	-
Total non-current liabilities		**811,397**	636,378	**293,599**	356,608
Total liabilities		**1,042,875**	851,618	**297,558**	363,376
Net assets		**1,302,345**	945,265	**1,219,159**	924,595
Equity					
Parent entity interest					
Contributed equity	29	**1,181,978**	909,912	**1,211,620**	920,703
Reserves	30(a)	**9,542**	6,663	**15,098**	10,204
Accumulated profit/(loss)	30(b)	**93,202**	30,065	**(7,559)**	(6,312)
Total parent entity interest		**1,284,722**	946,640	**1,219,159**	924,595
Minority interests		**17,623**	(1,375)	**-**	-
Total equity		**1,302,345**	945,265	**1,219,159**	924,595

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

Statements of changes in equity

For the year ended 30 June 2006

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Total equity at the beginning of the year	**945,265**	849,783	**924,595**	873,522
Adjustment on initial adoption of AASB 132 and AASB 139:				
Retained profits	**(1,353)**	-	**(1,353)**	-
Reserves	**516**	-	**-**	-
Exchange differences on translation of foreign operations	**(3,567)**	(3,080)	**-**	-
Cash flow hedges (net of tax)	**1,118**	-	**-**	-
Net income recognised directly in equity	**(3,286)**	(3,080)	**(1,353)**	-
Profit for the year	**185,815**	147,174	**107,645**	88,497
Total recognised income and expense for the year	**182,529**	144,094	**106,292**	88,497
Transactions with equity holders in their capacity as equity holders:				
Contributions of equity, net of transaction costs	**271,455**	38,733	**271,455**	38,733
Dividends paid	**(107,539)**	(89,881)	**(107,539)**	(89,881)
Payments made by subsidiary entities to the parent entity in respect of shares issued under the Sonic Healthcare Limited Employee Option Plan	**-**	-	**18,851**	9,770
Minority interest on acquisition of subsidiary	**7,119**	(1,331)	**-**	-
Distribution to minority interests in subsidiaries	**(1,995)**	(102)	**-**	-
Equity remuneration expense	**5,511**	3,969	**5,505**	3,954
Total equity at the end of the year	**1,302,345**	945,265	**1,219,159**	924,595
Total recognised income and expense for the year is attributable to:				
Members of Sonic Healthcare Limited	**168,655**	131,796	**106,292**	88,497
Minority interests	**13,874**	12,298	**-**	-
	182,529	144,094	**106,292**	88,497

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

Cash flow statements

For the year ended 30 June 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**1,703,951**	1,442,355	**31**	30
Payments to suppliers and employees (inclusive of goods and services tax)		**(1,341,994)**	(1,131,942)	**(925)**	(1,049)
		361,957	310,413	**(894)**	(1,019)
Dividends received from controlled entities		**-**	-	**104,997**	90,714
Interest received		**2,490**	1,921	**1,633**	826
Other revenue from controlled entities		**-**	-	**3,072**	6,750
Borrowing costs		**(45,936)**	(40,072)	**(121)**	(2,341)
Income taxes paid		**(71,303)**	(58,196)	**(18,390)**	(1,607)
Reimbursements received from tax consolidated entities		**-**	-	**13,579**	8,484
Net cash inflow from operating activities	41(b)	**247,208**	214,066	**103,876**	101,807
Cash flows from investing activities					
Payment for purchase of controlled entities, net of cash acquired	32	**(419,373)**	(120,881)	**-**	(44,306)
Payments for property, plant and equipment, and intangibles		**(97,968)**	(58,200)	**(9,231)**	(479)
Proceeds from sale of non-current assets		**9,497**	1,945	**4,464**	-
Payments for investments		**(1,162)**	(2,208)	**(2,569)**	(3,118)
Loans to controlled entities		**-**	-	**(305,582)**	(88,771)
Repayment of loans by other entities		**2,237**	2,940	**-**	-
Repayment of loans by controlled entities		**-**	-	**10,000**	1,600
Loans to other entities		**(1,328)**	(431)	**-**	-
Net cash (outflow) from investing activities		**(508,097)**	(176,835)	**(302,918)**	(135,074)
Cash flows from financing activities					
Proceeds from issues of shares and other equity securities		**270,514**	38,504	**289,365**	48,274
Proceeds from borrowings		**988,721**	195,759	**-**	80,000
Loans from controlled entities		**-**	-	**17,291**	74,935
Repayment of borrowings		**(857,133)**	(166,258)	**-**	(80,000)
Dividends paid to company's shareholders	6	**(107,539)**	(89,881)	**(107,539)**	(89,881)
Dividends paid to minority interests in subsidiaries		**(1,995)**	(102)	**-**	-
Net cash inflow/(outflow) from financing activities		**292,568**	(21,978)	**199,117**	33,328
Net increase in cash and cash equivalents		**31,679**	15,253	**75**	61
Cash and cash equivalents at the beginning of the financial year		**31,914**	17,343	**64**	3
Effects of exchange rate changes on cash and cash equivalents		**4,563**	(682)	**-**	-
Cash and cash equivalents at the end of the financial year	41(a)	**68,156**	31,914	**139**	64
Financing arrangements	20, 25				
Non-cash financing and investing activities	41 (c)				

The above cash flow statements should be read in conjunction with the accompanying notes.

Notes to the financial statements

30 June 2006

Contents

Note 1 Summary of significant accounting policies

This general purpose financial report includes separate financial statements for Sonic Healthcare Limited as an individual entity, and financial statements for the consolidated entity consisting of Sonic Healthcare Limited and its subsidiaries. It has been prepared in accordance with Australian equivalents to International Financial Reporting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

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

This financial report is the first full year Sonic Healthcare Limited financial report to be prepared in accordance with AIFRS. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Sonic Healthcare Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the financial report for the year ended 30 June 2006, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments.

The parent and consolidated entity has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Sonic's comparative figures relating to investments, financial instruments and other financial assets are reported under AGAAP. Further information on previous AGAAP is set out in the 2005 Annual Financial Statements.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the consolidated entity's equity and its net income are given in Note 44.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Sonic Healthcare Limited ("company" or "parent entity") as at 30 June 2006 and the results of all controlled entities for the year then ended. Sonic Healthcare Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a reporting period, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a reporting period its results are included for that part of the period during which control existed.

(b) Income tax

The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Income tax on cumulative temporary differences is set aside to the deferred income tax liability or the future income tax benefit accounts at the rates which are expected to apply when those temporary differences reverse.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Note 1 Summary of significant accounting policies (continued)

Sonic Healthcare Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation with effect from 30 June 2004, and have notified the Australian Taxation Office of this event. In addition to its own current and deferred tax amounts Sonic Healthcare Limited, as the head entity in the tax consolidated group, also recognises the current tax liabilities (or assets) assumed from the controlled entities in the tax consolidated group. Under tax sharing and funding agreements amounts receivable or payable between the tax consolidated entities are recognised within amounts receivable/payable to controlled entities.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Sonic Healthcare Limited's functional and presentation currency.

(ii) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At the balance sheet date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year.

(iii) Foreign controlled entity

The assets and liabilities of foreign controlled entities are translated into Australian currency at rates of exchange current at the balance sheet date, while their revenues and expenses are translated at the average of rates ruling during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve.

Differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity are taken directly to the foreign currency translation reserve.

(d) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, these are fair valued. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Goodwill is brought to account on the basis described in Note 1(l)(i).

Where an entity or operation is acquired and the fair value of the identifiable net assets acquired exceeds the cost of acquisition, the difference, representing a discount on acquisition, is recognised directly in the income statement.

(e) Revenue recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Medical services revenue is recognised on a completed test basis. Revenue from other services is recognised when the service has been provided. Rental income is recognised by allocating minimum lease payments on a basis representative of the pattern of services rendered through the provision of the leased asset.

(f) Receivables

All trade debtors are initially recognised at their fair value being the amounts receivable. They are generally settled within 40 days.

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the period in which they are identified. A provision for doubtful debts is raised during the year and adjusted following a review of all outstanding amounts at the balance sheet date.

Note 1 Summary of significant accounting policies (continued)

(g) Inventories

Inventories, comprising consumable stores stock, are valued at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the first in, first out (FIFO) basis.

(h) Recoverable amount of assets

At each reporting date, Sonic assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, Sonic makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing the 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.

(i) Investments and other financial assets

Sonic classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

With the exception of loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Changes in fair value are either taken to the income statement or an equity reserve depending upon the classification of the investment.

(i) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the consolidated entity provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Investments are initially recognised at cost being the fair value of the consideration given plus transaction costs associated with the investment. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as 'available-for-sale' are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

Note 1 Summary of significant accounting policies (continued)

The fair values of quoted investments accounted at 'fair value through profit and loss' are based on current market prices. If the market for a financial asset is not active (and for unlisted securities), the consolidated entity establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and appropriate pricing models.

The consolidated entity assesses at each balance sheet date whether there is evidence that a financial asset or group of financial assets is impaired.

(j) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment (excluding land) over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

Buildings and improvements	40 years
Plant and equipment	3 - 15 years

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter (generally 7- 40 years).

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(k) Leases

Finance leases, which transfer to Sonic substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Future payments for surplus leased space under non-cancellable operating leases are recognised as a liability, net of sub-leasing revenue, in the period in which it is determined that the leased space will be of no future benefit to the consolidated entity.

Note 1 Summary of significant accounting policies (continued)

(l) Intangible assets

(i) Goodwill
Goodwill represents the excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets and liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Intangible assets acquired from a business combination
Intangible assets acquired from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement.

Intangible assets (other than software development costs) created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Included in intangibles is the value of certain brand names acquired as part of the purchase of certain pathology businesses and controlled entities. Sonic's brand names have been assessed as having an indefinite useful life. No deferred tax assets relating to these brand names have been recognised.

(iii) Software development
Expenditure on software development is capitalised when its future recoverability can reasonably be assured. The expenditure capitalised comprises all directly attributable costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over the period of the expected benefit. The carrying value is reviewed for impairment annually, or more frequently if an indicator of impairment arises.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(m) Trade and other creditors
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Interest bearing liabilities
All loans and borrowings are initially recognised at cost. Thereafter interest bearing loans and borrowings are measured at amortised cost using the effective interest method. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

Note 1 Summary of significant accounting policies (continued)

(o) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. Changes in fair value are either taken to the income statement or an equity reserve (refer below). The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either fair value hedges or cash flow hedges.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Under the AGAAP the net amount receivable or payable under interest rate swap agreements is progressively brought to account over the period to settlement. The amount recognised is accounted for as an adjustment to interest and finance charges during the period and included in sundry debtors or sundry creditors and accruals at each reporting date.

At the date of transition (1 July 2005) the group's interest rate swaps were determined to be cash flow hedges which met the requirements for hedge accounting. Accordingly, on transition the fair values of the swaps were recognised as financial assets and financial liabilities, and were recognised in equity.

The fair value of the Group's cash flow hedges are determined by external advisors using appropriate valuation techniques.

(p) Employee benefits

(i) Wages and salaries, annual leave

Liabilities for wages and salaries and annual leave are recognised, and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the non-current provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Note 1 Summary of significant accounting policies (continued)

(p) Employee benefits (continued)

(iv) Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:
- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report, or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(v) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(vi) Equity-based compensation benefits

Share-based compensation benefits are provided to employees under various plans.

Share options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received are allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005

The fair value of equity remuneration granted under the various employee plans is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares and options ("the vesting period").

The fair value at grant date is determined using an appropriate pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the arrangement.

The fair value of the options and shares granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares and options that are expected to vest. At each balance sheet date, the entity revises its estimate of the number of shares and options that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate.

No expense is recognised for shares and options that do not ultimately vest.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The dilutive effect, if any, of outstanding shares and options is reflected as additional share dilution in the calculation of diluted earnings per share.

The parent entity issues options to employees of subsidiary companies as part of the group's remuneration strategy. When options are exercised, the subsidiary company reimburses the parent company for the excess of the market price at the time of exercise over the exercise price. These amounts are credited to contributed equity in the parent entity's accounts, and eliminated on consolidation.

(q) Borrowing costs

Borrowing costs include:
- interest on bank overdrafts, short-term and long-term borrowings, including amounts paid or received on interest rate swaps
- amortisation of discounts or premiums relating to borrowings
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- finance lease charges

Note 1 Summary of significant accounting policies (continued)

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use. In these circumstances, borrowing costs are capitalised to the cost of the assets.

(r) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and deposits at call with financial institutions which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(t) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(u) Segment information

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage.

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an “arms-length” basis and are eliminated on consolidation.

(v) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of a financial period but not distributed at balance date.

(w) Repairs and maintenance

Plant and equipment and premises occupied require repairs and maintenance from time to time in the course of operations. The costs associated with repairs and maintenance are charged as expenses as incurred, except where they relate to an improvement in the useful life of an asset, in which case the costs are capitalised and depreciated in accordance with Note 1(j).

(x) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) held for sale are stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group). A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Note 1 Summary of significant accounting policies (continued)

(y) Investment property

Investment property, principally comprising freehold office buildings carried at cost in the parent entity, is held for long term rental with certain subsidiaries. Rental income is charged to the profit and loss when due and receivable and depreciation charged straight line over the building's useful life of 40 years.

(z) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

(aa) Provisions

Provisions are recognised when the consolidated entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Surplus leased space provisions are recognised where the consolidated entity has identified surplus lease space for premises under non-cancellable operating leases. Surplus leased space provisions are based on rental lease commitments and expected sublease income over the term of the lease and are amortised to the profit and loss on a straight line basis over the term of the lease.

(ab) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(ac) Rounding of amounts

The company is of 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 financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(ad) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill and intangibles with indefinite useful lives

Sonic determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 16.

Share-based payment transactions

Sonic measures the cost of equity-settled share-based payments at fair value at the grant date using an appropriate pricing model taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 38.

Note 2 Segment information

Business segments
The consolidated entity delivers medical diagnostic services in the following segments:

(i) Pathology
Pathology services provided across Australia, New Zealand, the United Kingdom, Germany and following the acquisition of Clinical Pathology Laboratories (CPL) on 1 October 2005, the United States of America.

(ii) Radiology
Radiology and diagnostic imaging services provided across Australia, New Zealand and in Hong Kong.

(iii) Other
Includes the corporate office function and other minor operations. This segment also includes the consolidated results of Independent Practitioner Network Limited (IPN).

Geographical segments
The consolidated entity operates predominantly in three geographical areas:

(i) Australia/New Zealand
The home country of the parent entity and New Zealand, incorporating both pathology and radiology activities. This segment also includes the consolidated results of IPN.

(ii) The United States of America
Following its acquisition on 1 October 2005 this segment includes the consolidated results of CPL.

(iii) Europe and Other
Includes results of The Doctors Laboratory group in the United Kingdom, the Schottdorf Group in Germany and radiology in Hong Kong. None of these constitutes a separately reportable segment.

Note 2 Segment information (continued)

Primary Reporting – Business Segments

2006	**Pathology $'000**	**Radiology $'000**	**Other $'000**	**Eliminations $'000**	**Consolidated $'000**
Revenue					
External sales	1,243,553	313,011	86,130	-	1,642,694
Inter segment sales	2	614	3,002	(3,618)	-
Other revenue	-	617	10,566	-	11,183
Total segment revenue	1,243,555	314,242	99,698	(3,618)	1,653,877
Interest income					2,490
Total revenue					**1,656,367**
Result					
Segment result before interest and tax	259,062	52,047	(6,899)	-	304,210
Unallocated net interest expense					(40,435)
Profit before tax					263,775
Income tax expense					(77,960)
Profit after income tax expense					**185,815**
Segment assets	1,667,117	536,182	1,273,906	(1,131,985)	**2,345,220**
Segment liabilities	286,775	251,043	8,727	(270,209)	276,336
Unallocated liabilities					766,539
Total liabilities					**1,042,875**
Acquisition of property, plant and equipment and identifiable intangible assets*	51,850	41,012	24,849	-	**117,711**
Depreciation and amortisation expense	25,963	24,619	5,515	-	**56,097**
Other non cash expenses	3,342	627	729	-	**4,698**

*Note that this includes property, plant and equipment and identifiable intangible assets acquired as part of business acquisitions.

Note 2 Segment information (continued)

Primary Reporting – Business Segments

2005	Pathology $'000	Radiology $'000	Other $'000	Eliminations $'000	Consolidated $'000
Revenue					
External sales	1,007,487	294,604	70,829	-	1,372,920
Inter segment sales	353	344	2,098	(2,795)	-
Other revenue	217	186	5,661	-	6,064
Total segment revenue	1,008,057	295,134	78,588	(2,795)	1,378,984
Interest income					1,921
Total revenue					**1,380,905**
Result					
Segment result before interest and tax	209,987	51,752	(10,442)	-	251,297
Unallocated net interest expense					(41,490)
Profit before tax					209,807
Income tax expense					(62,633)
Profit after income tax expense					**147,174**
Segment assets	1,285,021	524,146	1,013,569	(1,025,853)	**1,796,883**
Segment liabilities	148,928	246,632	14,813	(153,374)	256,999
Unallocated liabilities					594,619
Total liabilities					**851,618**
Acquisition of property, plant and equipment and identifiable intangible assets*	32,845	34,725	20,112	-	**87,682**
Depreciation and amortisation expense	20,874	24,253	4,765	-	**49,892**
Other non cash expenses	9,962	3,164	59	-	**13,185**

*Note that this includes property, plant and equipment and intangible assets acquired as part of business acquisitions.

Secondary Reporting – Geographic Segments

	Segment revenues from sales to external customers		**Segment assets**		**Acquisition of property, plant and equipment and identifiable intangible assets**	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
Australia / New Zealand	**1,212,260**	1,121,976	**1,514,599**	1,467,897	**87,471**	80,211
United States of America	**180,622**	-	**475,388**	-	**20,297**	-
Europe and Other*	**249,812**	250,944	**355,233**	328,986	**9,943**	7,471
Total	**1,642,694**	1,372,920	**2,345,220**	1,796,883	**117,711**	87,682

*Note that the apparent decline in revenue in the Europe and Other segment is a function of exchange rate fluctuations. Segment revenue in local currencies grew during the period.

Note 3 Revenue

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Services revenue				
Medical services revenue	**1,626,795**	1,359,902	**-**	-
Other revenue				
Management fees received or due and receivable from subsidiaries	**-**	-	**1,300**	1,100
Dividends from subsidiaries	**-**	-	**105,379**	90,714
Interest received or due and receivable from:				
Subsidiaries	**-**	-	**2,205**	824
Other entities	**2,490**	1,921	**271**	2
Rental income from:				
Subsidiaries	**-**	-	**3,046**	2,952
Other entities	**10,506**	8,702	**26**	26
Other revenue from:				
Subsidiaries	**-**	-	**2,545**	2,698
Other entities	**5,393**	4,316	**1**	2
	18,389	14,939	**114,773**	98,318
Revenue from operations	**1,645,184**	1,374,841	**114,773**	98,318

Note 4 Other income

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Government grants	**6,557**	5,069	**-**	-
Net gain on disposal of non-current assets	**4,626**	995	**2,443**	-
	11,183	6,064	**2,443**	-

Note 5 Expenses

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Profit before income tax includes the following specific expenses				
Net foreign exchange losses	**-**	-	**12**	-
Finance costs				
Finance charges on capitalised leases and hire purchase agreements	**3,409**	4,565	**-**	-
Subsidiaries	**-**	-	**-**	1,317
Other entities	**39,516**	38,846	**121**	1,024
Total borrowing costs	**42,925**	43,411	**121**	2,341
Bad and doubtful debts:				
Trade debtors	**15,584**	3,312	**-**	-
Amortisation of:				
Intangibles	**1,823**	1,708	**-**	-
Leased plant and equipment	**11,756**	15,371	**-**	-
Total amortisation	**13,579**	17,079	**-**	-
Depreciation of:				
Plant and equipment	**40,713**	31,072	**-**	-
Buildings	**1,805**	1,741	**528**	609
Total depreciation	**42,518**	32,813	**528**	609
Net loss on disposal of property, plant and equipment	**1,155**	996	**-**	-
Rental expense relating to operating leases:				
Minimum lease payments	**80,127**	67,486	**-**	-

Note 6 Dividends

	Parent entity	
	2006	2005
	$'000	$'000
Ordinary Shares		
Final dividend for the year ended 30 June 2005 of 23 cents (2004: 20 cents) per fully paid share paid on 19 September 2005 (2004: 20 September 2004), fully franked based on tax paid at 30%	**63,367**	54,216
Interim dividend for the year ended 30 June 2006 of 15 cents (2005: 13 cents) per fully paid share paid on 20 March 2006 (2005: 17 March 2005), fully franked based on tax paid at 30%	**44,172**	35,665
Total dividends paid	**107,539**	89,881

The Company's Dividend Reinvestment Plan (DRP) remained suspended for these dividends.

Dividends not recognised at year end

In addition to the above dividends, since year end the directors have declared the payment of a final dividend of 26 cents (2005: 23 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the final dividend paid on 19 September 2006 out of 2006 profits, but not recognised as a liability at year end is	**76,784**	63,367

Franked dividends

The 2006 final dividend declared after the year end will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2007.

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Franking credits available at the year end for subsequent financial years based on a tax rate of 30%	**83,137**	79,476	**83,129**	79,472

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries not part of the Australian tax consolidated group were paid as dividends. Under the tax consolidation legislation all of the franking credits of the Australian tax consolidated group are held by the parent entity.

The impact on the franking account of the dividend declared by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $32,907,000 (2005: $27,157,000).

Note 7 Income Tax

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
(a) Income tax expense				
Current tax	**70,101**	53,276	**1,591**	1,076
Deferred tax	**7,636**	9,520	**480**	343
Under / (over) provision in prior years	**223**	(163)	**-**	31
	77,960	62,633	**2,071**	1,450
Deferred income tax expense included in income tax expense comprises:				
Decrease in deferred tax assets (Note 17)	**7,657**	11,262	**930**	-
(Decrease) / increase in deferred tax liabilities (Note 26)	**(21)**	(1,742)	**(450)**	343
	7,636	9,520	**480**	343
(b) 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	**263,775**	209,807	**109,716**	89,947
Tax at the Australian tax rate of 30% (2005 - 30%)	**79,133**	62,942	**32,914**	26,984
Tax effect of amounts which are not deductible/ (assessable) in calculating taxable income:				
Tax offset for franked dividends	**-**	-	**(31,614)**	(27,214)
Sundry items	**(1,173)**	(309)	**771**	1,680
Income tax expense	**77,960**	62,633	**2,071**	1,450
(c) Amounts recognised directly in equity				
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss but directly credited to equity*	**941**	-	**941**	-

* The movement in equity is shown net of tax

Note 7 Income Tax (contd)

(d) Tax losses

Part of the deferred tax asset shown in Note 17 is attributable to tax losses. These tax losses were acquired as part of the acquisition of the Schottdorf Group in the 2004 financial year.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
The directors estimate that the potential deferred tax asset at 30 June 2006 in respect of tax losses not brought to account is:	**27,232**	27,230	**-**	-

This benefit of tax losses, which were acquired in the Omnilabs Pathology and IPN acquisitions, will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
(ii) the losses are transferred to an eligible entity in the consolidated entity, and
(iii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
(iv) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

(e) Unrecognised temporary differences

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised				
Foreign currency translation	**(7,212)**	(3,557)	**-**	-
Undistributed earnings	**13,216**	8,223	**-**	-
	6,004	4,666	**-**	-

A deferred tax liability has not been recognised in respect of temporary differences arising as a result of the translation of the financial statements of the consolidated entity's overseas subsidiaries. The deferred tax liability will only arise in the event of disposal of the subsidiaries, and no such disposals are expected in the foreseeable future.

Certain subsidiaries of Sonic Healthcare Limited have undistributed earnings which, if paid out as dividends, would be unfranked and therefore subject to tax in the hands of the recipient. An assessable temporary difference exists, however no deferred tax liability has been recognised as the parent entity is able to control the timing of distributions from these subsidiaries and is not expected to distribute these profits in the foreseeable future.

(f) Tax consolidation legislation

Sonic Healthcare Limited and its wholly owned Australian subsidiaries implemented the Australian tax consolidation legislation at 30 June 2004. The accounting policy in relation to this legislation is set out in Note 1(b).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing and funding agreement. Under the terms of this agreement, as the head entity in the tax consolidated group, Sonic Healthcare Limited recognises the current tax liabilities (assets) assumed from other entities in the tax consolidated group. Amounts receivable or payable between the tax consolidated entities are recognised within amounts receivable/payable to controlled entities. In the opinion of the directors, the tax sharing agreement is a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entities in the case of a default by Sonic Healthcare Limited.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000

Note 8 Other financial assets

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Current				
Interest rate swaps and caps	**3,357**	-	**-**	-

Details of interest rate swaps are outlined in Note 42.

Note 9 Receivables – current

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Trade debtors	**174,946**	128,767	**-**	-
Less: Provision for doubtful debts	**(22,249)**	(8,061)	**-**	-
	152,697	120,706	**-**	-
Accrued revenue	**15,958**	10,785	**-**	-
Amounts owing from other entities	**1,102**	1,171	**-**	-
Dividend receivable from subsidiaries	**-**	-	**382**	-
Accrued amounts relating to subsidiaries (Note 39 (c))	**-**	-	**3,886**	154
Sundry debtors	**18,629**	13,448	**199**	19
	188,386	146,110	**4,467**	173

Significant terms and conditions
General trade debtors are required to be settled within 30 days.

Sundry debtors generally arise from transactions outside the usual trading activities of the consolidated entity. Collateral is not normally obtained.

Transactions outside the usual operating activities of the consolidated entity have given rise to amounts owing from other entities. Interest is charged on these amounts at commercial rates and repayments are specified by agreements.

Note 10 Inventories – current

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Consumable stores at cost	**26,926**	23,813	-	-

Note 11 Other – current

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Prepayments	**16,174**	10,253	**152**	139

Note 12 Receivables – non-current

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Amounts owing from other entities	**4,534**	4,099	**82**	82
Less: Provision for doubtful debts	**(82)**	(82)	**(82)**	(82)
	4,452	4,017	**-**	-
Amounts receivable from subsidiaries (Note 39 (c))	**-**	-	**398,015**	181,142
	4,452	4,017	**398,015**	181,142

Amounts owing from other entities
Transactions outside the usual operating activities of the consolidated entity give rise to these amounts receivable. Interest is charged at commercial rates and repayments are specified by agreements.

Amounts receivable from subsidiaries
The terms and conditions of amounts advanced by the ultimate parent entity during the year are detailed in Note 39.

Note 12 Receivables – non-current (continued)

Fair values
The fair value of non-current receivables approximates the carrying value.

Credit risk exposures
The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been reflected in the financial statements in accordance with accounting standards.

The consolidated entity does not have any significant exposure to any individual customer or counterparty other than government funded bodies in the countries in which the consolidated group operates.

Note 13 Other financial assets – non-current

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Investments traded on organised markets				
Shares in other corporations – at cost	**-**	3,371	**-**	3,371
Other (non-traded) investments				
Investments in other entities – at cost	**8,111**	7,354	**1,990**	1,249
Less: Provision for write down to recoverable amount	**(43)**	(43)	**(43)**	(43)
Investments in other entities – at recoverable amount	**8,068**	7,311	**1,947**	1,206
Shares in subsidiaries – at cost (Note 35)	**-**	-	**1,089,913**	1,088,506
Less: Provision for diminution in value	**-**	-	**(11,700)**	(11,700)
Shares in subsidiaries – at recoverable amount	**-**	-	**1,078,213**	1,076,806
	8,068	10,682	**1,080,160**	1,081,383

Investments in other entities
Investments in other entities have been written down to their assessed recoverable amount.

Non-current assets pledged as security
Refer to Note 35 for information on non-current assets pledged as security by the parent entity or its subsidiaries.

Note 14 Property, plant and equipment – non-current

Consolidated	Freehold Land & Buildings $'000	Plant & equipment $'000	Leased plant & equipment $'000	Total $'000
At 1 July 2004				
Cost	67,334	312,101	112,702	492,137
Accumulated depreciation	(9,787)	(204,923)	(41,650)	(256,360)
Net Book amount	57,547	107,178	71,052	235,777
Year ended 30 June 2005				
Opening net book amount at 1 July 2004	57,547	107,178	71,052	235,777
Additions	499	54,210	16,300	71,009
Additions through acquisition of entities (Note 32)	-	8,651	156	8,807
Disposals	-	(2,894)	(45)	(2,939)
Depreciation/amortisation expense (Note 5)	(1,741)	(31,072)	(15,371)	(48,184)
Transfers from leased plant and equipment to plant and equipment	-	5,855	(5,855)	-
Foreign currency exchange differences	61	(4,057)	(412)	(4,408)
Closing net book amount	56,366	137,871	65,825	260,062
At 30 June 2005				
Cost	67,896	364,711	106,219	538,826
Accumulated depreciation	(11,530)	(226,840)	(40,394)	(278,764)
Net book amount	56,366	137,871	65,825	260,062
Year ended 30 June 2006				
Opening net book amount at 1 July 2005	56,366	137,871	65,825	260,062
Additions	9,595	78,169	2,447	90,211
Additions through acquisition of entities (Note 32)	7,419	8,600	1,277	17,296
Disposals	-	(3,384)	(644)	(4,028)
Depreciation/amortisation expense (Note 5)	(1,805)	(40,713)	(11,756)	(54,274)
Transfers from leased plant and equipment to plant and equipment	-	8,678	(8,678)	-
Foreign currency exchange differences	(1,056)	(1,349)	(62)	(2,467)
Closing net book amount	**70,519**	**187,872**	**48,409**	**306,800**
At 30 June 2006				
Cost	87,378	465,706	84,688	637,772
Accumulated depreciation	(16,859)	(277,834)	(36,279)	(330,972)
Net book amount	**70,519**	**187,872**	**48,409**	**306,800**

Note 14 Property, plant and equipment – non-current (continued)

Parent Entity	Freehold Land & Buildings $'000	Plant & equipment $'000	Leased plant & equipment $'000	Total $'000
At 1 July 2004				
Cost	1,274	-	-	1,274
Accumulated depreciation	-	-	-	-
Net book amount	1,274	-	-	1,274
Year ended 30 June 2005				
Opening net book amount at 1 July 2004	1,274	-	-	1,274
Additions	424	-	-	424
Closing net book amount	1,698	-	-	1,698
At 30 June 2005				
Cost	1,698	-	-	1,698
Accumulated Depreciation	-	-	-	-
Net book amount	1,698	-	-	1,698
Year ended 30 June 2006				
Opening net book amount at 1 July 2005	1,698	-	-	1,698
Additions	9,231	-	-	9,231
Closing net book amount	**10,929**	**-**	**-**	**10,929**
At 30 June 2006				
Cost	10,929	-	-	10,929
Accumulated depreciation	-	-	-	-
Net book amount	**10,929**	**-**	**-**	**10,929**

Non-current assets pledged as security
Refer to Note 35 for information on non-current assets pledged as security by the parent entity and its subsidiaries.

Assets under construction
Included in the total land and buildings closing net book amount for both the consolidated and parent entity is an amount of $10,929,000 (2005: $1,698,000) relating to the new laboratory and corporate head office in Macquarie Park, NSW. On completion this asset will be transferred to Investment Properties in the parent entity balance sheet, and will be leased to subsidiaries for use in their medical diagnostic operations.

During the 12 months to 30 June 2006 $9,231,000 (2005: $424,000) of costs were capitalised including $127,000 (2005: $ nil) of borrowing costs.

Note 15 Investment properties

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Land and buildings at cost	**-**	-	**29,016**	29,218
Less: accumulated depreciation	**-**	-	**(6,172)**	(5,846)
	-	-	**22,844**	23,372
(a) Reconciliations – Parent entity				
Net book amount at the beginning of the year	**-**	-	**23,372**	23,926
Additions	**-**	-	**-**	55
Depreciation expense	**-**	-	**(528)**	(609)
Closing net book amount at the end of the year	**-**	-	**22,844**	23,372
(b) Amounts charged through the profit and loss for the investment properties				
Rental income	**-**	-	**3,072**	2,978
Depreciation expense	**-**	-	**(528)**	(609)
Other outgoings	**-**	-	**(254)**	(248)
	-	-	**2,290**	2,121

(c) Fair Value

The fair value of the investment properties held by the parent entity is $38,545,000 (2005: $38,545,000).

Of the fair value amount, $37,685,000 (2005: $37,685,000) was determined by an independent valuer. The remaining $860,000 (2005: $860,000) is based on recent values.

(d) Leasing arrangements

The investment properties are leased to subsidiaries of Sonic Healthcare Limited under operating leases with rentals payable monthly. All of the properties held by the parent entity are used in the medical diagnostic operations of the consolidated group.

Minimum lease payments receivable on leases of investment properties are as follows:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:				
Within one year	**-**	**-**	**3,137**	3,041

(e) Contractual obligations

There are no contractual obligations with respect to the investment properties.

Note 16 Intangible assets – non-current

Consolidated	Brand Names $'000	Goodwill* $'000	Software $'000	Total $'000
At 1 July 2004				
Cost	188,043	990,366	9,252	1,187,661
Accumulated amortisation and impairment	(17,431)	-	(4,317)	(21,748)
Net book amount	170,612	990,366	4,935	1,165,913
Year ended 30 June 2005				
Opening net book amount	170,612	990,366	4,935	1,165,913
Acquisition of subsidiaries (Note 32)	-	119,186	4,223	123,409
Additions	-	-	3,643	3,643
Adjustments on recognition of the assets in acquired entities	-	(220)	-	(220)
Foreign exchange	142	(19,525)	(6)	(19,389)
Amortisation charge (Note 5)	-	-	(1,708)	(1,708)
Closing net book amount	170,754	1,089,807	11,087	1,271,648
At 30 June 2005				
Cost	188,185	1,089,807	17,110	1,295,102
Accumulated amortisation and impairment	(17,431)	-	(6,023)	(23,454)
Net book amount	170,754	1,089,807	11,087	1,271,648
Year ended 30 June 2006				
Opening net book amount	170,754	1,089,807	11,087	1,271,648
Acquisition of subsidiaries (Note 32)	-	398,050	-	398,050
Additions	-	-	10,204	10,204
Adjustments on recognition of tax assets in acquired entities	-	(423)	-	(423)
Foreign exchange	(3,644)	16,735	(508)	12,583
Amortisation charge (Note 5)	-	-	(1,823)	(1,823)
Closing net book amount	**167,110**	**1,504,169**	**18,960**	**1,690,239**
At 30 June 2006				
Cost	184,117	1,504,169	27,203	1,715,489
Accumulated amortisation and impairment	(17,007)	-	(8,243)	(25,250)
Net book amount	**167,110**	**1,504,169**	**18,960**	**1,690,239**

* At the time of transition to AIFRS (1 July 2004) the accumulated amortisation of goodwill was transferred into cost.

Note 16 Intangible assets – non-current (continued)

(a) Impairment testing of goodwill

Goodwill is allocated to the group's cash-generating units (CGUs) for the purposes of assessing impairment. A segment-level summary of the goodwill allocation is presented below.

2006	**Australia & New Zealand $'000**	**UK $'000**	**US $'000**	**Germany $'000**	**Total $'000**
Pathology	513,070	163,902	392,971	73,047	**1,142,990**
Radiology	361,179	-	-	-	**361,179**
	874,249	163,902	392,971	73,047	**1,504,169**

2005	**Australia & New Zealand $'000**	**UK $'000**	**US $'000**	**Germany $'000**	**Total $'000**
Pathology	506,190	153,007	**-**	67,967	**727,164**
Radiology	362,643	-	**-**	-	**362,643**
	868,833	153,007	**-**	67,967	**1,089,807**

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

(b) Key assumptions used for value-in-use calculations

The recoverable amount of each cash generating unit is the net present value of the future cash flows of the cash generating unit. Recoverable amounts have been conservatively assessed using:

- 2006/2007 management approved profit and loss and cashflow budgets for each cash generating unit;
- growth factors consistent with historical growth rates and current performance (average 2006: 5.0%, average 2005: 5.0%);
- prevailing market based pre tax discount rates (2006: 9.8%, 2005: 9.2%); and
- terminal growth rates (2006: 3.0%, 2005: 3.0%).

Management believes that any reasonably possible change in the key assumptions on which recoverable amount has been assessed would not cause the carrying amount to exceed the recoverable amount in any of the cash generating units.

Note 17 Deferred tax assets – non-current

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Deferred tax assets	**31,611**	37,173	**11**	-

The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**1,301**	2,371	**-**	-
Employee benefits	**24,090**	22,009	**-**	-
Sundry accruals	**2,838**	2,225	**-**	-
Property, plant & equipment	**173**	2,502	**-**	-
Surplus leased space	**810**	1,406	**-**	-
Unrealised foreign exchange	**840**	-	**-**	-
Capitalised costs	**220**	326	**176**	169
Tax losses *	**15,322**	18,154	**-**	-
	45,594	48,993	**176**	169
Amounts recognised directly in equity				
Share issue costs	**1,045**	404	**847**	161
Deferred tax assets	**46,639**	49,397	**1,023**	330
Less amounts offset against deferred tax liabilities (Note 26)	**(15,028)**	(12,224)	**(1,012)**	(330)
Net deferred tax assets	**31,611**	37,173	**11**	-
Movements:				
Opening balance at 1 July	**37,173**	43,592	**-**	-
Credited/(charged) to the income statement (Note 7)	**(7,657)**	(11,262)	**(930)**	-
Foreign exchange differences	**1,154**	(1,070)	**-**	-
Credited/(charged) to equity	**941**	-	**941**	-
Acquisition of subsidiary	**-**	5,913	**-**	-
Closing balance at 30 June	**31,611**	37,173	**11**	-
Deferred tax assets to be recovered after more than 12 months	**26,531**	31,301	**11**	-
Deferred tax assets to be recovered within 12 months	**5,080**	5,872	**-**	-
	31,611	37,173	**11**	-

* *The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.*

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000

Note 18 Other – non-current

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Prepayments	**1,051**	1,211	**-**	-

Note 19 Payables – current

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Trade creditors	**61,226**	49,041	**-**	-
Sundry creditors and accruals	**61,093**	53,241	**1,769**	1,386
Accrued amounts relating to subsidiaries (Note 39(c))	**-**	-	**1,534**	1,570
	122,319	102,282	**3,303**	2,956

Note 20 Interest bearing liabilities – current

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Secured				
Bank loans	**10,329**	17,486	**-**	-
Commercial bills	**500**	1,500	**-**	-
Lease liabilities (Note 33 (b))	**16,884**	19,974	**-**	-
Hire purchase liabilities (Note 33 (b))	**690**	1,075	**-**	-
	28,403	40,035	**-**	-

(a) Bank loans
Loans are repayable in half yearly instalments of €3,000,000 under a Term Loan Facility. The loan will be fully repaid in the year ending 30 June, 2009 and bears a variable interest rate of 4.19% (2005: 3.47%).

(b) Commercial bills
The commercial bills are subject to a variable interest rate of 6.31% (2005: 8.6%). The bills are repayable in instalments and will be fully repaid in the year ended 30 June 2009.

Details of the security, fair values and interest rate risk exposure relating to each of the secured liabilities are set out in Note 35 and Note 42.

Note 21 Tax liabilities – current

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Income tax	**3,338**	6,629	**656**	3,812

Note 22 Provisions – current

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Provision for dividends	**703**	-	**-**	-
Employee benefits	**69,111**	60,114	**-**	-
Surplus lease space	**731**	1,152	**-**	-
	70,545	61,266	**-**	-

The provision for dividends is payable to minority interests in certain subsidiaries.

Surplus lease space provision represents future payments due for surplus leased premises under non-cancellable operating leases.

Note 22 Provisions – current (continued)

Movements in current provisions
Movements in current provisions, other than employee benefits during the financial year are set out below:

	Surplus Lease Space $'000
Consolidated – 2006	
Current	
Carrying amount at 1 July 2005	1,152
Reclassification of non-current provision to current (Note 27)	55
Payments applied	(220)
Unused provisions reversed	(256)
Carrying amount at 30 June 2006	**731**

Note 23 Other – current

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Unsecured				
Amounts owing to vendors	**6,556**	4,728	**-**	-
Other loans	**317**	300	**-**	-
	6,873	5,028	**-**	-

The increase in amounts owing to vendors is related to deferred consideration on the acquisition of CQPL (refer Note 32). Amounts owing to vendors and other loans are non-interest bearing. The carrying value of these amounts approximates the fair value.

Note 24 Payables – non-current

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Other payables	**-**	35	**-**	-
Amounts payable to subsidiaries (Note 39(c))	**-**	-	**293,599**	356,158
	-	35	**293,599**	356,158

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Note 25 Interest bearing liabilities – non-current				
Secured				
Bank loans	**28,748**	39,237	**-**	-
Commercial bills	**15,500**	13,000	**-**	-
Lease liabilities (Note 33(b))	**24,855**	38,452	**-**	-
Hire purchase liabilities (Note 33(b))	**571**	1,337	**-**	-
	69,674	92,026		-
Unsecured				
Amounts owing to vendors	**1,118**	1,177	**-**	-
Bank loans	**711,461**	523,407	**-**	-
	782,253	616,610	**-**	-

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

(i) Total facilities				
- Bank overdraft	**822**	914	**-**	-
- Bank loans and commercial bills (secured and unsecured)	**1,096,425**	775,977	**-**	-
- Leasing Facilities	**42,569**	66,629	**-**	-
	1,139,816	843,520	**-**	-
(ii) Facilities used at reporting date				
- Bank overdraft	**-**	-	**-**	-
- Bank loans and commercial bills (secured and unsecured)	**766,538**	594,630	**-**	-
- Leasing Facilities	**41,739**	58,426	**-**	-
	808,277	653,056	**-**	-
(iii) Facilities unused at reporting date				
- Bank overdraft	**822**	914	**-**	-
- Bank loans and commercial bills (secured and unsecured)	**329,887**	181,347	**-**	-
- Leasing Facilities	**830**	8,203	**-**	-
	331,539	190,464	**-**	-

Fair values

The carrying amounts of borrowings approximate fair value.

Note 26 Deferred tax liabilities – non-current

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Provision for deferred income tax	**7,052**	633	**-**	450
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Prepayments & sundry debtors	**1,253**	275	**276**	61
Inventories	**5,942**	4,760	**-**	-
Accrued revenue	**3,647**	3,096	**-**	-
Doubtful debts	**4,242**	-	**-**	-
Leased assets	**1,510**	1,742	**-**	-
Intangibles	**3,763**	328	**-**	-
Property, plant & equipment	**-**	-	**736**	719
Unrealised foreign exchange	**-**	2,656	**-**	-
	20,357	12,857	**1,012**	780
Amounts recognised directly in equity				
Cash flow hedges	**1,723**	-	**-**	-
Deferred tax liabilities	**22,080**	12,857	**1,012**	780
Less amounts offset against deferred tax assets (Note 17)	**(15,028)**	(12,224)	**(1,012)**	(330)
Net deferred tax liabilities	**7,052**	633	**-**	450
Movements:				
Opening balance at 1 July	**633**	2,170	**450**	107
Change on adoption of AASB 132 and AASB 139	**225**	-	**-**	-
Foreign exchange differences	**138**	-	**-**	-
Charged/(credited) to the income statement (Note 7)	**(21)**	(1,742)	**(450)**	343
Charged/(credited) to equity	**1,447**	-	**-**	-
Acquisition of subsidiary	**4,630**	205	**-**	-
Closing balance at 30 June	**7,052**	633	**-**	450
Deferred tax liabilities to be settled after more than 12 months	**1,980**	633	**-**	450
Deferred tax liabilities to be settled within 12 months	**5,072**	-	**-**	-
	7,052	633	**-**	450

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000

Note 27 Provisions – non-current

Employee benefits	**16,380**	15,266	**-**	-
Surplus lease space	**2,212**	3,834	**-**	-
	18,592	19,100	**-**	-

Surplus lease space provision represents future payments due for surplus leased premises under non-cancellable operating leases.

Movements in non-current provisions
Movements in the non-current provisions during the financial year are set out below:

	Surplus Lease Space $'000
Consolidated – 2006	
Current	
Carrying amount at 1 July 2005	3,834
Reclassification of non-current provision to current (Note 22)	(55)
Payments applied	(883)
Unused provision reversed	(684)
Carrying amount at 30 June 2006	**2,212**

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000

Note 28 Other – non-current

Amounts owing to vendors	**3,500**	-	**-**	-

The amounts owing to vendors represents deferred consideration associated with the CQPL acquisition (Note 32). This amount is non interest bearing. The amount owing approximates its fair value.

Note 29 Contributed equity

		Notes	Consolidated 2006 Shares	Consolidated 2005 Shares	Parent entity 2006 Shares	Parent entity 2005 Shares
(a)	**Share capital**					
	Fully paid ordinary shares	(b)	**295,203,095**	274,740,648	**295,203,095**	274,740,648

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Fully paid ordinary shares	(b)	**1,181,978**	909,912	**1,211,620**	920,703

(b) Movements in ordinary share capital:

2006

Date	Details	Notes	Number of shares	Issue price	Consolidated $'000	Parent entity $'000
1/7/05	Opening balance of the consolidated and parent entity		274,740,648		909,912	920,703
24/8/05	Shares issued to executives under remuneration arrangements		30,750		-	-
25/10/05	Share placement to institutions	(e)	15,474,553	14.54	225,000	225,000
8/12/05	Shares issued to shareholders under Shareholder Purchase Plan (SPP)	(e)	2,079,869	13.99	29,097	29,097
	Costs associated with share placement and SPP net of future income tax benefits				(2,196)	(2,196)
Various	Shares issued under the Sonic Healthcare Limited Employee Option Plan	(d)	2,877,275	Various	19,554	19,554
Various	Transfers from equity remuneration reserve		-		611	611
Various	Payments made by subsidiary entities to the parent entity in respect of shares issued under the Sonic Healthcare Limited Employee Option Plan		-		-	18,851
30/6/06	Balance of the consolidated and parent entity		295,203,095		1,181,978	1,211,620

Note 29 Contributed equity (continued)

(b) Movements in ordinary share capital:

2005

Date	Details	Notes	Number of shares	Issue price	Consolidated $'000	Parent entity $'000
1/7/04	Opening balance		267,749,480		870,838	871,859
26/11/04	Shares issued to executives under remuneration arrangements		30,750	-	-	-
26/11/04	Shares issued to vendors of The Doctors Laboratory Group		25,218	9.10	229	229
Various	Shares issued under the Sonic Healthcare Limited Employee Option Plan	(d)	6,935,200	Various	38,504	38,504
Various	Transfers from equity remuneration reserve		-	-	341	341
Various	Payments made by subsidiary entities to the parent entity in respect of shares under the Sonic Healthcare Limited Employee Option Plan		-		-	9,770
30/6/05	Closing balance of the consolidated and parent entity		**274,740,648**		**909,912**	**920,703**

(c) Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Options
Details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in Note 38.

(e) Share placement to institutions and shares issued to shareholders under the SPP
During the current financial year Sonic undertook a share placement to institutions and an associated SPP to fund the acquisition of Clinical Pathology Laboratories Inc in the United States of America.

(f) Dividend reinvestment plan
The company operates a Dividend Reinvestment Plan (DRP) under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than being paid in cash. Shares issued under the plan are at a 2.5% discount to the weighted average market price of all Sonic's ordinary shares sold on the Australian Stock Exchange during the five trading days following the record date. In respect of the interim and final dividends for the years ended 30 June 2006 and 30 June 2005, the Board resolved to suspend the operation of the company's DRP. The DRP remains suspended until further notice.

Note 30 Reserves and accumulated losses

(a) Reserves

		Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Equity remuneration reserve		**10,710**	5,810	**10,688**	5,794
Foreign currency translation reserve		**(7,212)**	(3,557)	**-**	-
Share option reserve	(iii)	**4,410**	4,410	**4,410**	4,410
Hedging reserve		**1,634**	-	**-**	-
		9,542	6,663	**15,098**	10,204
Movements					
Equity remuneration reserve					
Balance 1 July		**5,810**	2,181	**5,794**	2,181
Option expense		**5,511**	3,970	**5,505**	3,954
Transfer to share capital (options exercised)		**(611)**	(341)	**(611)**	(341)
Balance 30 June		**10,710**	5,810	**10,688**	5,794
Foreign currency translation reserve					
Balance 1 July		**(3,557)**	-	**-**	-
Net exchange difference on translation of foreign subsidiaries		**(3,655)**	(3,557)	**-**	-
Balance 30 June		**(7,212)**	(3,557)	**-**	-
Hedging reserve					
Balance 1 July		**-**	-	**-**	-
Adjustment on adoption of AASB 132 and AASB 139, net of tax (Note 44)		**516**	-	**-**	-
Movement in year net of deferred tax		**1,118**	-	**-**	-
Balance 30 June		**1,634**	-	**-**	-

Nature and purpose of reserves

(i) Equity Remuneration reserve
The equity remuneration reserve reflects the fair value of equity settled share based payments granted under the Executive Incentive Plan, the Sonic Healthcare Limited Employee Option Plan, the Queensland X-Ray Option Plan and the Independent Practitioner Network Limited Employee Share Option Plan. Fair values are determined using an appropriate pricing model and recognised over the service period up to the vesting date. When shares are issued or options are exercised the associated fair values are transferred to share capital.

(ii) Foreign currency translation reserve
Exchange differences arising on translation of the foreign subsidiaries are taken to the foreign currency translation reserve as described in accounting policy Note 1(c)(iii).

(iii) Share option reserve
The share option reserve reflects the value of the options issued on 1 July 2004 to Sonic's partners in the Schottdorf business (Dr and Mrs Schottdorf) pursuant to an obligation in relation to the acquisition of the Schottdorf Group. The corresponding entry was an increase in the carrying value of goodwill in relation to the Schottdorf business. The value of the options represents the assessed fair value at the date they were granted and has been determined using an appropriate option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Note 30 Reserves and accumulated losses (continued)

(iv) Hedging reserve

The hedging reserve is used to record changes in the fair value of derivatives that are designated and qualify as cash flow hedges, as described in Note 1(o). Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit and loss.

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
(b) Accumulated profit / (loss)				
Accumulated profit/(loss) at the beginning of the financial year	**30,065**	(15,407)	**(6,312)**	(4,928)
Adjustment on initial adoption of AASB132 and AASB139, net of tax (Note 44)	**(1,353)**	-	**(1,353)**	-
Net profit attributable to members of Sonic Healthcare Limited	**172,029**	135,353	**107,645**	88,497
Dividends paid (Note 6)	**(107,539)**	(89,881)	**(107,539)**	(89,881)
Accumulated profit/(loss) at the end of the financial year	**93,202**	30,065	**(7,559)**	(6,312)

Note 31 Deed of cross guarantee

The "Closed Group" (refer Note 32) are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended by Class Order 98/2017, 00/0321 and 01/1087) issued by the Australian Securities and Investments Commission.

The companies represent a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Sonic Healthcare Limited, they also represent the "Extended Closed Group".

(a) Consolidated income statement of the Extended Closed Group

	2006	2005
	$'000	$'000
Revenue	**939,374**	859,709
Labour and related costs	**(446,926)**	(409,527)
Consumables used	**(107,551)**	(99,854)
Amortisation of intangibles	**(788)**	(1,213)
Operating lease rental expense	**(43,748)**	(37,260)
Depreciation and amortisation of physical assets	**(37,240)**	(34,666)
Borrowing costs	**(19,913)**	(22,546)
Other operating expenses from ordinary activities	**(120,991)**	(104,426)
Profit before income tax expense	**162,217**	150,217
Income tax expense	**(47,087)**	(46,299)
Net profit attributable to members of the extended closed group	**115,130**	103,918

(b) Reconciliation of accumulated losses

Accumulated losses at the beginning of the financial year	**4,195**	(9,842)
Adjustment on initial adoption of AASB132 and AASB139, net of tax	**(1,353)**	-
Profit from ordinary activities after income tax expense	**115,130**	103,918
Dividends paid	**(107,539)**	(89,881)
Accumulated losses at the end of the financial year	**10,433**	4,195

Note 31 Deed of cross guarantee (continued)

(c) Consolidated balance sheet of the Extended Closed Group

	2006 $'000	2005 $'000
Current assets		
Cash and cash equivalents	**9,359**	1,457
Other financial assets	**822**	-
Receivables	**72,560**	68,721
Inventories	**14,727**	13,883
Other	**5,090**	4,215
Total current assets	**102,558**	88,276
Non-current assets		
Receivables	**108,784**	91,925
Other financial assets	**565,799**	429,348
Property, plant and equipment	**224,586**	194,868
Intangible assets	**654,538**	619,810
Deferred tax assets	**9,998**	9,571
Other	**1,051**	1,211
Total non-current assets	**1,564,756**	1,346,733
Total assets	**1,667,314**	1,435,009
Current liabilities		
Payables	**48,003**	51,363
Interest bearing liabilities	**15,013**	18,163
Current tax liabilities	**4,923**	3,002
Provisions	**54,140**	48,543
Other	**3,249**	1,701
Total current liabilities	**125,328**	122,772
Non-current liabilities		
Payables	**39,612**	47,017
Interest bearing liabilities	**269,597**	323,267
Provisions	**13,504**	12,676
Other	**3,500**	-
Total non-current liabilities	**326,213**	382,960
Total liabilities	**451,541**	505,732
Net assets	**1,215,773**	929,277
Equity		
Parent entity interest		
Contributed equity	**1,189,667**	914,877
Reserves	**15,673**	10,205
Accumulated losses	**10,433**	4,195
Total equity	**1,215,773**	929,277

Note 32 Investments in subsidiaries

Details of subsidiaries	Country of incorporation	Class of share	Beneficial interest % 2006	Beneficial interest % 2005
Subsidiaries of Sonic Healthcare Limited:				
Clinpath Laboratories Pty Limited (i) (iii)	Australia	Ord	100	100
Douglass Hanly Moir Pathology Pty Limited (i) (iii)	Australia	Ord	100	100
Lifescreen Australia Pty Limited (i) (iii)	Australia	Ord	100	100
Sonic Clinical Institute Pty Limited (iii)	Australia	Ord	100	100
Sonic Healthcare Services Pty Limited (i) (iii)	Australia	Ord	100	100
Sonic Imaging Pty Limited (i) (iii)	Australia	Ord	100	100
Southern Pathology Services Pty Limited (i) (iii)	Australia	Ord	100	100
Independent Practitioner Network Limited (iv)	Australia	Ord	72.16	72.16
Sonic Healthcare Asia Limited (iii)	Hong Kong	Ord	100	100
Sonic Healthcare (New Zealand) Limited (iii)	New Zealand	Ord	100	100
Sonic Healthcare Holdings Limited (iii)	United Kingdom	Ord	100	100
Sonic Finance Holdings Limited (iii)	United Kingdom	Ord	100	100
Other subsidiaries in the consolidated group:				
Barratt & Smith Pathology Pty Limited (i)	Australia	Ord	100	100
Barratt & Smith Pathology Trust (ii)	Australia	Units	100	100
Biotech Laboratories Pty Limited	Australia	Ord	100	100
Bradley Services Unit Trust (ii)	Australia	Units	100	100
Bunbury Pathology Pty Limited	Australia	Ord	100	100
Castlereagh Co Pty Limited (i)	Australia	Ord	100	100
Castlereagh Services Pty Limited (i)	Australia	Ord	100	100
Consultant Pathology Services Pty Limited (i)	Australia	Ord	100	100
Diagnostic Pathology Pty Limited	Australia	Ord	100	100
Diagnostic Services Pty Limited (i)	Australia	Ord	100	100
E. Radiology (Aust) Pty Limited	Australia	Ord	100	100
Hanly Moir Pathology Pty Limited (i)	Australia	Ord	100	100
Hanly Moir Pathology Trust (ii)	Australia	Units	100	100
HIG Distributions Pty Limited	Australia	Ord	100	100
Hunter Imaging Services Trust (ii)	Australia	Units	100	100
Hunter Valley X-Ray Pty Limited	Australia	Ord	100	100
Illawarra X-Ray Pty Limited	Australia	Ord	100	100
IRG Co Pty Limited (i)	Australia	Ord	100	100
L & A Services Pty Limited (i)	Australia	Ord	100	100
Maga Pty Limited	Australia	Ord	100	100
Melbourne Pathology Pty Limited (i)	Australia	Ord	100	100
Melbourne Pathology Service Trust (ii)	Australia	Units	100	100
Northern Pathology Pty Limited (i)	Australia	Ord	100	100
Nuclear Medicine Co Pty Limited	Australia	Ord	100	100
Pacific Medical Imaging Pty Limited (i)	Australia	Ord	100	100
Paedu Pty Limited (i)	Australia	Ord	100	100
Queensland X-Ray Pty Limited (i)	Australia	Ord	100	100
Redlands X-Ray Services Pty Limited	Australia	Ord	100	100
SKG Radiology Pty Limited	Australia	Ord	100	100
Sonic Healthcare International Pty Limited	Australia	Ord	100	-
Sonic Healthcare Pathology Pty Limited	Australia	Ord	100	-
Sonic Investment & Finance	Australia		-	100
Sonic Medlab Holdings Australia Pty Limited (i)	Australia	Ord	100	100
Sonic Nominees Pty Limited (i)	Australia	Ord	100	100
Sonic Pathology (Queensland) Pty Limited (i)	Australia	Ord	100	100
Sonic Pathology (Victoria) Pty Limited (i)	Australia	Ord	100	100
Sports Imaging Co Pty Limited	Australia	Ord	100	100

Note 32 Investments in subsidiaries (continued)

Details of subsidiaries	Country of incorporation	Class of share	Beneficial interest % 2006	Beneficial interest % 2005
Sprague Kam Trust (ii)	Australia	Units	100	100
Stat Laboratories Pty Limited	Australia	Ord	100	100
Subilabs Pty Limited	Australia	Ord	100	100
Sullivan Nicolaides Pty Limited (i)	Australia	Ord	100	100
Sunton Pty Limited (i)	Australia	Ord	100	100
Ultrarad Holdings Pty Limited	Australia	Ord	100	100
Ultrarad No 2 Trust (ii)	Australia	Units	100	100
Double Court Company Limited	Hong Kong	Ord	100	100
Dynamic Mate Limited	Hong Kong	Ord	100	100
Sonic Healthcare Germany GmbH	Germany	Ord	100	100
Alpha Vermögensverwaltung GmbH	Germany	Ord	55.9	55.9
Syscomp Biochemische Dienstleistungen GmbH	Germany	Ord	55.9	55.9
Diagnostic Medlab Limited	New Zealand	Ord	100	100
Medlab Central Limited	New Zealand	Ord	100	100
Valley Diagnostic Laboratories Limited	New Zealand	Ord	100	100
Medlab South Limited	New Zealand	Ord	100	100
New Zealand Radiology Group Limited	New Zealand	Ord	100	100
Canterbury Medical Imaging Limited	New Zealand	Ord	100	100
Palmerston North X-Ray	New Zealand		80	80
Laboratory Data Systems Limited	New Zealand	Ord	100	100
Diagnostic Medlab Services Limited	New Zealand	Ord	100	100
The Doctors Laboratory Limited (iii)	United Kingdom	Ord	100	100
Cytogenetic DNA Services Limited	United Kingdom	Ord	100	100
Roadhaven Limited	United Kingdom	Ord	100	100
Omnilabs Limited	United Kingdom	Ord	100	100
Omnilabs (UK) Limited	United Kingdom	Ord	100	100
Sonic Finance Limited	United Kingdom	Ord	100	100
Sonic Finance & Investments Limited	United Kingdom	Ord	100	100
Omnilabs Ireland Limited	Ireland	Ord	100	100
Sonic Healthcare Investments	United States		100	-
Clinical Pathology Laboratories, Inc.	United States	Ord	82.03	-
Fairfax Medical Laboratories, Inc.	United States	Ord	82.03	-
Pathology Laboratories, Inc.	United States	Ord	82.03	-
Foundation Healthcare Limited (iv)	Australia	Ord	72.16	72.16
Foundation Medical Centres Pty Limited (iv)	Australia	Ord	72.16	72.16
Foundation Medical Centres (Qld) Pty Limited (iv)	Australia	Ord	72.16	72.16
Kedron Park 24 Hour Medical Centre Pty Limited	Australia	Ord	72.16	72.16
Taringa 24 Hour Medical Centre Pty Limited	Australia	Ord	72.16	72.16
Foundation Medical Centres (NSW) Pty Limited (iv)	Australia	Ord	72.16	72.16
Foundation Healthcare (Vic) Pty Limited (iv)	Australia	Ord	72.16	72.16
Cliveden Hill Holdings Pty Limited	Australia	Ord	72.16	72.16
Foundation Medical Centres (Vic) Pty Limited	Australia	Ord	72.16	72.16
La Trobe University Medical Centre Pty Limited	Australia	Ord	72.16	72.16
Joodie Holdings No. 2 Pty Limited (iv)	Australia	Ord	72.16	72.16
Auburn Road Family Medical Centre Pty Limited (iv)	Australia	Ord	72.16	72.16
Edgecliff Medical Centre No. 2 Pty Limited (iv)	Australia	Ord	72.16	72.16
Daraban Pty Limited (iv)	Australia	Ord	72.16	72.16
Sunshine Employment Pty Limited (iv)	Australia	Ord	72.16	72.16
Marrickville Medical Centre No. 2 Pty Limited (iv)	Australia	Ord	72.16	72.16
Medihelp General Practice Limited (iv)	Australia	Ord	72.16	72.16
Medihelp Services Pty Limited (iv)	Australia	Ord	72.16	72.16
Medihelp BWMG Pty Limited (iv)	Australia	Ord	72.16	72.16
Medihelp Brackenridge Pty Limited (iv)	Australia	Ord	72.16	72.16

Note 32 Investments in subsidiaries (continued)

Details of subsidiaries	Country of Incorporation	Class of share	Beneficial interest % 2006	Beneficial interest % 2005
Medihelp Sunshine Coast Pty Limited (iv)	Australia	Ord	72.16	72.16
Lifecare Franchise Developments Pty Limited (iv)	Australia	Ord	72.16	72.16
Lifecare Services Pty Limited (iv)	Australia	Ord	72.16	72.16
Southcare Physiotherapy Pty Limited (iv)	Australia	Ord	72.16	72.16
Kinetikos Services Pty Limited (iv)	Australia	Ord	72.16	72.16
Re-Start Consulting Pty Limited (iv)	Australia	Ord	72.16	72.16

(i) These subsidiaries (the "Closed Group") have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investment Commission. For further information see Note 31.

(ii) Trust deeds do not require preparation of audited financial statements.

(iii) These entities and the entities they control (as described in the table above) comprise the wholly owned group of which Sonic Healthcare Limited is the ultimate parent entity.

(iv) Pursuant to Class Order 98/1418, relief has been granted to Independent Practitioner Network Limited and its wholly owned entities from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports of the wholly owned entities. As a condition of the Class Order, Independent Practitioner Network Limited and its wholly owned entities (the " IPN Closed Group") entered into a Deed of Cross Guarantee on 20 June 2003. The effect of this deed is that Independent Practitioner Network Limited has guaranteed to pay any deficiency in the event of a wind up of any controlled entity in the IPN Closed Group. The IPN subsidiaries have also given a similar guarantee in the event that Independent Practitioner Network Limited is wound up.

Business combinations

On 1 October 2005 Sonic acquired an 82% equity interest in Clinical Pathology Laboratories, Inc. ("CPL"), an entity incorporated in the United States of America.

The initial accounting has been determined only provisionally as at the date of this report. Sonic is in the process of finalising fair values for identifiable assets and liabilities and thus no comparison of book and fair values are shown.

Sonic has provisionally recognised a total cost of investment of $414,100,000 (translated at the transaction date exchange rate), $425,900,00 translated at the year end rate in relation to the acquisition including all costs directly attributable to the combination.

The CPL acquisition has contributed $12,019,000 to the net profit of the Group for the period.

Effective from 3 April 2006 Sonic acquired the business assets of Central Queensland Pathology Laboratory ("CQPL") and Muskogee Clinical Laboratory, Inc. Goodwill arose on these acquisitions relating to the marginal profit and synergies expected to be achieved as a result of combining these businesses with existing operations. As the operations and records have been merged with those of existing businesses, it is impracticable to determine the effect of these business combinations.

In the comparative period:

- On 1 July 2004, the businesses of Southlakes X-Ray and Cardiovascular Centre were acquired and merged into existing imaging practices of Sonic.
- On 26 August 2004, Independent Practitioner Network Limited (IPN) became a subsidiary of Sonic following a proportional takeover bid which raised Sonic's shareholding from 19.63% as at 30 June 2004 to 72.16%. IPN's results have been consolidated from that date.
- On 12 October 2004, the business of Wollongong Medical Imaging was acquired and its operations were merged into one of Sonic's imaging practices.
- On 26 November 2004, Sonic and its subsidiary IPN, acquired the pathology and medical centre businesses of Endeavour Healthcare.

Note 32 Investments in subsidiaries (continued)

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Consideration – cash paid in current year	**425,226**	83,635	**-**	44,306
Less: Cash of entities acquired	**(9,279)**	(3,117)	**-**	(3,082)
Total cash consideration	**415,947**	80,518	**-**	41,224
Deferred consideration – recognised as amounts owing to vendors (Note 23 and Note 28)	**5,000**	-	**-**	-
Transaction costs not settled in cash in the current financial year	**1,165**	-	**-**	-
Total consideration	**422,112**	80,518	**-**	41,224
Fair value of identifiable net assets of subsidiaries acquired:				
Property, plant and equipment	**17,296**	8,807	**-**	4,433
Debtors & other receivables	**40,407**	10,142	**-**	8,012
Inventory	**1,702**	1,426	**-**	912
Prepayments	**1,625**	1,080	**-**	1,046
Future income tax benefits	**-**	5,913	**-**	4,941
Identifiable intangibles	**-**	4,223	**-**	4,223
Trade creditors	**(23,569)**	(9,104)	**-**	(7,131)
Income tax receivable	**4,018**	738	**-**	738
Borrowings	**(34)**	(15,248)	**-**	(15,248)
Lease and hire purchase liabilities	**(1,113)**	(478)	**-**	(478)
Deferred income tax liabilities	**(4,630)**	(205)	**-**	(108)
Other liabilities	**(1,550)**	(1,207)	**-**	(1,207)
Surplus leased space	**-**	(6,322)	**-**	(4,480)
Employee provisions	**(2,971)**	(3,957)	**-**	(2,614)
	31,181	(4,192)	**-**	(6,961)
(Less)/Add: Minority interests share	**(7,119)**	1,331	**-**	1,331
Less: Investment held in prior period (IPN)	**-**	(35,807)	**-**	(35,807)
	24,062	(38,668)	**-**	(41,437)
Goodwill	**398,050**	119,186	**-**	82,661

Reconciliation of cash paid to Statements of cash flows

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Consideration – cash paid for acquisitions in the financial year	**425,226**	83,635	**-**	44,306
Consideration – cash paid to vendors for acquisitions in previous financial years	**3,426**	40,363	**-**	-
Less: Cash of entity acquired	**(9,279)**	(3,117)	**-**	-
Payment for purchase of subsidiaries net of cash acquired	**419,373**	120,881	**-**	44,306

Note 33 Commitments for expenditure

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
(a) Capital commitments				
Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**46,989**	7,399	**43,574**	1,911
Later than one year but not later than 5 years	**7,302**	1,896	**5,671**	-
	54,291	9,295	**49,245**	1,911
(b) Lease commitments				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**76,936**	67,251	**-**	87
Later than one year but not later than 5 years	**153,400**	138,823	**-**	174
Later than 5 years	**32,363**	38,086	**-**	-
	262,699	244,160	**-**	261
Representing:				
Cancellable operating leases	**454**	287	**-**	-
Non-cancellable operating leases	**257,605**	235,885	**-**	261
Future finance charges on finance leases	**4,640**	7,988	**-**	-
	262,699	244,160	**-**	261

(i) Operating leases

The Group leases various premises under non-cancellable operating leases expiring within two to eight years. The leases have varying terms and renewal rights. On renewal, the terms of the leases are renegotiated.

The Group also leases various plant and machinery under cancellable operating leases. The Group is required to give six months notice for termination of these leases.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**75,450**	64,812	**-**	-
Later than one year but not later than 5 years	**152,467**	138,083	**-**	-
Later than 5 years	**32,388**	37,976	**-**	-
Less: Amount provided for surplus lease space under non-cancellable operating leases	**(2,700)**	(4,986)	**-**	-
Commitments not recognised in the financial statements	**257,605**	235,885	**-**	-
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases not recognised in the financial statements	**35,422**	30,364	**-**	-

Note 33 Commitments for expenditure (continued)

(ii) Finance leases

The Group leases various plant and equipment with a carrying amount of $48,409,000 (2005: $65,825,000) under finance leases expiring within one to six years.

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Within one year	**19,958**	24,661	**-**	-
Later than one year but not later than 5 years	**27,197**	43,404	**-**	-
Later than 5 years	**483**	761	**-**	-
Minimum lease payments	**47,638**	68,826	**-**	-
Less: Future finance charges	**(4,638)**	(7,988)	**-**	-
Total lease and hire purchase liabilities	**43,000**	60,838	**-**	-
Representing lease and hire purchase liabilities:				
Current (Note 20)	**17,574**	21,049	**-**	-
Non-current (Note 25)	**25,426**	39,789	**-**	-
	43,000	60,838	**-**	-

The weighted average interest rate implicit in the leases is 5.95% (2005: 6.54%)

(c) Remuneration commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:				
Within one year	**29,013**	41,571	**-**	-
Later than one year but not later than 5 years	**39,603**	43,559	**-**	-
Later than 5 years	**175**	330	**-**	-
	68,791	85,460	**-**	-

Note 34 Contingent liabilities

Sonic Healthcare Limited and certain subsidiaries, as disclosed in Note 31, are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

Note 35 Secured borrowings

The total secured liabilities (current and non-current) are as follows:

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Bank loans	**39,077**	56,723	**-**	-
Commercial bills	**16,000**	14,500	**-**	-
Lease liabilities	**41,739**	58,426	**-**	-
Hire purchase liabilities	**1,261**	2,412	**-**	-
	98,077	132,061	**-**	-

Assets pledged as security

The secured bank loans and commercial bills (current and non-current) are attributable to certain non-wholly owned subsidiaries and represent:

- Bank loans of the Schottdorf Group outstanding at 30 June 2006 of $39,077,000 (2005: $56,712,000) that are secured by the assets and undertakings of the Schottdorf Group. In addition, Sonic Healthcare Limited has guaranteed $8,607,000 (€5,000,000) of this debt at 30 June 2006 (2005: $15,886,000 equivalent to €10,000,000).
- Commercial bills of IPN of $16,000,000 outstanding at 30 June 2006 (2005: $14,500,000) that are secured by a fixed and floating charge over the assets of IPN.

Lease and hire purchase liabilities are effectively secured as the rights to the relevant assets revert to the lessor/lender in the event of default.

The carrying value of assets pledged as security are:

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Current				
Fixed and floating charge				
Cash and cash equivalents	**24,887**	22,983	**-**	-
Trade and other receivables	**38,698**	40,219	**-**	-
Inventories	**5,587**	5,232	**-**	-
Other	**948**	629	**-**	-
Total current assets pledged as security	**70,120**	69,063	**-**	-
Non-Current				
Finance lease				
Property, plant and equipment	**49,597**	67,466	**-**	-
Fixed and floating charge				
Receivables	**1,613**	776	**-**	-
Property, plant and equipment	**13,852**	12,878	**-**	-
Total non-current assets pledged as security	**65,062**	81,120	**-**	-
Total assets pledged as security	**135,182**	150,183	**-**	-

Note 36 Key management personnel

(a) Directors

The following persons were directors of Sonic Healthcare Limited during the financial year:

Chairman – non-executive
B.S. Patterson

Executive directors

Dr C.S. Goldschmidt	*Managing Director*
C.D. Wilks	*Finance Director*
Dr P.J. Dubois	
C.J. Jackson	
Dr H.F. Scotton	

Non-executive directors
R.P. Campbell
L.J. Panaccio (appointed 30 June 2005)

(b) Other key management personnel

The following person also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	**Position**
D. Schultz	President and Chief Operating Officer, Clinical Pathology Laboratories, Inc.

All of the above persons were also key management personnel during the year ended 30 June 2005 except D. Schultz who commenced employment with the Group on 1 October 2005 following the acquisition of CPL.

The consolidated entity operates via a federation structure whereby the Chief Executive Officers of individual operating entities have delegated authority for their local operations. The Group's pathology and radiology activities are coordinated and controlled through the Pathology Sonic Executive Committee and the Imaging Sonic Executive Committee ("PSEC" and "ISEC"). Dr C.S. Goldschmidt is Chairman of PSEC and a member of ISEC, Dr P.J. Dubois is Chairman of ISEC and C.D. Wilks is a member of PSEC and ISEC. C.J. Jackson is Sonic's Commercial Director and head of Sonic's procurement department, as well as managing various projects and initiatives. He is also a member of PSEC.

Due to the prominent executive roles performed by Dr C.S. Goldschmidt, Dr P.J. Dubois, C.J. Jackson and C.D. Wilks, management does not believe there are any other executives within the Group in the current or prior financial year meeting the definition of "key management personnel" other than D. Schultz, President and Chief Operating Officer of CPL, who has authority and responsibility for planning, directing and controlling the Group's US operations.

(c) Remuneration of directors and executives

(i) Principles used to determine the nature and amount of remuneration

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

The Remuneration Committee, consisting of 2 non-executive independent directors, makes specific recommendations to the Board on remuneration packages and other terms of employment for the Managing Director and Finance Director and advises the Board in relation to equity based incentive schemes for other employees.

Sonic Healthcare Limited's remuneration policy links the remuneration of the Managing Director and the Finance Director to Sonic's performance through the award of conditional entitlements. These conditional entitlements (cash bonuses, share and share option grants) are dependant on the earnings per share performance of the consolidated entity and thus align reward with the creation of value for shareholders.

Note 36 Key management personnel (continued)

(c) Remuneration of directors and executives (continued)

Remuneration and other terms of employment for other executives are reviewed annually by the Managing Director having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, performance-related bonuses, share and option grants, and fringe benefits.

Cash bonuses and equity grants to other executive directors and employees are made solely at the discretion of the Managing Director, the Remuneration Committee and the Board of directors based on individual and company performance. These bonuses and option grants reward the creation of value for shareholders.

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by the shareholders. At a General Meeting on 31 July 2001 shareholders approved a maximum amount of $800,000 be available as remuneration for the services of the non-executive directors. Following a review of current market practice and non-executive director fees for entities of similar complexity, the Board resolved that with effect from 1 June 2006, the non-executive director fee of $50,000 per annum, which had remained unchanged for over seven years, be increased to $80,000 per annum plus $10,000 per annum for each board committee upon which the director serves. Options are not issued and bonuses are not payable to non-executive directors.

Other than contributions to superannuation funds during employment periods and notice periods under normal employment law and in certain executives service contracts, the consolidated entity does not contract to provide retirement benefits to directors or executives.

Performance of the consolidated entity

Sonic Healthcare Limited's total shareholder return over the five year period to June 2006 was 108%. This measure is calculated as the increase in share price over that period plus the dividends declared for those years (grossed up for franking credits) as a percentage of the share price at the start of the five year period. This total shareholder return calculation incorporates the value of the SciGen equity issue to Sonic shareholders in November 2002. Earnings over the five year period were as follows:

	2002	2003	2004	2005	2006	Compound Average Annual Growth Rate*
Core earnings per share (cps)	29.4	35.7	41.0	50.4	60.4	19.7%
Net profit attributable to members ($'000)**	72,081	94,434	108,212	135,353	172,029	24.3%

* The compound average annual growth rate is calculated over the period shown.
** Net profit attributable to members and core earnings per share have been restated to reflect the application of AIFRS in prior periods.

Note 36 Key management personnel (continued)

(c) Remuneration of directors and executives (continued)

(ii) Details of remuneration

The aggregate remuneration of the key management personnel is shown below:

	Consolidated		Parent entity	
	2006	2005*	**2006**	2005*
	$	$	**$**	$
Short term employee benefits	**4,177,382**	3,137,529	**148,633**	227,500
Post employment benefits	**203,909**	166,341	**14,700**	22,500
Share based payments	**5,210,123**	3,987,091	**-**	-
	9,591,414	7,290,961	**163,333**	250,000

* The key management personnel in the current period differ from those in the comparative period.

Details of the remuneration of the key management personnel of the consolidated entity are set out below:

Note 36 Key management personnel (continued)

Details of the remuneration of the key management personnel of the consolidated entity are set out below:

12 months to 30 June 2006

Name	Salary & fees $	Other benefits* $	Cash bonus $	Superannuation $
Dr C.S. Goldschmidt *Managing Director*	559,442	170,419	586,000	20,139
C.D. Wilks *Finance Director*	447,861	-	316,440	12,139
Dr P.J. Dubois *Director*	443,026	9,518	70,000	4,500
C.J. Jackson *Director*	459,614	4,803	-	22,754
Dr H.F. Scotton *Director*	304,418	-	-	105,072
B.S. Patterson *Chairman and non-executive Director*	50,050	-	-	4,950
R.P. Campbell *Non-executive Director*	50,050	-	-	4,950
L.J. Panaccio *Non-executive Director*	48,533	-	-	4,800
D. Schultz ** *President and COO* *Clinical Pathology Laboratories, Inc.*	329,996	6,838	320,374	24,605

* Other benefits include fringe benefits tax.
** D. Schultz is employed by CPL in the United States of America, and is remunerated in US dollars. The remuneration shown is for the period from 1 October 2005.

12 months to 30 June 2005

Name	Salary & fees $	Other benefits* $	Cash bonus $	Superannuation $
Dr C.S. Goldschmidt *Managing Director*	584,890	145,525	526,000	19,585
C.D. Wilks *Finance Director*	448,415	-	284,040	11,585
Dr P.J. Dubois *Director*	375,018	1,830	-	4,500
C.J. Jackson *Director*	429,088	8,859	-	21,191
Dr H.F. Scotton *Director*	242,864	-	-	100,480
B.S. Patterson *Chairman and non-executive Director*	45,500	-	-	4,500
R.P. Campbell *Non-executive Director*	45,500	-	-	4,500

Note 36 Key management personnel (continued)

Under the Executive Incentive Plan for Dr C.S. Goldschmidt and C.D. Wilks, fully paid up ordinary shares and options over unissued ordinary shares of Sonic Healthcare Limited are issuable upon the achievement of performance conditions (as set out in (d) below). The fair values of the options and shares at the time of grant have been determined and have been allocated equally over the service periods up to the vesting dates. In addition to the remuneration disclosed above, the calculated values of shares and options allocated to Dr C.S. Goldschmidt for the 12 month period to 30 June 2006 were $210,561 and $3,172,978 respectively (2005: $249,601 and $2,339,825). In addition to the remuneration disclosed above, the calculated values of shares and options allocated to C.D. Wilks for the 12 month period to 30 June 2006 were $113,176 and $1,713,408 respectively (2005: $134,160 and $1,263,505).

Cash bonuses, fully paid up ordinary shares and options over unissued ordinary shares of Sonic Healthcare Limited are performance related components of Dr C.S. Goldschmidt's and C.D. Wilks' remuneration. In aggregate, these components make up 84% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2006 (2005: 81%) and 82% of C.D. Wilks' remuneration for the 12 months to 30 June 2006 (2005: 79%). Cash bonuses are performance related components of Dr P.J. Dubois' and D. Schultz's remuneration. The components make up 13% of Dr P.J. Dubois' remuneration for the 12 months to 30 June 2006 (2005: 0%) and 47% of D. Schultz's remuneration for the 12 months to 30 June 2006.

(iii) Service agreements

None of the key management personnel have a service contract. Rather the terms and entitlements of employment are governed by normal employment law.

Remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks were revised in February 2004, with effect from 1 July 2003, following a detailed review by the Remuneration Committee and subsequent approval by shareholders at the 2004 and 2005 Annual General Meetings. The key terms of the revised arrangements, (the "Executive Incentive Plan") which are to run for 5 consecutive years until 30 June 2008, are set out below:

Dr C.S. Goldschmidt

- Base salary, inclusive of superannuation of $750,000 per annum.

Short term incentives:

- Cash bonus, payable half yearly based on a 1,000,000 multiple of earnings per share for each 6 month period.
- Issue of 20,000 fully paid ordinary shares per annum if core earnings per share are at least 10% higher than the previous year. If core earnings per share growth falls below 10%, no shares will be issued. However, if core earnings per share growth in the subsequent year exceeds 10% and makes up for the previous year's shortfall, then the prior year's shares that were foregone will be issued.

Long term incentive:

- Issue of 1,000,000 options per annum exercisable at $7.50 (Sonic's share price at the time (February 2004) the revised arrangements were agreed between the Remuneration Committee and the Executive Directors) if core earnings per share are at least 10% higher than the previous year. If this growth is not achieved in one year but is made up in the subsequent year, then the previously forfeited options will be issued. Up to 50% of the options may be exercised 24 months from the date of issue and 100% may be exercised 36 months from the date of issue. The options expire after 60 months from the date of issue. These options are an equity settled share based payment.

C.D. Wilks

- Base salary, inclusive of superannuation of $460,000 per annum.

Short term incentives:

- Cash bonus, payable half yearly based on a 540,000 multiple of earnings per share for each 6 month period.
- Issue of 10,750 fully paid ordinary shares per annum if core earnings per share are at least 10% higher than the previous year. If core earnings per share growth falls below 10%, no shares will be issued. However, if core earnings per share growth in the subsequent year exceeds 10% and makes up for the previous year's shortfall, then the prior year's shares that were foregone will be issued.

Long term incentive:

- Issue of 540,000 options per annum exercisable at $7.50 if core earnings per share are at least 10% higher than the previous year. If this growth is not achieved in one year but is made up in the subsequent year, then the previously forfeited options will be issued. Up to 50% of the options may be exercised 24 months from the date of issue and 100% may be exercised 36 months from the date of issue. The options expire after 60 months from the date of issue. These options are an equity settled share based payment.

Note 36 Key management personnel (continued)

(c) Remuneration of directors and executives (continued)

Options issued to Dr C.S. Goldschmidt during the 12 months to 30 June 2006 had an aggregate value of $3,939,610.

Options issued to C.D. Wilks during the 12 months to 30 June 2006 had an aggregate value of $2,127,390. 200,000 options issued in April 2000 were exercised by C.D. Wilks during the financial year. The value at exercise date of these options (being the difference between the market price and the exercise price) was $2,044,000. The total value of options issued in the financial year and the value of options issued in prior years exercised in this financial year is $4,171,390.

The remuneration amounts disclosed relating to shares and options issued under the Executive Incentive Plan represent the assessed fair values at the date they were granted allocated equally over the service periods up to the vesting dates. Fair values for these shares and options have been determined using appropriate pricing models that take into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and risk-free interest rate for the term of the option. Sonic has applied no discount to the calculated fair value of these options for service continuity risk.

D. Schultz
- Base salary of US$325,000
- Cash bonus arrangement (capped at 100% of base salary) based on the satisfaction of performance conditions relating to the earnings of CPL.

Under Sonic's strategy for investment in new offshore markets, Sonic seeks to acquire a majority stake but leaves local management with an ownership interest. D. Schultz is one of the ~18% minority owners of CPL. He is therefore incentivised to create value in the business via personal ownership.

(d) Equity disclosures relating to key management personnel

During the financial year 20,000 fully paid up ordinary shares and 1,000,000 options over unissued ordinary shares in Sonic Healthcare Limited were issued to Dr C.S. Goldschmidt, and 10,750 shares and 540,000 options were issued to C.D. Wilks under the Executive Incentive Plan. These performance related issues represented the short term and long term incentive awards in relation to the 2005 financial year.

Since the end of the financial year, but prior to the date of this report, identical issues of fully paid up ordinary shares and options over unissued ordinary shares have been made to Dr C.S. Goldschmidt and C.D. Wilks under the Executive Incentive Plan. These performance related issues represented the short term and long term incentive awards in relation to the 2006 financial year.

The maximum number of shares and options issuable in future years under the Executive Incentive Plan is 61,500 shares and 3,080,000 options.

Note 36 Key management personnel (continued)

(i) Options provided as remuneration

The number of options over ordinary shares held beneficially or personally during the current and prior financial year by the key management personnel of the consolidated entity are set out below:

Name	Balance at 1 July 2005	Granted during the 2006 year as remuneration	Exercised during the 2006 year	Balance at 30 June 2006	Vested and exercisable at the end of the 2006 year
Dr C.S. Goldschmidt	1,000,000	1,000,000	-	2,000,000	Nil
C.D. Wilks	740,000	540,000	(200,000)	1,080,000	Nil

Name	Balance at 1 July 2004	Granted during the 2005 year as remuneration	Exercised during the 2005 year	Balance at the end of the 2005 year	Vested and exercisable at the end of the 2005 year
Dr C.S. Goldschmidt	3,000,000	1,000,000	(3,000,000)	1,000,000	Nil
C.D. Wilks	1,500,000	540,000	(1,300,000)	740,000	200,000

No options are vested and unexercisable at the end of the year.

No options granted to key management personnel in prior years vested during the current and prior financial year.

(ii) Shares issued on exercise of options

Shares issued as a result of the exercise of options to key management personnel of the consolidated entity are set out below:

Name	Exercise price	Number of ordinary shares issued on exercise of options during the 12 months to 30 June 2006
C.D. Wilks	$5.32	200,000

Name	Exercise price	Number of ordinary shares issued on exercise of options during the 12 months to 30 June 2005
Dr C.S. Goldschmidt	$5.32	3,000,000
C.D. Wilks	$5.32	1,300,000

No amounts are unpaid on any shares issued on the exercise of options.

Note 36 Key management personnel (continued)

(iii) Shares provided as remuneration

Executive Directors

Fully paid up ordinary shares of Sonic Healthcare Limited were granted during and since the end of the financial year under the Executive Incentive Plan.

Name	Number of fully paid ordinary shares granted during the 12 months to 30 June 2006	Number of fully paid ordinary shares granted during the 12 months to 30 June 2005
Dr C.S. Goldschmidt	20,000	20,000
C.D. Wilks	10,750	10,750

Other key management personnel

No shares were provided as remuneration to other key management personnel in either the current or prior financial year.

(iv) Share holdings

The number of ordinary shares held personally or beneficially during the current and prior financial year by the key management personnel of the consolidated entity are set out below.

Name	Balance at 1 July 2005	Issued during the 2006 year on the exercise of options	Shares provided as remuneration during the 2006 year	Other changes during the 2006 year	Balance at 30 June 2006
B.S. Patterson	3,816,646	-	-	-	3,816,646
Dr C.S. Goldschmidt	3,020,000	-	20,000	(1,200,000)	1,840,000
C.D. Wilks	1,583,750	200,000	10,750	(725,000)	1,069,500
Dr P.J. Dubois	122,379	-	-	2,344	124,723
C.J. Jackson	490,590	-	-	-	490,590
Dr H.F. Scotton	180,634	-	-	-	180,634

Name	Balance at 1 July 2004	Issued during the 2005 year on the exercise of options	Shares provided as remuneration during the 2005 year	Other changes during the 2005 year	Balance at 30 June 2005
B.S. Patterson	3,816,646	-	-	-	3,816,646
Dr C.S. Goldschmidt	950,000	3,000,000	20,000	(950,000)	3,020,000
C.D. Wilks	623,000	1,300,000	10,750	(350,000)	1,583,750
Dr P.J. Dubois	120,000	-	-	2,379	122,379
C.J. Jackson	517,590	-	-	(27,000)	490,590
Dr H.F. Scotton	180,634	-	-	-	180,634

Note 37 Remuneration of auditors

	Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
During the year the auditor of the parent entity and its related practices earned the following remuneration:				
PricewaterhouseCoopers – Australian firm				
Audit or review of financial reports of the entity or any entity in the consolidated entity	**514,148**	409,832	**80,000**	80,000
Accounting and advisory services	**100,630**	22,290	**-**	-
Total audit and accounting/advisory services	**614,778**	432,122	**80,000**	80,000
Taxation advice	**-**	104,814	**-**	104,814
Total remuneration	**614,778**	536,936	**80,000**	184,814
Related practices of PricewaterhouseCoopers Australian firm (including overseas PricewaterhouseCoopers firms)				
Audit or review of the financial reports of the entity or any entity in the consolidated entity	**726,924**	280,794	**-**	-
Accounting and advisory services	**150,656**	9,390	**-**	-
Total audit and accounting/advisory services	**877,580**	290,184	**-**	-
Taxation compliance services	**20,199**	5,549	**-**	-
Taxation advice	**-**	51,068	**-**	-
Total taxation advice and compliance services	**20,199**	56,617	**-**	-
Total remuneration	**897,779**	346,801	**-**	-

Statutory audit and tax compliance services are subject to periodic competitive tender processes involving the major Chartered Accounting firms. Accounting and advisory services include due diligence and acquisition related projects, financing advice and services in connection with the liquidation and deregistration of subsidiaries as part of restructuring the consolidated entity. Taxation advice is mainly in respect of acquisition and financing related issues. The non-audit services provided are not considered to be of a nature which could give rise to a conflict of interest or loss of independence for the external auditors. During the 2005 year Sonic appointed Ernst & Young as the primary tax advisors for the Sonic group, for both compliance services and tax advice, replacing PricewaterhouseCoopers.

Note 38 Share based payments

The consolidated entity has several equity settled share based compensation plans for executives and employees. The fair value of equity remuneration granted under the various plans is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to shares and options ("the vesting period").

In addition on 1 July 2004, options were issued to Dr and Mrs Schottdorf as part of the Schottdorf acquisition consideration. The fair value of this grant has been recognised in a separate Share Option Reserve (Note 30). These options are also an equity settled share based payment.

(a) Sonic Healthcare Limited Employee Option Plan

Options are granted under the Sonic Healthcare Limited Employee Option Plan for no consideration. Options granted are able to be exercised subject to the following vesting periods:

- Up to 50% may be exercised after 30 months from the date of grant
- Up to 75% may be exercised after 42 months from the date of grant
- Up to 100% may be exercised after 54 months from the date of grant

Options granted under the plan expire after 58 months and carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

Set out below are summaries of options granted under the plan.

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number	Number
Consolidated and parent entity - 2006									
20/06/01	20/04/06	$7.38	2,281,450	-	(5,000)	(2,071,400)	(205,050)	-	-
16/07/02	16/05/07	$4.66	661,500	-	(25,000)	(230,875)	-	405,625	201,000
15/04/03	15/02/08	$6.30	650,000	-	-	(215,000)	-	435,000	110,000
23/09/04	23/07/09	$9.51	10,000	-	-	-	-	10,000	-
23/09/04	23/07/09	$9.56	370,000	-	-	-	-	370,000	-
Total			3,972,950	-	(30,000)	(2,517,275)	(205,050)	1,220,625	311,000
Weighted Average Exercise Price			$6.96	-	$5.11	$7.04	$7.38	$6.77	$5.22
Consolidated and parent entity - 2005									
20/04/00	20/02/05	$5.41	1,484,450	-	(55,000)	(1,213,200)	(216,250)	-	-
20/06/01	20/04/06	$7.38	3,383,500	-	(205,800)	(896,250)	-	2,281,450	1,483,775
16/07/02	160/5/07	$4.66	1,184,000	-	(176,750)	(345,750)	-	661,500	171,000
15/04/03	15/02/08	$6.30	695,000	-	(45,000)	-	-	650,000	-
23/09/04	23/07/09	$9.51	-	10,000	-	-	-	10,000	-
23/09/04	23/07/09	$9.56	-	370,000	-	-	-	370,000	-
Total			6,746,950	380,000	(482,550)	(2,455,200)	(216,250)	3,972,950	1,654,775
Weighed Average Exercise Price			$6.36	$9.56	$6.06	$6.02	$5.41	$6.96	$7.10

Options were exercised on a regular basis throughout the current and prior financial year. The average share price during the 12 months to 30 June 2006 was $14.55 (2005: $10.94).

The weighted average remaining contractual life of share options outstanding at the end of the year was 1.8 years (2005: 1.6 years).

Note 38 Share based payments (continued)

(b) Queensland X-Ray (QXR) options

Pursuant to Sonic's agreement with the vendors of QXR, Sonic is to issue a total of 1,000,000 options to staff of QXR. The vesting and other conditions for these options are the same as those for the Sonic Healthcare Limited Employee Option Plan. To date the following tranches have been issued:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number	Number
Consolidated and parent entity - 2006									
16/07/02	16/05/07	$4.66	310,000	-	-	(140,000)	-	170,000	47,500
7/04/03	7/02/08	$6.01	80,000	-	-	(20,000)	-	60,000	20,000
19/02/04	19/12/08	$7.57	215,000	-	(50,000)	-	-	165,000	-
Total			605,000	-	(50,000)	(160,000)	-	395,000	67,500
Weighted Average Exercise Price			$5.87	-	$7.57	$4.83	-	$6.08	$5.06
Consolidated and parent entity - 2005									
16/7/02	16/5/07	$4.66	490,000	-	-	(180,000)	-	310,000	65,000
7/4/03	7/2/08	$6.01	80,000	-	-	-	-	80,000	-
19/2/04	19/12/08	$7.57	215,000	-	-	-	-	215,000	-
Total			785,000	-	-	(180,000)	-	605,000	65,000
Weighted Average Exercise Price			$5.59	-	-	$4.66	-	$5.87	$4.66

The weighted average share price at the date of exercise for share options exercised in the 12 months to 30 June 2006 was $14.53 (2005: $12.18).

The weighted average remaining contractual life of share options outstanding at the end of the year was 1.7 years (2005: 2.5 years).

Note 38 Share based payments (continued)

(c) Executive Directors' Options

Options were issued to Dr C. S. Goldschmidte and C.D. Wilks on 20 April 2000. Following approval by shareholder the expiry date of these options were amended to 20 April 2010. The options were fully vested at the start of the comparative period.

A summary of options granted under this plan are set out below:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number	Number
Consolidated and parent entity - 2006									
20/04/00	20/04/10	$5.32	200,000	-	-	(200,000)	-	-	-
Consolidated and parent entity - 2005									
20/04/00	20/04/10	$5.32	4,500,000	-	-	(4,300,000)	-	200,000	200,000

The weighted average share price at the date of exercise for share options exercised in the 12 months to 30 June 2006 was $15.54 (2005: $9.95).

The weighted average remaining contractual life of share options outstanding at the end of the year was 3.8 years (2005: 4.8 years).

(d) Executive Incentive Plan

Executive Incentive Plan options expire 60 months after issue and are able to be exercised subject to the following vesting periods:

- Up to 50% may be exercised after 24 months from the date of issue
- Up to 100% may be exercised after 36 months from the date of issue

Details of the Executive Incentive Plan are set out in Note 36.

Note 38 Share based payments (continued)

A summary of options granted under this plan are set out below:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number	Number
Consolidated and parent entity - 2006									
26/11/04	26/11/09	$7.50	1,540,000	-	-	-	-	1,540,000	-
22/08/05	22/08/10	$7.50	-	1,540,000	-	-	-	1,540,000	-
Total			1,540,000	1,540,000	-	-	-	3,080,000	-
Consolidated and parent entity - 2005									
26/11/04	26/11/09	$7.50	-	1,540,000	-	-	-	1,540,000	-

The weighted average remaining contractual life of share options outstanding at the end of the year was 3.8 years (2005: 4.4 years).

A summary of the fully paid up ordinary shares granted under this plan are set out below:

	Consolidated and parent entity	
	2006	2005
	Number	Number
Shares issued under the Executive Incentive Plan	**30,750**	30,750

Shares and options granted in the current and prior financial years represent satisfaction of performance conditions relating to the preceding years.

Fair value of shares and options granted
The assessed fair value of shares and options granted during the year ended 30 June 2006 was $322,260 and $6,067,600 respectively (2005: $332,408 and $5,990,600). The first four years of the performance related entitlements issuable under the Executive Incentive Plan were approved by shareholders at the 2004 Annual General Meeting and covered those issues made during the current and prior financial years. Fair values for these shares and options have been determined at this grant date using appropriate pricing models that take into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and risk-free interest rate for the term of the option.

The model inputs for the valuation of shares and options approved at the 2004 Annual General Meeting were:

(a) exercise price: $7.50
(b) share price at time of grant: $11.10
(c) expected life: 5 years from date of issue
(d) share price volatility: 15.3% (based on 3 year historic prices)
(e) risk free rate: 5.0%
(f) dividend yield: 3.15%

Note 38 Share based payments (continued)

(e) Independent Practitioner Network Limited Employee Share Option Scheme

An employee share option scheme has been established where Independent Practitioner Network Limited may, at the discretion of its Board of Directors, grant options over the ordinary shares in Independent Practitioner Network Limited to directors, executives and certain members of IPN's staff. For all grants under the plan 25% of the grant vests at each anniversary.

No options were granted or exercised during the current financial year. Set out below are summaries of options currently held under the plan.

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number	Number
Consolidated and parent entity - 2006									
23/11/02	30/11/07	$0.0785	760,000	-	-	-	-	760,000	570,000
23/11/02	30/03/07	$0.0785	500,000	-	-	-	-	500,000	375,000
23/11/02	31/12/06	$0.0785	500,000	-	-	-	-	500,000	375,000
22/08/02	21/08/07	$0.1320	380,000	-	-	-	-	380,000	228,000
Total			2,140,000	-	-	-	-	2,140,000	1,548,000
Weighted Average Exercise Price			$0.088	-	-	-	-	$0.088	$0.086

No options were granted or exercised during the prior financial year. Set out below are summaries of options held under the plan at the end of the prior financial year:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
Consolidated and parent entity – 2005									
23/11/02	30/11/07	$0.0785	760,000	-	-	-	-	760,000	380,000
23/11/02	30/03/07	$0.0785	500,000	-	-	-	-	500,000	250,000
23/11/02	31/12/06	$0.0785	500,000	-	-	-	-	500,000	250,000
22/08/02	21/08/07	$0.1320	380,000	-	-	-	-	380,000	152,000
23/11/02	31/10/06	$0.0785	500,000	-	(500,000)	-	-	-	-
Total			2,640,000	-	(500,000)	-	-	2,140,000	1,032,000
Weighted Average Exercise Price			$0.086	-	$0.0785	-	-	$0.088	$0.086

The weighted average remaining contractual life of share options outstanding at the end of the year was 1.0 year (2005: 2.0 years).

(f) Schottdorf Options

3,000,000 options over unissued ordinary shares were granted to Dr and Mrs Schottdorf (1,500,000 each) on 1 July 2004 as part of the Schottdorf acquisition consideration. Each option is convertible into one ordinary share as set out below on or before 31 August 2009:

- Up to 20% may be exercised after 12 months from the date of grant
- Up to 40% may be exercised after 24 months from the date of grant
- Up to 60% may be exercised after 36 months from the date of grant
- Up to 80% may be exercised after 48 months from the date of grant
- Up to 100% may be exercised after 60 months from the date of grant

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. No option holder has any right under the option to participate in any other issue of the company or of any other entity.

Note 38 Share based payments (continued)

A summary of options granted under this plan are set out below:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number
Consolidated and parent entity - 2006							
1/07/04	31/08/09	$6.75	3,000,000	-	-	3,000,000	600,000
Weighted Average Exercise Price			$6.75	-	-	$6.75	$6.75
Consolidated and parent entity - 2005							
1/07/04	31/08/09	$6.75	-	3,000,000	-	3,000,000	-
Weighted Average Exercise Price			-	$6.75	-	$6.75	-

The weighted average remaining contractual life of share options outstanding at the end of the year was 3.2 years (2005: 4.2 years).

(g) Expenses arising from share-based payment transactions.

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

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Equity remuneration	**5,511**	3,970	**5,505**	3,954
	5,511	3,970	**5,505**	3,954

(h) Shares under option at the date of this report

Unissued ordinary shares of Sonic Healthcare Limited and its subsidiary Independent Practitioner Network Limited under option at the date of this report are as follows:

(i) Sonic Healthcare Limited Employee Option Plan Options:

Number of options	Issue price of shares	Grant date	Expiry date
374,875	$4.66	16 July 2002	16 May 2007
432,000	$6.30	15 April 2003	15 February 2008
10,000	$9.51	23 September 2004	23 July 2009
370,000	$9.56	23 September 2004	23 July 2009
1,186,875			

(ii) Executive Director Options:

Number of options	Issue price of shares	Issue date	Expiry date
1,540,000	$7.50	26 November 2004	26 November 2009
1,540,000	$7.50	22 August 2005	22 August 2010
1,540,000	$7.50	22 August 2006	22 August 2011
4,620,000			

Note 38 Share based payments (continued)

(iii) Queensland X-Ray (QXR) Options:

Number of options	Issue price of shares	Grant date	Expiry date
155,000	$4.66	16 July 2002	16 May 2007
60,000	$6.01	7 April 2003	7 February 2008
125,000	$7.57	19 February 2004	19 December 2008
40,000	$12.69	24 July 2006	24 May 2011
380,000			

(iv) Schottdorf Options:

All of the 3,000,000 options over unissued ordinary Sonic shares granted to Dr and Mrs Schottdorf remain unexercised as at the date of this report.

No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

(v) Independent Practitioner Network Limited Employee Share Option Scheme:

Number of options	Weighted average exercise price of shares	Grant date	Expiry date
760,000	$0.0785	23 November 2002	30 November 2007
500,000	$0.0785	23 November 2002	30 March 2007
500,000	$0.0785	23 November 2002	31 December 2006
380,000	$0.1320	22 August 2002	21 August 2007
2,140,000			

No option holder has any right under the options to participate in any other share issue of IPN or of any other entity.

(i) Shares issued on the exercise of options up to the date of this report

(i) Sonic Healthcare Limited Employee Option Plan Options:

A total of 2,517,275 ordinary shares of Sonic Healthcare Limited were issued during the year ended 30 June 2006 on the exercise of options granted under the Sonic Healthcare Limited Employee Option Plan and a further 33,750 shares have been issued since that date, but prior to the date of this report. The amounts paid on issue of those shares were:

Number of options	Amounts paid (per share)
2,071,400	$7.38
261,625	$4.66
218,000	$6.30
2,551,025	

(ii) Executive Director Options:

A total of 200,000 ordinary shares of Sonic Healthcare Limited were issued during the year ended 30 June 2006 on the exercise of the last of the Executive Director Options that were issued on 20 April 2000 following approval at Sonic's 1999 Annual General Meeting. The total amount paid on issue of those shares was $1,064,000 ($5.32 per share).

Note 38 Share based payments (continued)

(iii) Queensland X-Ray (QXR) Options:

A total of 160,000 ordinary shares of Sonic Healthcare Limited were issued during the year ended 30 June 2006 on the exercise of QXR options and a further 55,000 shares have been issued since that date, but prior to the date of this report. The amounts paid on issue of those shares were:

Number of options	**Amounts paid (per share)**
155,000	$4.66
20,000	$6.01
40,000	$7.57
215,000	

No amounts are unpaid on any of these shares.

Note 39 Related parties

(a) Parent entities and subsidiaries

Sonic Healthcare Limited (Sonic) is the ultimate parent entity in the consolidated entity comprising the company and its subsidiaries as detailed in Note 32.

(b) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		**Parent entity**	
	2006	2005	**2006**	2005
	$	$	**$**	$
Transactions with subsidiaries				
Dividend revenue				
Distributions and dividends received from subsidiaries	-	-	105,378,784	90,713,600
Tax consolidation legislation				
Current tax payable assumed from wholly owned tax consolidated entities	-	-	13,579,291	8,484,205
Interest revenue				
Interest and loan facility fees charged to subsidiaries	-	-	4,750,069	3,442,200
Other transactions				
Rent and outgoings charged to subsidiaries (exclusive of GST)	-	-	3,045,600	2,952,194
Charges relating to employee options	-	-	18,851,401	9,769,704
Loans extended to subsidiaries	-	-	305,582,267	88,770,863
Loans repaid by subsidiaries	-	-	17,291,095	74,935,338

i) Transactions with directors of Sonic Healthcare Limited and other key management personnel of the management group

During the financial year rental expense payments totalling $1,121,291 (2005: $1,097,672) have been made by the consolidated entity to director related entities, including unit trusts, private companies and spouses. The rental transactions were based on normal terms and conditions and at market rates. The directors who had an interest in the rental transactions in the current or preceding financial year were C.J. Jackson and Dr H.F. Scotton.

Note 39 Related parties (continued)

(ii) Transactions with directors of subsidiaries of the consolidated entity

During the financial year rental expense payments totalling $450,811 (2005: $442,882) have been made by the consolidated entity to subsidiary director related entities, including unit trusts, private companies and spouses. The rental transactions were based no commercial terms and conditions and at market rates. The directors of subsidiaries who had an interest in the rental transactions in both the current and prior year were M. Prentice, G. Bryant, and J. Roberts.

During the year ending 30 June 2006, The Doctors Laboratory Limited (TDL, a member of the consolidated entity) provided pathology laboratory services to S. Ungar, a director of TDL. The total value of this referral income was $32,038 (2005: $145,614.

During the financial year, several entities within the TDL group have transacted with Varleigh UK Limited (an entity incorporated in the UK) in which directors of an entity in the consolidated entity, namely D. Byrne, R. Prudo and S. Ungar, have significant shareholding. The nature and aggregate amount of the transactions were:

- Purchase of IT support for $773,212 (2005: $639,440), recognised as an expense.
- Purchase of software and hardware for $137,122 (2005: $320,435), recognised as capital expenditure.
- Consultancy services to the value of $77,383 (2005: $245,390), recognised as an expense.

During the period from 1 October 2005 to 30 June 2006 CPL had the following transactions with entities related to it's directors:

Transaction	**Director Related Entity**	**Relevant Directors**	**Amount**
Pathology services expense	Clinical Pathology Associates	Dr R.E. Connor, Dr G. Jacknow	$8,857,801
Pathology services expense	MD Pathology	Dr M. Beck	$175,901
Management fee revenue	Clinical Pathology Associates	Dr R.E Connor, Dr G. Jacknow	$1,859,001
Courier services revenue	MD Pathology	Dr M. Beck	$606

All of the above transactions were on normal terms and conditions and at market rates.

D. Schultz, Dr R.E. Connor, Dr G. Jacknow and Dr M. Deck are directors and minority shareholders in CPL. Dividends were paid by CPL during the period to all shareholders on the same basis.

(iii) Remuneration of directors and other key management personnel

Details of remuneration of directors and other key management personnel have been disclosed in Note 36.

(c) Loans to/from related parties

		Consolidated		**Parent entity**	
		2006	2005	**2006**	2005
		$	$	**$**	$
Loans to/from subsidiaries					
Accrued income relating to subsidiaries		-	-	3,885,856	154,054
Dividend receivable from subsidiary		-	-	382,157	-
Accrued expenses relating to subsidiaries		-	-	1,533,698	1,570,621
Loans to subsidiaries	– Non current	-	-	398,015,491	181,142,156
Loans from subsidiaries	– Non current	-	-	293,599,393	356,158,273

Terms and conditions of loans to/from subsidiaries

The terms and conditions of the tax funding agreement are set out in Note 7.

Offshore loans to/from subsidiaries were made on normal terms and conditions, at market interest rates, and are repayable on demand. Loans between wholly owned entities in the Australian tax consolidated group are non-interest bearing and repayable on demand.

Outstanding balances are unsecured and repayable in cash.

Note 39 Related parties (continued)

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

There were no amounts receivable from / payable to other key management personnel at 30 June 2006 (2005: Nil).

(e) Doubtful debts

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

Note 40 Earnings per share

	Consolidated	
	2006	2005
	Cents	Cents
Basic earnings per share	**59.8**	49.8
Diluted earnings per share	**58.6**	48.9

	Consolidated	
	2006	2005
	Shares	Shares
Weighted average number of ordinary shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**287,910,303**	271,932,711
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**293,420,332**	276,973,703

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

Details of the options exercised and issued in the period between the reporting date and the date of this report are detailed in Note 38.

	Consolidated	
	2006	2005
	$'000	$'000
Reconciliations of earnings used in calculating earnings per share		
Net profit	**185,815**	147,174
Net (profit) attributable to minority interests	**(13,786)**	(11,821)
Earnings used in calculating basic and diluted earnings per share	**172,029**	135,353

Note 41 Statements of cash flows

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
(a) Cash at bank and on hand	**68,156**	31,914	**139**	64

Cash balances bear floating interest rates of between 1.37% - 6.25% (2005: 0.75% - 5.21%).

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
(b) Reconciliation of net cash inflow from operating activities to operating profit after income tax				
Operating profit after income tax	**185,815**	147,174	**107,645**	88,497
Add/(less) non-cash items:				
Depreciation	**42,518**	32,813	**528**	609
Amortisation - leases	**11,756**	15,371	**-**	-
Amortisation - intangibles	**1,823**	1,708	**-**	-
Net (profit)/loss on sale of non current assets	**(3,471)**	995	**(2,443)**	-
Foreign exchange differences	**-**	(68)	**15**	-
Share based payments	**5,511**	3,969	**5,505**	3,954
Other non-cash items	**(1,705)**	(212)	**245**	-
Add/(less) changes in assets and liabilities during the financial year:				
(Increase)/decrease in sundry debtors	**(2,685)**	15,978	**(3,992)**	(85)
(Increase)/decrease in prepayments	**(3,969)**	1,245	**(12)**	19
(Increase)/decrease in trade debtors and accrued revenue	**4,081**	(6,493)	**-**	-
(Increase)/decrease in dividend receivable	**-**	-	**(382)**	-
(Increase)/decrease in inventories	**(1,213)**	516	**-**	-
(Increase)/decrease in deferred tax asset	**11,797**	5,975	**(11)**	-
Increase/(decrease) in accrued expenses	**(1,965)**	(1,539)	**383**	1,092
Increase/(decrease) in trade creditors	**(2,262)**	(6,115)	**-**	-
Increase/(decrease) in deferred tax liability	**(865)**	3,179	**(450)**	100
Increase/(decrease) in current tax liabilities	**433**	(4,433)	**(3,155)**	7,621
Increase/(decrease) in surplus lease space provision	**(2,042)**	(1,864)	**-**	-
Increase/(decrease) in other liabilities	**(3,680)**	3	**-**	-
Increase/(decrease) in provision for employee entitlements	**7,331**	5,864	**-**	-
Net cash inflow from operating activities	**247,208**	214,066	**103,876**	101,807

(c) Non-cash financing and investing activities

The following transactions are not reflected in the Statements of cash flows:

- Plant and equipment with an aggregate fair value of $2,447,000 (2005: $16,452,000) was acquired by means of finance leases and hire purchase agreements.
- During the year 1,540,000 options (2005: 1,540,000 options) and 30,750 fully paid up ordinary shares (2005: 30,750 fully paid up ordinary shares) were issued as remuneration.
- During the year ended 30 June 2005, the consolidated entity issued 3,000,000 options relating to the Schottdorf acquisition with a value of $4,410,000. The value of these options was included as part of the consideration paid for the acquisition of the Schottdorf Group (Note 30 (a)).

Note 42 Financial instruments

(a) Transition to AASB 132 and AASB 139

Sonic has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards of 1 July 2005 a net adjustment increasing net assets was recognised representing derivative financial instrument assets and derivative financial instruments liabilities attributable to the first time recognition of the fair value of interest rate cash flow hedges.

(b) Derivative financial instruments

Sonic Healthcare Limited and certain subsidiaries are parties to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates and foreign exchange rates.

Interest rate swap contracts – cash flow hedge
It is Sonic's policy to protect part of the variable interest rate loans drawn under the Sonic senior debt facility (2006: $711,461,000; 2005: $524,402,000) from exposure to increasing interest rates. Accordingly, the consolidated entity has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contracts are settled on a net basis. Swap contracts are entered into in the currency of the underlying debt which are AUD, NZD, USD, EURO and GBP.

The contracts require settlement of net interest receivable or payable on a quarterly or half yearly basis depending on the funding period of the underlying debt. All interest rate swap contracts have settlement dates which coincide with the dates on which interest is payable on the underlying debt.

Swaps in place at balance date cover approximately 44% (2005: 43%) of the Sonic senior debt outstanding. The fixed interest rates range between 2.295% and 6.595% (2005: 2.295% to 6.595%). The variable interest rates range between 3.67% and 8.02% (2005: 2.78% and 6.43%).

At 30 June, the notional principal amounts and periods of expiry of interest rate swap contracts for the consolidated entity were as follows:

	2006 $'000	2005 $'000
Less than 1 year	**77,693**	33,261
1 – 2 years	**81,281**	44,124
2 – 3 years	**52,002**	78,185
3 – 4 years	**52,600**	11,631
4 – 5 years	**51,165**	63,615
	314,741	230,816

There was no ineffective portion of the swaps during either the current or previous financial year.

Interest rate caps – cash flow hedge

Following Sonic's acquisition, and the subsequent refinancing of its debt, the Schottdorf Group entered into hedging arrangements in the form of interest rate caps to protect part of its variable interest rate loans from exposure to increasing interest rates.

Interest rate caps at balance date cover approximately 74% (2005:66%) of the Euro denominated debt to which they specifically relate. The Euribor cap rates range between 3.0% and 4.0%, and during the financial year the cap rate has not been reached.

Note 42 Financial instruments (continued)

At 30 June 2006, the notional principal amounts and periods of expiry of interest rate caps were as follows:

	2006 $'000	2005 $'000
Less than 1 year	**5,164**	5,719
1 – 2 years	**6,713**	5,719
2 – 3 years	**17,043**	5,719
3 – 4 years	**-**	15,250
	28,920	32,407

In total 45% (2005:45%) of Sonic's variable interest rate loan principals are hedged by the interest rate swap and interest rate cap contracts.

Hedge of net investments in foreign operations

Of the total bank loans of $750,538,000 (2005: $581,125,000), $701,461,000 (2005: $311,402,000) are denominated in NZD, USD, EURO and GBP as a hedge of Sonic's net investment in operations in New Zealand, the United States, Germany and the United Kingdom. Gains or losses on retranslation of these borrowings are transferred to equity to offset any gains or losses on translation of the net investment in these operations.

(c) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table.

		Fixed interest rate maturities							
		1 year or less $'000	Over 1 and less than 2 years $'000	Over 2 and less than 3 years $'000	Over 3 and less than 4 years $'000	Over 4 and less than 5 years $'000	Over 5 years $'000	Non interest bearing $'000	Total $'000
30 June 2006									
Assets									
Cash and deposits	41 (a)	5,230	10,329	-	-	-	-	1,381	16,940
Trade debtors	9	-	-	-	-	-	-	152,697	152,697
Accrued revenue	9	-	-	-	-	-	-	15,958	15,958
Sundry debtors	9	-	-	-	-	-	-	18,629	18,629
Amounts owing from other entities	9,12	42	1,103	-	358	-	-	4,051	5,554
Other financial assets	13	-	-	-	-	-	-	8,068	8,068
Total assets		5,272	11,432	-	358	-	-	200,784	217,846
Weighted average interest rate		5.38%	6.87%	-	6.05%	-	-	n/a	
Liabilities									
Trade and other creditors	19,24	-	-	-	-	-	-	122,319	122,319
Amounts owing to vendors	23,28	-	-	-	-	-	-	10,056	10,056
Other Loans	23	-	-	-	-	-	-	317	317
Lease and hire purchase liabilities	20,25	14,683	12,936	10,410	4,820	151	-	-	43,000
Interest rate swaps pay fixed		77,693	81,281	52,002	52,600	51,165	-	-	314,741
Total liabilities		92,376	94,217	62,412	57,420	51,316	-	132,692	490,433
Weighted average interest rate		5.20%	4.91%	5.31%	5.31%	5.06%	-	n/a	

Note 42 Financial instruments (continued)

(c) Interest rate risk exposures (continued)

Fixed interest rate maturities

		1 year or less $'000	Over 1 and less than 2 years $'000	Over 2 and less than 3 years $'000	Over 3 and less than 4 years $'000	Over 4 and less than 5 years $'000	Over 5 years $'000	Non interest bearing $'000	Total $'000
30 June 2005									
Assets									
Cash and deposits	41(a)	2,354	-	-	-	-	-	2,032	4,386
Trade debtors	9	-	-	-	-	-	-	120,706	120,706
Accrued revenue	9	-	-	-	-	-	-	10,785	10,785
Sundry debtors	9	-	-	-	-	-	-	13,448	13,448
Amounts owing from other entities	9, 12	702	-	-	-	-	-	4,448	5,150
Other financial assets	13	-	-	-	-	-	-	10,682	10,682
Total assets		3,056	-	-	-	-	-	162,101	165,157
Weighted average interest rate		4.56%	-	-	-	-	-	n/a	
Liabilities									
Trade and other creditors	19, 24	-	-	-	-	-	-	102,317	102,317
Loans	20, 25	-	7,943	-	-	-	-	-	7,943
Amounts owing to vendors	23, 28	-	-	-	-	-	-	4,728	4,728
Other loans	23	-	-	-	-	-	-	300	300
Lease and hire purchase liabilities	20, 25	21,049	16,301	10,910	8,749	3,175	654	-	60,838
Interest rate swaps pay fixed		33,261	44,125	78,185	11,630	63,615	-	-	230,816
Total liabilities		54,310	68,369	89,095	20,379	66,790	654	107,345	406,942
Weighted average interest rate		5.82%	6.79%	5.26%	5.91%	5.71%	7.24%	n/a	

Floating interest rate

		1 year or less	Over 1 and less than 2 years	Over 2 and less than 3 years	Over 3 and less than 4 years	Over 4 and less than 5 years	Over 5 years	Total
30 June 2006								
Assets								
Cash and deposits	41(a)	51,216	-	-	-	-	-	51,216
Interest rate swaps receive floating		77,693	81,281	52,002	52,600	51,165	-	314,741
		128,909	81,281	52,002	52,600	51,165	-	365,957
Weighted average interest rate		5.41%	5.79%	5.97%	6.02%	5.61%		
Liabilities								
Loans	20, 25	10,829	13,328	30,920	-	711,461	-	766,538
Amounts owing to vendors	25	-	-	-	-	1,118	-	1,118
		10,829	13,328	30,920	-	712,579	-	767,656
Weighted average interest rate		4.29%	4.67%	5.05%		5.74%		

Note 42 Financial instruments (continued)

		Floating interest rate						
		1 year or less	**Over 1 and less than 2 years**	**Over 2 and less than 3 years**	**Over 3 and less than 4 years**	**Over 4 and less than 5 years**	**Over 5 years**	**Total**
30 June 2005								
Assets								
Cash and deposits	41(a)	27,528	-	-	-	-	-	27,528
Amounts owing from other entities	9	38	-	-	-	-	-	38
Interest rate swaps receive floating		33,261	44,125	78,185	11,630	63,615	-	230,816
		60,827	44,125	78,185	11,630	63,615	-	258,382
Weighted average interest rate		5.06%	6.18%	6.33%	6.48%	6.39%	-	
Liabilities								
Loans	20, 25	18,986	14,588	9,531	20,175	523,407	-	586,687
Amounts owing to vendors	25	-	-	-	-	1,177	-	1,177
		18,986	14,588	9,531	20,175	524,584	-	587,864
Weighted average interest rate		4.20%	6.60%	3.47%	3.47%	5.47%		

(d) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Equity investments traded on organised markets have been valued by reference to market prices prevailing at balance date. For non-traded equity investments, the net fair value is determined using valuation techniques (Note 1 (i)).

(e) Fair values

The carrying amounts of assets and liabilities on the parent and consolidated balance sheets approximate their fair values.

Note 43 Events occurring after reporting date

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

- On 21 August 2006 Sonic's directors declared a final dividend for 2006 of 26 cents per ordinary share which was paid on 19 September 2006. Sonic's dividend reinvestment plan remained suspended for this dividend and until further notice.

Note 44 International financial reporting standards (IFRS)

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards ("AGAAP") are illustrated below:

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Note	Consolidated entity 30.6.2005 $'000	Consolidated entity 1.7.2004 $'000	Parent Entity 30.6.2005 $'000	Parent Entity 1.7.2004 $'000
Total equity under AGAAP		882,633	847,787	924,838	873,681
De-recognition of restructure provisions	(a)	-	4,287	-	-
Adjustments to goodwill and identifiable intangibles	(b)	65,738	(1,185)	-	-
Adjustments to deferred tax balances	(c)	(3,106)	(1,106)	(243)	(159)
Total equity under AIFRS		945,265	849,783	924,595	873,522

(ii) Reconciliation of profit after tax for 12 months to 30 June 2005 under AGAAP to that under AIFRS

	Note	Consolidated 2005 $'000	Parent 2005 $'000
Profit after tax as previously reported under AGAAP		77,464	92,535
De-recognition of restructure provisions	(a)	(5,522)	-
Adjustments to goodwill and identifiable intangible amortisation	(b)	67,792	-
Adjustments to deferred tax balances	(c)	(535)	(84)
Share based payment expense	(d)	(3,969)	(3,954)
Movement in minority interest share of profit		123	-
Profit after tax under AIFRS		135,353	88,497

(iii) Adjustments on transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instrument: Recognition and Measurement.*

	Note	Consolidated 1.7.2005 $'000	Parent 1.7.2005 $'000
Total equity under AIFRS		945,265	924,595
Financial assets at fair value through the profit and loss account	(e)	(1,353)	(1,353)
Derivative financial instruments	(f)	516	-
Revised equity under AIFRS		944,428	923,242

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statements.

Notes to the reconciliations:

(a) Derecognition of restructure provisions

Under AASB3 provisions for restructuring costs existing at 1 July 2004 that arose as part of acquisition accounting where the acquiree had not, at the acquisition date, recognised an existing liability for restructuring, have been released to opening retained earnings as a transition adjustment.

Note 44 International financial reporting standards (IFRS) (continued)

(b) Adjustments to goodwill and identifiable intangibles

Sonic's AGAAP accounting policy was to amortise goodwill over 20 years and identifiable intangibles over 50 years. Under AIFRS goodwill and indefinite life intangibles are no longer amortised, but instead are subject to impairment testing.

Under the transitional arrangements of AASB 1 there is an option to apply AASB 3 *Business Combinations* prospectively from the transition date to AIFRS. Sonic has chosen this option rather than to restate all previous business combinations.

Under AASB 3 there is a requirement to bring to account all identifiable intangibles acquired in a business combination entered into since the date of transition to AIFRS that meet the recognition and measurement criteria set out in AASB 138 *Intangible Assets.*

Sonic acquired a majority interest in IPN in the prior financial period. In restating this acquisition under AIFRS an identifiable intangible not recognised under AGAAP has been recognised on acquisition and associated amortisation expense has arisen in the restated financial results.

The carrying value of goodwill has been reduced by the derecognition of restructure provisions created under AGAAP.

(c) Income tax

Under AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

The identified tax adjustments to Sonic's deferred tax balances that arose on transition to AIFRS included the recognition of deferred tax assets relating to deductible costs not previously recognised under AGAAP, and an increase in deferred tax liabilities relating to the requirement to recognise directly in the foreign currency translation reserve (FCTR) tax amounts attributable to amounts recognised directly in the FCTR.

(d) Share-based payment expense

Under AASB 2 *Share-Based Payment*, Sonic is required to recognise an expense for all share-based remuneration. Under AGAAP no expense was recognised for equity-based compensation.

Under the transitional exemptions of AASB 1 Sonic has elected not to apply AASB 2 to equity instruments issued prior to 7 November 2002.

The share based remuneration expense in the profit and loss is offset via a credit against the share based payment reserve. Consequently there is no net change in consolidated or parent entity equity.

(e) Financial assets at fair value

On the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* the group classified certain investments as financial assets at fair value through profit or loss. On transition the fair value adjustments to these financial assets were recognised in retained earnings.

(f) Derivative financial instruments

On the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* the group's interest rate swaps were determined to be cash flow hedges which met the requirements for hedge accounting. Accordingly on transition, the fair values of the swaps were recognised as financial assets and financial liabilities, and were recognised in equity.

Note 44 International financial reporting standards (IFRS) (continued)

(g) Other changes not impacting equity or net profit

Foreign currency translation reserve: cumulative translation differences
Sonic has elected to apply the exemption in AASB 1 that permits the resetting of the foreign currency translation reserve (FCTR) to nil as at the date of transition. As such, on transition, the FCTR in the consolidated balance sheet decreased by $7,318,000 with a corresponding increase in retained earnings.

Internally developed software
Internally developed software assets recognised under AGAAP as part of fixed assets are defined under AASB 138 as identifiable intangibles. These assets have been reclassified from fixed assets to intangible assets on transition to AIFRS with no effect on profit or equity.

Revenue disclosures in relation to the sale of non-current assets
Under AIFRS, the net gain or net loss recognised in relation to the sale of a non-current asset is reported as either income or expense. This is in contrast to the previous AGAAP treatment under which the gross proceeds from the sale were recognised as revenue and the carrying amount of the assets sold is recognised as an expense. The net impact on profit of this difference is nil. However, the consolidated revenue from ordinary activities would have been $1,507,000 lower than as reported under AGAAP.

Asset revaluation reserve
On transition to AIFRS Sonic deemed the carrying value of all items of property, plant and equipment to be cost from the date of transition. The revaluation reserve of $982,000 in the opening balance sheet of the consolidated and parent entity was written off against opening retained earnings as an AIFRS transition adjustment.

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Directors' declaration

For the year ended 30 June 2006

In the directors' opinion:

(a) the financial statements and Notes set out on pages 26 to 99 are in accordance with the *Corporations Act 2001,* including:
  - (i) complying with Accounting Standards, the *Corporation Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company 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 Extended Closed Group identified in Note 31 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 31.

The directors have been given the declarations by the Managing Director and Finance Director required by section 295A of the *Corporations Act 2002.*

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

Dr C.S. Goldschmidt
Managing Director

C.D. Wilks
Director

Sydney
29 September 2006

PRICEWATERHOUSECOOPERS

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Independent audit report to the members of Sonic Healthcare Limited

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report of Sonic Healthcare Limited (the Company) and the Sonic Healthcare Group (defined below) for the financial year ended 30 June 2006 included on Sonic Healthcare Limited's web site. The Company's directors are responsible for the integrity of the Sonic Healthcare Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Audit opinion

In our opinion the financial report of Sonic Healthcare Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Sonic Healthcare Limited and the Sonic Healthcare Group as at 30 June 2006, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*;

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Sonic Healthcare Limited (the company) and the Sonic Healthcare Group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001.* This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

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Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001.*

PricewaterhouseCoopers

B K Hunter
Partner

Sydney
29 September 2006

Shareholders' information

1. Information relating to shareholders

(a) Distribution schedule as at 18 September 2006

	No. of holders ordinary shares
1 – 1,000	9,972
1,001 – 5,000	9,540
5,001 – 10,000	932
10,001 – 100,000	613
100,001 and over	121
	21,178
Voting rights – on a show of hands	1 / member
– on a poll	1 / share
Percentage of total holding held by the twenty largest holders	77.03%
Number of holders holding less than a marketable parcel	128

(b) Substantial holders as at 18 September 2006

The company has received substantial shareholding notices to 18 September 2006 in respect of the following holdings:

	No. of securities	Percentage held
Commonwealth Bank of Australia and its subsidiaries	44,960,905	15.22%
UBS Nominees Pty Limited and its related bodies corporate	25,448,192	8.62%
JPMorgan Chase & Co. and its affiliates	20,957,996	7.10%
Jardvan Pty Limited	18,458,704	6.25%
The Capital Group Companies, Inc.	17,690,127	5.99%
Concord Capital Limited	15,517,909	5.25%
National Australia Bank Limited Group	15,015,146	5.08%

(c) Names of the twenty largest holders of equity securities as at 18 September 2006

	No. of securities	Percentage held
Citicorp Nominees Pty Limited	48,384,095	16.38%
J P Morgan Nominees Australia Limited	42,484,236	14.39%
National Nominees Limited	39,840,561	13.49%
Westpac Custodian Nominees Limited	31,659,626	10.72%
Jardvan Pty Limited	18,458,704	6.25%
Queensland Investment Corporation	8,987,821	3.04%
ANZ Nominees Limited	7,359,553	2.49%
Cogent Nominees Pty Limited	6,696,232	2.27%
Polly Pty Limited	3,816,646	1.29%
RBC Global Services Australia Nominees Pty Limited	3,377,642	1.14%
HSBC Custody Nominees (Australia) Limited	2,686,805	0.91%
PSS Board	2,603,004	0.88%
Hamlac Pty Limited	1,800,000	0.61%
Invia Custodian Pty Limited	1,699,016	0.58%
Tasman Asset Management Limited	1,577,098	0.53%
CSS Board	1,512,258	0.51%
Quintal Pty Limited	1,500,357	0.51%
Sandhurst Trustees Limited	1,035,981	0.35%
Dr Anthony John Clarke	1,029,900	0.35%
Mrs Jennifer Margaret Robson	1,006,509	0.34%
	227,516,044	**77.03%**

Shareholders' information

2. Unquoted equity securities as at 18 September 2006

	No. on issue	No. of holders
Options issued under the Sonic Healthcare Limited Employee Option Plan to take up ordinary shares.	1,186,875	112
Executive director options to take up ordinary shares.	4,620,000	2
Queensland X-Ray options to take up ordinary shares.	380,000	25
Schottdorf options to take up ordinary shares.	3,000,000	2

3. Securities subject to voluntary escrow as at 18 September 2006

	No. on issue	Date escrow period ends
As at the date of this report the following securities were subject to voluntary escrow:		
Ordinary shares	86,061	5 December, 2006

The above securities were issued to vendor radiologists as part of the acquisition of the Southside Diagnostic Services Group.