Financial and Operational Review

Year to 30 June 2006

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CEO and Managing Director
Sonic Healthcare

22 August 2006

2006 Highlights

- Sonic delivers record earnings result
- Sonic full-year guidance achieved
- Net profit up 27%
- Earnings per share up 20%
- Full-year dividend up 14%
- Australian Pathology performing strongly
- Northern hemisphere entities tracking well
- Result held back slightly by Imaging and NZ Pathology
- Sonic progressing negotiations with several acquisition targets in Europe and North America
- Strong growth set to continue

2006 Financial Highlights

	Growth 2006 vs 2005
Revenue	20%
EBITA	21%
NPAT	27%
Operating Cashflow	15%
EPS	20%
Dividend (full-year)	14%

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2006 Guidance Delivered

Full Year 2006	Sonic Guidance $M	Actuals $M
Revenue	1,600 - 1,670	1,656
EBITA	300 - 320	306

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Revenue 2006

	2006 ($M)	2005 ($M)	Growth (%)
Total Revenue	1,656	1,381	20%

- CPL acquisition in October 2005 had positive impact on revenue growth
- Organic revenue growth (excluding CPL) ~7%
- Australian pathology revenue growth 8.6%
  - Strong revenue growth Melbourne Pathology, Douglass Hanly Moir, Sullivan Nicolaides
- Imaging (Australia and New Zealand) revenue growth 7.0%
- Off-shore laboratory revenue growth
  - TDL (UK) revenue growth over 10%
  - New Zealand pathology reported lower growth rates

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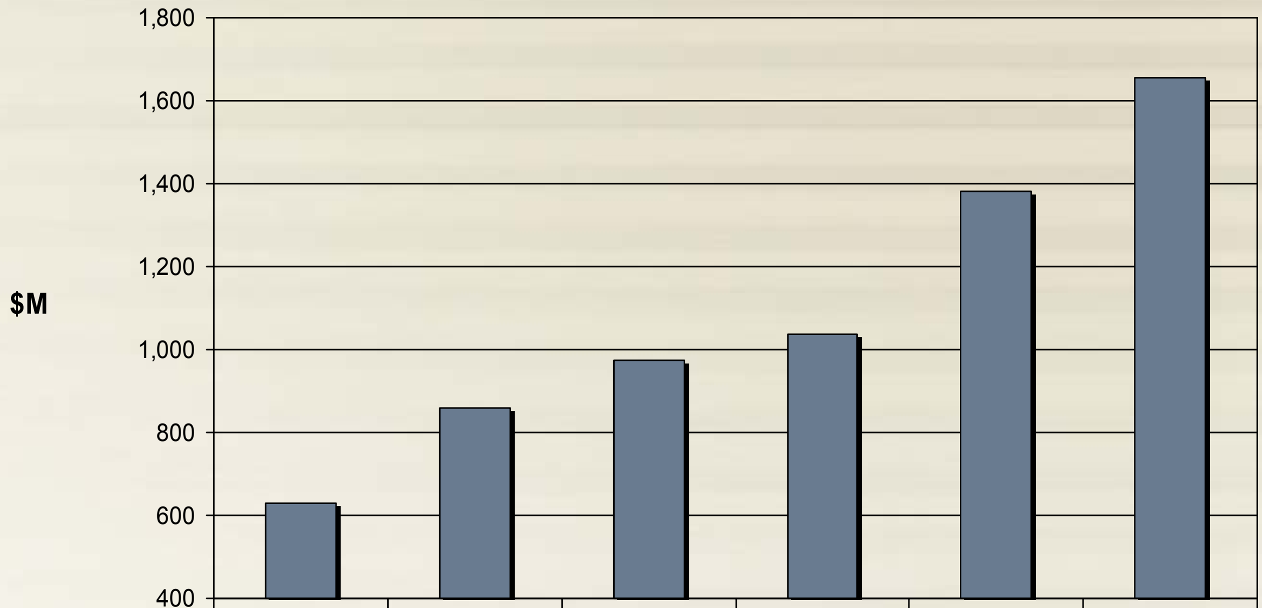
Annual Revenue



	2001	2002	2003	2004	2005	2006
Revenue ($M)	628	860	975	1,037	1,381	1,656

Revenue Growth 2007

- Revenue growth will be enhanced by
  - Full year of CPL (acquisition in October 2005)
  - Possible acquisitions in Europe and N. America though FY ‘07
- Australian pathology and radiology
  - Anticipated organic growth ~5%
- New Zealand pathology
  - Growth rates are low
  - Impact of potential loss of DML only from FY 2008
  - Medlab South (Christchurch) – no tenders, status quo situation
  - Sonic is preferred provider in Nelson-Marlborough (new revenue)
  - Valley Diagnostic (Lower Hutt) will JV and merge with lab in Wellington
- Sonic labs in UK, Germany, USA
  - Anticipated organic growth ~5%
- IPN (Independent Practitioner Network)
  - Anticipated strong growth in FY 2007

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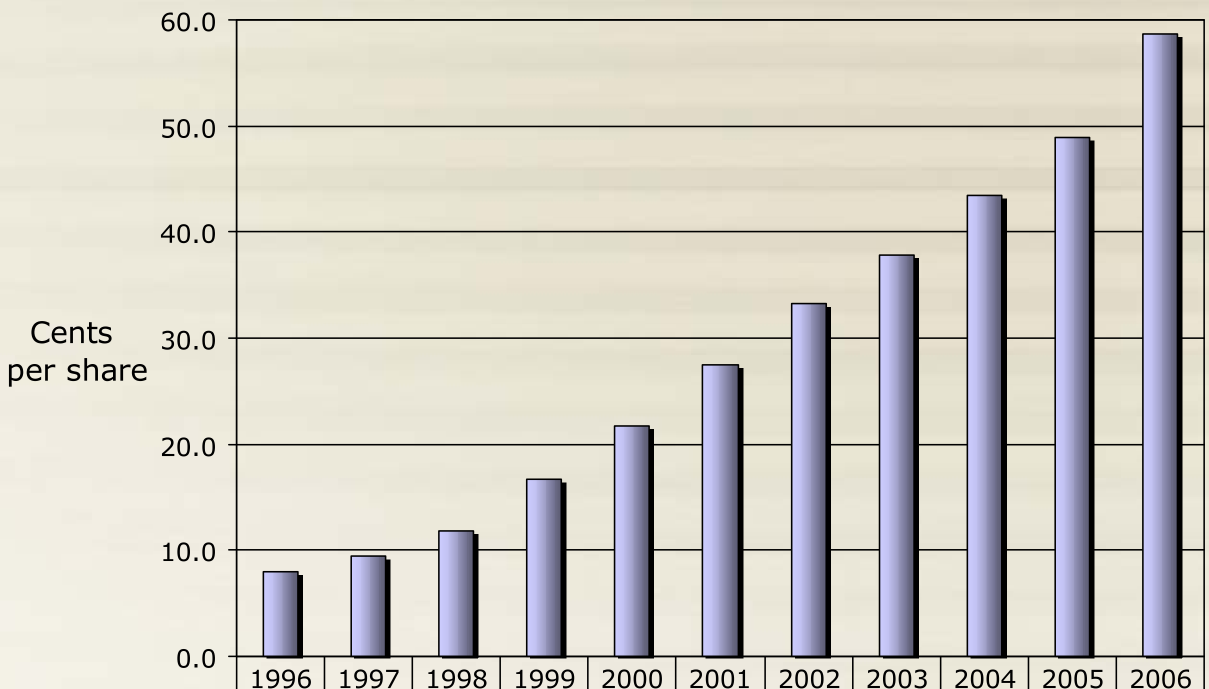
Earnings Growth

		FY 2006	FY 2005	Movement %
EBITA	($M)	306.0	253.0	21%
NPAT	($M)	172.0	135.4	27%
EPS	(cents)	58.6	48.9	20%
Cash Generation	($M)	247.2	214.1	15%

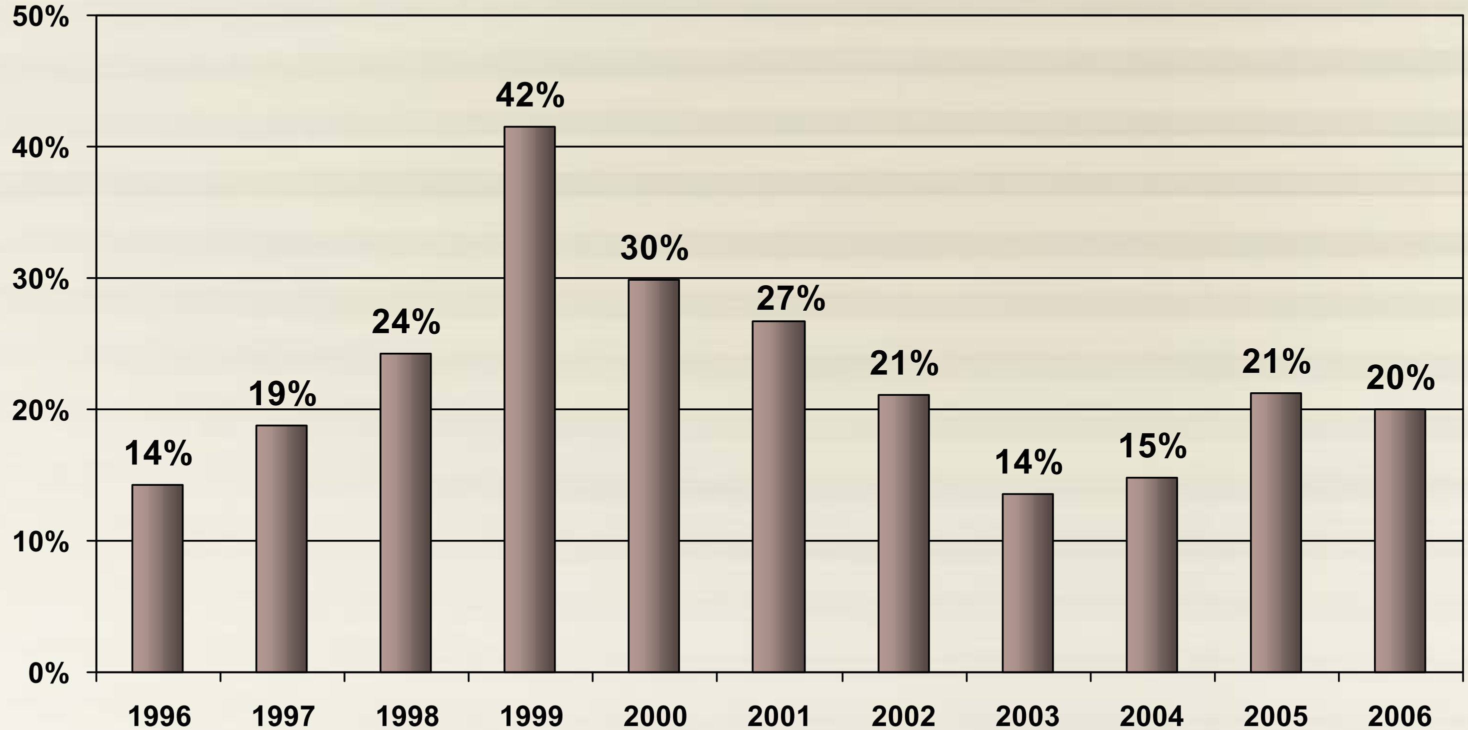
NOTE: All comparatives have been adjusted to conform with AIFRS, as required

Earnings per Share



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Core EPS (cents)	8.0	9.5	11.8	16.7	21.7	27.5	33.3	37.8	43.4	48.9	58.6

EPS Growth



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Earnings Margins

	FY 2006	FY 2005
EBITA Margin	18.5%	18.3%

- Australian pathology EBITA margin growth of 60 basis points
- Global pathology EBITA margin growth, excluding CPL, of 50 basis points
- Adverse impacts on Sonic margins in '06 year
  - Radiology margins impacted by wage pressures
  - New Zealand pathology margins impacted by low revenue growth
  - Lower margin acquisitions – IPN, CPL

2007 Guidance

- Revenue growth
  - Organic growth ~5%
  - Revenue growth including CPL ~9%
- Earnings growth
  - Earnings per share growth ~10%

Guidance excludes acquisitions and possible DML outcomes

Final Dividend

	2006	2005	Change
Interim Dividend	$0.15	$0.13	15%
Final Dividend	$0.26	$0.23	13%
Full Year Dividend	$0.41	$0.36	14%

- Dividend fully franked at 30%
- Record Date 5 September 2006
- Payment Date 19 September 2006
- Dividend Reinvestment Plan remains suspended

Balance Sheet Summary

		30.6.06	30.6.05
Receivables (current)	$M	188.4	146.1
Intangibles (net)	$M	1,690.2	1,271.6
Total Interest-bearing Debt	$M	810.7	656.6
Equity	$M	1,302.3	945.3
Gearing (Net IB Debt / Equity)	%	57	66
Net Interest-bearing debt / EBITDA	X	2.06	2.07
Interest Cover (EBITDA / Net Interest)	X	8.91	7.26

Undrawn senior debt facilities ~$ 295 million

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Australian Pathology

- Revenue growth of Australian pathology division strong
- Market share gains in NSW and Victoria
- Outperformance by large Australian labs
  - Douglass Hanly Moir Pathology (NSW)
  - Sullivan Nicolaides Pathology (Queensland)
  - Melbourne Pathology (Victoria)
- Sonic Australian pathology delivers margin expansion of 60 basis points
  - Information sharing and synergy capture
  - Strong pathologist and management team, committed to success
- Apollo LIS - Sonic's proprietary Laboratory Information System
  - Implementation successful at Clinipath (Western Australia) in 2006
  - Douglass Hanly Moir Pathology (in progress) and Clinpath (South Australia) to follow
  - All Sonic Australian labs will be using Apollo system by end of calendar 2007
  - Benefits of single Sonic LIS include increased efficiencies and centralisation

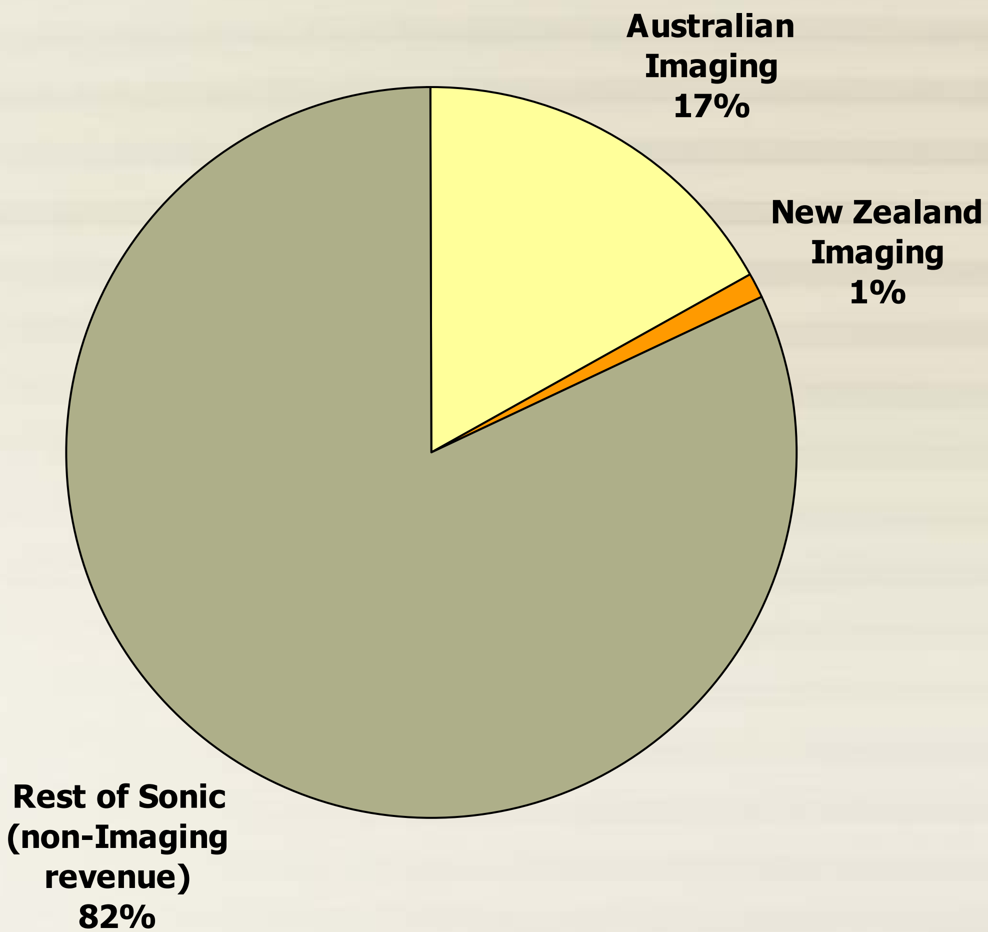
New Sonic "Superlab"
Sydney, Australia

- Building works well underway and ahead of schedule
- Project tracking to budget
- Completion in second half of calendar 2007
- 17,000 square metres of lab and office space
- State-of-the-art design and workflows
- Designed for high volume and high efficiency
- Will enable growth and further centralisation of testing

Sonic Imaging

- Radiology division revenue growth at market growth level
- Queensland X-Ray continues to outperform
- Margins impacted negatively by wage pressures
  - World-wide shortage of radiologists and technicians
  - "Head-hunting"
  - Renegotiation of employment contracts
- Apollo RIS – Sonic's proprietary Radiology Information System
  - Roll-out almost completed in Australian practices
  - Facilitating change in operations and driving efficiencies
  - In-house development by Sonic IT – 6 version updates thus far

Sonic Imaging Revenues



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Sonic Imaging - Future

- Demand for radiology services increasing – CT and MRI
- Solutions to wage pressure issues
  - Sonic has an outstanding team of Radiologists and radiology technicians
  - Novel incentive-based productivity model in process
  - New model will drive revenue growth, improve efficiency and enhance fulfilment
- Networked digital solutions
  - Transition to filmless, paperless radiology environment well underway
  - Web-based Sonic Apollo RIS a key to change
  - Teleradiology, PACS, Electronic Results' Transfer - all foster greater efficiency

Medicare Funding Agreements
Australian Pathology and Radiology

- Expenditure on pathology and radiology (other than MRI) have exceeded the reimbursement "cap"
- Additional funding justified where increased outlays are due to changes in government policy
- Fee negotiations (pathology and radiology) completed - in strict confidence
- Government, industry bodies and Royal Colleges have agreed a position to present to Minister
- No rationale for fee reductions, expectant of positive outcome
- Decision expected soon

IPN

- Strong financial result for FY ’06
- Operational rejuvenation
  - Dr Malcolm Parmenter, CEO – energy and great vision for IPN
  - GP numbers growing in existing centres
  - Increasing GP approval of IPN model
- Solid future growth expected
  - Focus on filling existing centres
  - New centres
  - Financial resources in place to fund growth
- Potential for increased referral stream to Sonic labs

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New Zealand Laboratory Industry

- New Zealand healthcare is provided and funded by 21 District Health Boards
  - North Island – 15 DHBs
  - South Island – 6 DHBs
- DHB structure
  - Board of ~12 members
  - CEO and executive management team
  - 3 statutory committees
- Population covered by individual DHBs range from 31,000 to 490,000
- DHB budgets range from NZ$48 million to NZ$870 million per annum
- Competitive tendering for community laboratory contracts
  - Community pathology operates under contracts with DHBs
  - All community pathology funded by DHBs (government)
  - Until the present, contracts were renegotiated at term dates
  - Competitive tendering a recent DHB initiative
- Government contracts for laboratory services unique to New Zealand
  - No government-controlled contracts in other Sonic global markets
  - DML experience cannot occur in other Sonic markets

Sonic's New Zealand Labs

- Sonic operates 4 laboratories in New Zealand
  - Diagnostic Medlab (DML) – Auckland
  - Medlab Central – Palmerston North / Hawke's Bay
  - Valley Diagnostic – Lower Hutt / Wellington
  - Medlab South – Christchurch / South Island
- Contract / tender updates
  - Diagnostic Medlab – Contract awarded to Labtests Auckland (from 1 July 2007)
  - Medlab Central – Contract tenders in progress
  - Valley Diagnostic – Won tender in combination with Medlab Wellington. Labs will merge.
  - Medlab South ---- Christchurch - DHBs decision to maintain status quo. No tender process.
    ---- Southland Otago (far South Island) – contract awarded to NZDG
    ---- Nelson-Marlborough – Sonic provisional contract winner (new revenue)
  - Other non-Sonic contracts may be tendered and Sonic will compete for new revenue

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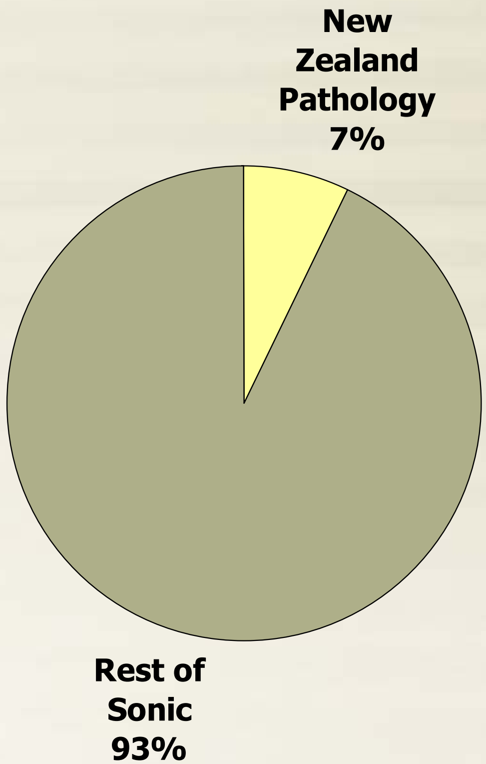
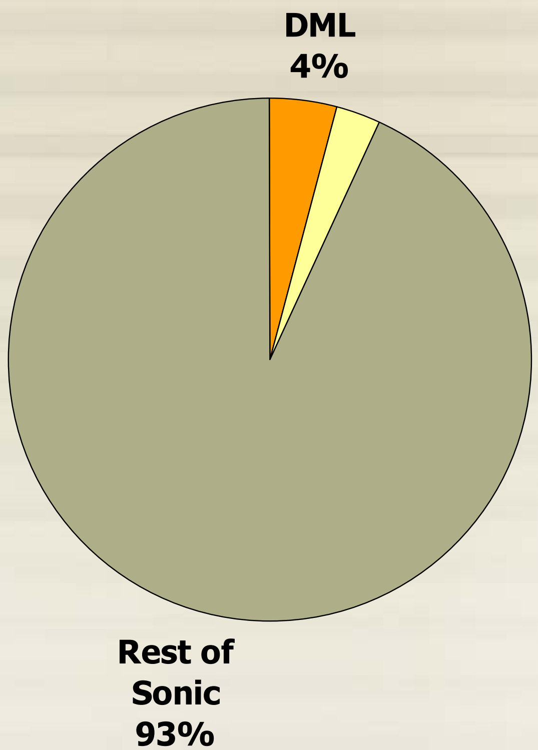
Sonic NZ Revenue





DML
Auckland Community Laboratory Contract

- DML – A world-class pathology company
  - Has been in operation for 70 years
  - Employs ~750 staff
  - Processes ~10,000 patients per day (~32,000 tests per day)
  - Represents ~A$12 million (~4%) of Sonic's EBITA
  - One of Sonic's most efficient laboratory operations
  - Operates out of Sonic-owned, modern lab building in Ellerslie, Auckland
- DML's tender proposal
  - Sonic and DML worked intensively for months on bid
  - Offered savings of ~NZ$4 million per annum over current spend
- Labtests Auckland
  - A newly established company
  - Owned 76.7% by Healthscope/Gribbles, 16.7% by Dr Tony Bierre, 6.6% by Lee Mathias
  - Dr Bierre (CEO of Labtests) was a Board Member of the Auckland DHB which awarded the contract to Labtests
  - Labtests' winning bid is priced below DML's costs!
  - Labtests do not have any operations or infrastructure in Auckland
  - Labtests do not have pathologists, scientists, other staff

DML Contract
Sonic Healthcare Position

- Contract decision is wrong and based on flawed process
- Risk to Auckland community health
  - Sonic's Auckland lab is not for sale or lease
  - High-volume start-up laboratory operation never attempted before, anywhere in the world
  - High-volume labs are functional via incremental growth and adaptation over a long period of time
  - Serious risk to service in attempting to process 10,000 patients per day from standing start
  - Healthscope/Gribbles have represented experience with large, green fields lab operations – false
  - Gribbles' largest lab (Melbourne) handles ~5,000 patients per day
- Conflict of interest – Dr Bierre and Auckland DHBs
  - DHBs have awarded NZ$560 million contract to company (Labtests) in which its own Board Member (Bierre) holds a 17% financial interest
  - Bierre actively participated in tender structuring
  - Bierre took "leave of absence" - but did not resign - from DHB in February 2006
- Cessation of DML operations
  - New Zealand's leading community laboratory will cease to exist after 70 years of operation
  - 750 staff will no longer be able to work for DML
  - DML Pathologists, scientists, other staff do not wish to work for Labtests

DML Contract
The Reaction

- Overwhelming opposition to contract decision
- Auckland public
  - 75,000 have already signed petition opposing the decision
  - Letters to press, DHBs, politicians
  - 5,000 participated in march and rally against DHB decision (Saturday 19 August)
- Auckland doctors
  - 95% of Auckland's GPs (484/508 practices) oppose contract decision and support DML
  - Letters to press, DHBs, politicians
  - GPs warn of danger to patient care associated with contract transition
- Pathologists
  - DML pathologists have published strong protest letter – to press, politicians, doctors, DHBs
  - Public hospital pathologists have published letter strongly opposed to decision
- DML Staff
  - Outraged at decision, committed to DML, do not wish to work for Labtests
- Litigation
  - DML has launched legal action (Judicial Review) to determine probity and process of decision
  - Hearing set down for November 2006
- Sonic and DML will fight to overturn a bad decision
  - A watershed moment in NZ health care

Off-shore Pathology

- TDL – The Doctors Laboratory (U.K.)
  - Strong revenue and EBITA growth in FY 2006
  - Margin expansion due to enhanced operational performance
  - TDL-UCLH partnership progressing well
  - Growth anticipated to continue
- Schottdorf Group (Germany)
  - Solid performance through '06 year
  - Growth in FY '06 affected by doctors' strikes, World Cup
  - Processing substantial referrals from TDL
- CPL (USA)
  - Sonic acquired 82% of CPL on 1 October 2005
  - Sonic-CPL integration excellent, active interchange of information
  - Volume/Revenue growth in line with US market
  - CPL performance in line with budget
  - CPL has signed binding agreement with ~A$10 million revenue acquisition target
  - CPL/Sonic progressing negotiations with several other US acquisition targets
- Off-shore Acquisitions
  - Sonic pursuing suitable opportunities in Europe and North America
  - In advanced discussions with several targets

UK Pathology – NHS Outsourcing

- Public Private Partnership with UCLH operating well
  - Improved efficiencies
  - A showcase for other NHS opportunities
- Lord Carter report on NHS outsourcing
  - Recommends change to current system
  - Encourages private sector involvement
  - Proposes pilot schemes
- Outsourcing projects are available
  - Initiated by management of NHS Trust hospitals
  - Sonic/TDL well placed to lead this market opportunity
  - Currently in discussion with potential partners

Future Growth

- Core laboratory business remains Sonic's "engine room" for growth
- Focus on revenue growth, margin expansion and EPS growth
- Sonic's growth will be fuelled by ongoing organic growth and off-shore acquisitions

Thank You