Sonic Healthcare Limited

ABN **24 004 196 909**

Annual report – 30 June 2010

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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	
	Ms K.D. Spargo	
	Dr E.J. Wilson	
Company secretary	Mr P.J. Alexander	

Principal registered office in Australia

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Fax: 61 2 9878 5066
Website: www.sonichealthcare.com

Share registry

Computershare Investor Services Pty Limited
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
Email: web.queries@computershare.com.au

Auditor

PricewaterhouseCoopers

Solicitors

Allens Arthur Robinson
Minter Ellison

Bankers

Australia and New Zealand Banking Group Limited
Citibank, N.A.
Commonwealth Bank of Australia
JPMorgan Chase Bank, N.A.
Macquarie Bank Limited
National Australia Bank Limited
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Hongkong and Shanghai Banking Corporation Limited
The Royal Bank of Scotland plc
Westpac Banking Corporation

Stock exchange listings

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

Directors' report

Your directors present their report on the Group consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

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	
Mr L.J. Panaccio	

Ms K.D. Spargo and Dr E.J. Wilson were appointed as directors on 1 July 2010 and continue in office at the date of this report.

Principal activities
During the year the principal continuing activities of the Group 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:

	2010 **$'000**	2009 $'000
Interim dividend paid	**93,224**	84,452
Final dividend paid on 28 September 2010	**135,950**	135,950
Total dividend for the year	**229,174**	220,402

On 23 August 2010, the board declared a final dividend in respect of the year ended 30 June 2010 of 35 cents per ordinary share, 35% franked (at 30%) paid on 28 September 2010 with a record date of 14 September 2010. An interim dividend of 24 cents per ordinary share 35% franked (at 35%) was paid on 25 March 2010. These dividends included no conduit foreign income.

A final dividend of 35 cents per ordinary share was paid on 28 September 2009 in respect of the year ended 30 June 2009, 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 2009 was 22 cents per ordinary share, paid on 26 March 2009.

As a result of the Group's international expansion future dividends will not be fully franked. It is expected that the 2011 interim dividend will be franked to ~28%.

Dividend Reinvestment Plan ("DRP")
The company's DRP remains suspended for the 2010 final dividend and until further notice.

Directors' report

(continued)

Review of operations

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

$'000	**2010 Constant Currency**	**2010 Statutory**	**2009 Statutory**	**% Change 2010 Constant Currency v 2009 Statutory**
Revenue from ordinary activities	**3,258,663**	**2,994,633**	3,013,731	**8.1%**
Earnings before interest, tax, depreciation and intangibles amortisation (**EBITDA**)	**591,248**	**543,857**	425,125	
Depreciation and lease amortisation	**(98,518)**	**(93,089)**	(93,087)	
Earnings before interest, tax and intangibles amortisation (**EBITA**)	**492,730**	**450,768**	332,038	
Amortisation of intangibles	**(16,632)**	**(15,357)**	(8,196)	
Net interest expense	**(59,819)**	**(48,805)**	(74,234)	
Income tax attributable to Operating Profit	**(98,679)**	**(92,822)**	(77,053)	
Net Profit attributable to Outside Equity Interests	**(571)**	**(559)**	(1,195)	
Net Profit attributable to shareholders of Sonic Healthcare Limited	**317,029**	**293,225**	171,360	**85.0%**
Net Profit adjusted for 2009 Non-recurring items	**317,029**		315,146	**0.6%**
Cash generated from operations		**429,497**	429,952	

Earnings per share

Cents per share

	2010 Constant Currency	**2010 Statutory**	**2009 Statutory**
Basic earnings per share	81.7¢	75.5¢	46.9¢
Diluted earnings per share	81.1¢	75.0¢	46.3¢

Review of operations (continued)

1. Key highlights

- Net profit in line with guidance given in May 2010.
- Ongoing organic growth in Sonic's key markets.
- Synergies driving margin expansion in the USA and Germany.
- Entered the Belgian laboratory market through the acquisition of the Medhold Group.
- Four synergistic pathology acquisitions completed; and funding available of ~A$465M for future acquisitions.
- Positive outlook with net profit expected to grow by 5-15% in 2011, excluding additional acquisitions (assuming 2010 currency exchange rates).

2. Explanation of results

(a) Constant currency

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

The average currency exchange rates for the year to 30 June 2010 for the Australian dollar ("A$", "AUD" or "$") versus the currencies of Sonic's offshore earnings (USD, Euro, GBP, CHF, NZD) were significantly higher than in the comparative period, reducing Sonic's AUD reported earnings ("Statutory" earnings).

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

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

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

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

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

(b) 2009 Non-recurring items ("NRIs")

No adjustments for Non-recurring items have been made in the current year, however a number of non-recurring expenses occurred during the 2009 year, comprising:

AUD M	Pre-tax	Tax	Post-Tax
Impairment of New Zealand Pathology intangibles (i)	120.1	-	120.1
Restructuring costs – New Zealand Pathology (i)	22.8	(6.8)	16.0
Implementation of the direct billing system in Germany, following changes in German regulations	5.3	(1.6)	3.7
Implementation of the Apollo laboratory information system into Douglass Hanly Moir (NSW, Australia)	3.5	(1.1)	2.4
UK pre-acquisition related insurance claim	2.2	(0.6)	1.6
	153.9	(10.1)	143.8

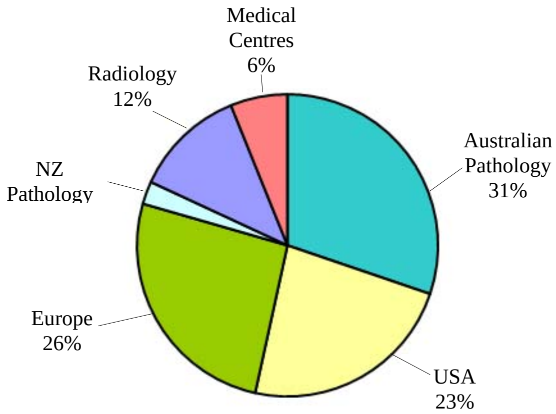
(i) Refer to Sonic Healthcare's announcement to the Australian Securities Exchange on 18 August 2009 for further details of the New Zealand Pathology items.

Review of operations (continued)

2. Explanation of results (continued)

(c) Revenue

Revenue split AUD M	**2010 Statutory Revenue**	**% of 2010 Statutory Revenue**
Pathology – Australia	901	31%
Pathology – USA	692	23%
Pathology – Europe	776	26%
Pathology – NZ	73	2%
Radiology	357	12%
Medical centres	182	6%
Revenue excluding interest income	2,981	100%



Pathology organic revenue growth AUD M	**2010**	**2009**	**Organic Growth**
Australia (i) (ii)	900.6	880.5	**2.3%**
USA (i) (ii)	778.1	732.2	**6.3%**
Europe (i) (ii)	845.7	812.8	**4.0%**
New Zealand (i) (ii)	74.1	114.3	**(35.2)%**
Effect of acquisitions (i) (ii)	109.1	(40.6)	
Exchange rate movement effect (i)	(262.7)	-	
Pathology revenue as reported	2,444.9	2,499.2	

Notes:

(i) The geographic revenue figures shown for 2010 are presented using 2009 currency exchange rates, and excluding the revenue of acquisitions completed in the 2010 year, the total of which is shown separately ($109.1M). The currency exchange rate effect of $(262.7)M is also shown separately.

(ii) The geographic revenue figures shown for 2009 have been adjusted (increased) to include a full year of revenue of acquisitions completed in the 2009 year. The total of these adjustments ($40.6M) is then reversed to reconcile back to the reported total.

Organic (non-acquisitional) revenue growth in Sonic's key pathology operations was above what Sonic believes are the relevant market growth rates. The organic growth rates in Australia and Europe were strong given the effect during the period of cuts to the Australian Medicare (effective 1 November 2009) and German EBM (effective from January and April 2009) fee schedules.

New Zealand pathology revenue declined significantly as a result of Sonic's Auckland community laboratory contract finishing on 6 September 2009.

Review of operations (continued)

2. Explanation of results (continued)

(c) Revenue (continued)

Revenue growth was augmented by synergistic business acquisitions during the current period and prior year including:

- GLP Medical Group, Hamburg, Germany (1 September 2008)
- Clinical Laboratories of Hawaii, USA (2 September 2008)
- Axiom Laboratories, Florida, USA (1 July 2009)
- Piedmont Medical Laboratory, Virginia, USA (31 July 2009)
- East Side Clinical Laboratory, Rhode Island, USA (30 November 2009)
- Labor Lademannbogen, Hamburg, Germany (4 January 2010)
- Medhold Group, Belgium (12 February 2010)
- Prime Health Group, Australia (31 March 2010)

Radiology organic revenue growth was 3.5%.

Sonic's medical centre business, Independent Practitioner Network ("IPN"), achieved revenue growth of 14% through a combination of organic growth, the Prime Health Group acquisition and other smaller acquisitions.

Revenue was impacted by currency exchange rate movements, which decreased reported (Statutory) revenue by $264M compared to the prior year.

(d) Margin analysis

AUD M	**2010**	**2009**	**Movement**
EBITDA as a % of Revenue	**18.2%**	14.1%	410 bps*
EBITA as a % of Revenue	**15.1%**	11.0%	410 bps*

*bps = basis points of margin

The margins presented above are shown on a Statutory basis, without adjusting for the significant Non-recurring items (set out in 2.(b) above) in the comparative period or currency rate movements in the current period.

Margin expansion was strongest in the USA (50 bps) and Germany (20 bps, after adjusting the comparative period for a Non-recurring item), where synergy capture from acquisitions in the last few years continues. These results are particularly pleasing as these further improvements are following from >200 bps (USA) and >100 bps (Germany) of margin expansion in the comparative period. In addition, current period German margin expansion was impacted by fee cuts to the EBM fee schedule which took effect from January and April 2009 (equivalent to ~2% of German revenue).

Australian Pathology margins contracted by 320 bps (after adjusting the comparative period for a Non-recurring item) as a result of the Medicare fee cuts from 1 November 2009 and the related effects of temporary volume losses in Queensland and abnormally low market volume growth across the country. The volume loss in Queensland was triggered by the introduction of distinctive new billing arrangements. These were subsequently reversed, following which volumes have now fully recovered.

New Zealand Pathology margins were severely impacted by the loss of the Auckland contract, and the adverse funding system now operating in New Zealand, which comprises fixed fee contracts.

Sonic's Radiology division maintained earnings at the 2009 level despite difficult market conditions. Medicare fee increases applicable to bulk-billed (no patient co-payment) services came into effect from 1 November 2009 but were offset by impacts of competition on volumes and pricing.

Margins were also impacted by the expensing of acquisition related costs, totalling over A$3M in the year, following a change to accounting standards (AIFRS). Under accounting standards applying to previous periods these costs would have been capitalised into the carrying value of the acquisitions to which they relate.

Review of operations (continued)

2. Explanation of results (continued)

(e) Interest expense and debt facilities

Net interest expense has decreased 19.4% on the comparative period (at constant currency rates) mainly due to the equity raisings conducted in November and December 2008, and the reductions in US LIBOR and EURIBOR base rates since late 2008.

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

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

Sonic's net interest bearing debt at 30 June 2010 comprised:

	Facility Limit M	Drawn M	AUD $M Available
Notes held by USA investors – USD	US$250	US$250	-
Bank debt facilities			
- USD limits	US$541	US$466	88
- Euro limits	€632	€545	124
- AUD (Multicurrency) limits	A$251	A$153*	101
Minor debt/leasing facilities	n/a	A$15*	-
Cash	n/a	A$(300)*	300
Available funds at 30 June 2010			613

* Various currencies, cash mainly AUD

Sonic's credit metrics at 30 June 2010 were as follows:

	30.6.10	31.12.09	30.6.09
Gearing ratio	37.0%	31.3%	32.1%
Interest cover (times)	9.4	9.7	6.5
Debt cover (times)	2.6	1.9	2.2

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

Sonic's senior debt facility limits expire as follows:

	AUD M	USD M	EURO M
November 2010	37	-	-
2011	19	182	205
2012	16	310	215
2014	-	49	26
2015	179	-	186
2017	-	95	-
2020	-	155	-
	251	791	632

Sonic successfully completed its debut issue of notes ("USPP notes") to investors in the United States private placement market in January 2010, raising US$250M of long term (7 and 10 years) debt. Sonic also refinanced a tranche of bank debt equivalent to ~A450M for 5 years in April 2010. Sonic's excellent relationships with its banks, its investment grade credit metrics, and its strong and reliable cash flows significantly reduce refinancing risk.

Review of operations (continued)

2. Explanation of results (continued)

(f) Tax expense
The effective tax rate of 24% is in line with the guidance provided in August 2009, and is higher than the comparative period (21.6% after adjusting for Non-recurring items), which included adjustments relating to prior year over provisions. Ignoring the impact of future acquisitions, and any short term fluctuations, the effective tax rate for future periods is expected to be approximately 25%.

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

- Entry into the Belgian laboratory market with the acquisition on 12 February 2010 of the Medhold Group, based in Antwerp.
- Successful debut issue of notes to investors in the United States private placement market in January 2010 raising US$250M of long term debt.
- Successful refinancing of a tranche of bank debt equivalent to ~A$450M for 5 years in April 2010.

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 Group, the results of those operations or the state of affairs of the Group in subsequent financial years, other than as follows:

- On 23 August 2010 Sonic's directors declared a final dividend of 35 cents (35% franked) per ordinary share, paid on 28 September 2010. Sonic's Dividend Reinvestment Plan remained suspended for this dividend.

Likely developments and expected results of operations
Sonic's main focus during the 2011 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, particularly in our three major markets of Australia, Europe and the USA. Sonic continues to target further acquisitions in the USA and Europe and expects significant growth in these large fragmented laboratory markets over the coming years.

On 24 August 2010 Sonic provided guidance to the market in relation to forecast results for the 2011 financial year as follows:

Assuming 2010 average currency exchange rates apply in 2011, Sonic expects to grow Net Profit by 5-15% over the 2010 level of $293M. This guidance excludes the impact of future business acquisitions not already announced and is dependent on the timing of resumption of normal market growth rates for Australian Pathology.

Further information on likely developments in the operations of the Group 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.
Non-executive, independent director, appointed May 1993 (Chairman since December 1999)

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 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).

Dr Colin Goldschmidt
CEO and Managing Director
M.B.B.Ch., F.R.C.P.A., F.A.I.C.D.
Executive director, appointed January 1993

Dr Goldschmidt is the CEO and Managing Director of Sonic Healthcare. He is a qualified medical doctor who then undertook specialist pathology training at a number of Sydney teaching hospitals, before gaining his Specialist Pathologist qualification in 1986. Dr Goldschmidt practised for five years (1987-1992) as a histopathologist with Douglass Hanly Moir Pathology, Sonic's first acquisition, prior to his appointment as CEO of both Sonic Healthcare and Douglass Hanly Moir Pathology in 1993. He is a member of numerous medical and pathology associations and is a member of Sonic's Risk Management Committee and was a member of the Nominations Committee until 30 September 2010. He is also a non-executive director of Silex Systems Limited (since 1992), a listed company previously spun out of Sonic, and was formerly a non-executive director of Independent Practitioner Network Limited (2005-2008).

Christopher Wilks
Finance Director
B.Comm. (Univ Melb), A.S.A., F.C.I.S., F.A.I.C.D.
Executive director, appointed December 1989

Mr Wilks has a background in chartered accounting and investment banking. He was previously a partner in a private investment bank and has held directorships for a number of public companies. Mr Wilks is the Chairman of the Risk Management Committee. He is also a director of Silex Systems Limited (since 1988) and was formerly a non-executive director of Independent Practitioner Network Limited (2005-2008).

Peter Campbell
F.C.A., F.T.I.A., F.A.I.C.D.
Non-executive, independent director, appointed January 1993

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 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 also of QRxPharma Limited (since April 2007). He was formerly a non-executive director of Admerex Limited (from January 2007 to October 2008).

Dr Philip Dubois
M.B., B.S., F.R.C.R., F.R.A.N.Z.C.R, F.A.I.C.D.
Executive director, appointed July 2001

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. He is currently a Vice-President of the Australian Diagnostic Imaging Association (ADIA). Dr Dubois is a member of Sonic's Risk Management Committee. He is a non-executive director of Magnetica Limited (since December 2004).

Information on directors (continued)

(a) Directors’ profiles (continued)

Colin Jackson
O.A.M., F.C.P.A., F.C.A., F.A.I.C.D.
Executive director, appointed December 1999

Mr Jackson has a background in professional accounting practice and laboratory management. He plays an active role at Sonic corporate level and, as Vice-President of the Australian Association of Pathology Practices, represents Sonic at national industry level. Mr Jackson was the Chief Executive Officer of Diagnostic Services Pty Limited (Sonic’s Tasmanian practice) for 11 years to 2006. He is a Fellow of the Australian Society of Certified Practising Accountants, the Australian Institute of Company Directors and the Institute of Chartered Accountants in Australia. Mr Jackson is a Director of the Guide Dog Association of Victoria and a member of the Winston Churchill Fellowship Trust selection committee in Tasmania. He is Chairman of the Tasmanian Symphony Orchestra Foundation Limited. He is also a director of the University of Tasmania Foundation and a member of the Tasmanian Board of the Australian Olympic Committee. Mr Jackson was formerly Chairman and a non-executive director of Independent Practitioner Network Limited (2004-2008).

Lou Panaccio
B.Ec., C.A., M.A.I.C.D.
Non-executive, independent director, appointed June 2005

Mr Panaccio is a chartered accountant with strong management experience in business and healthcare services. He is currently Executive Chairman of Health Networks Australia, non-executive Chairman of CPW Group and a non-executive Chairman of the Inner Eastern Community Health Service in Victoria. Mr Panaccio was the Chief Executive Officer and an executive director of Melbourne Pathology for ten years to 2001. Mr Panaccio is a member of the Audit, Remuneration and Nominations Committees.

Kate Spargo
L.L.B. (Hons), B.A., F.A.I.C.D.
Non-executive, independent director, appointed July 2010

Ms Spargo has gained broad business experience as both an advisor, having worked in private practice and government, and as a director. Ms Spargo has been a director of both listed and unlisted companies over the last ten years and her current directorships include Australian Unity Limited, a healthcare finance and insurance mutual, SMEC Limited, an engineering company with operations in around 40 countries, Investec Bank (Australia) Limited, Transfield Services Infrastructure Limited, Australian Energy Market Operator Ltd and Pacific Hydro Pty Ltd. She is Chair of the Accounting Professional and Ethical Standards Board Ltd. Ms Spargo is a member of the Audit Committee.

Dr Jane Wilson
M.B.B.S, M.B.A., F.A.I.C.D
Non-executive, independent director, appointed July 2010

Dr Wilson is a professional company director with a background in medicine, finance, banking and consulting and has extensive experience in business strategy and corporate governance, serving as Queensland President and National Board Director of the Australian Institute of Company Directors (“AICD”) and currently on the AICD Advisory Panel. Dr Wilson is the current Chairman of IMBcom (the University of Queensland’s commercialisation company for the Institute for Molecular Bioscience) and a Director of CathRx Ltd, UQ Holdings Ltd, Universal Biosensors Inc. and Union College. Dr Wilson is Finance Director of the Winston Churchill Memorial Trust and the Managing Director of Barambah Wines. She is a member of the University of Queensland Senate and of the UQ Faculty of Health Sciences Board. Dr Wilson is a member of the Remuneration and Nominations Committees.

(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 was formerly a non-executive director of Independent Practitioner Network Limited (2005-2008).

Directors' report
(continued)

Information on directors (continued)

(c) Directors’ interests in shares and options as at 30 September 2010

Director’s name	Class of shares	Number of shares	Interest	Number of options
B.S. Patterson	Ordinary	3,816,646	Beneficially	-
Dr C.S. Goldschmidt	Ordinary	700,000	Personally	4,750,000
	Ordinary	30,243	Beneficially	-
C.D. Wilks	Ordinary	680,000	Personally	2,495,000
	Ordinary	188,122	Beneficially	-
R.P. Campbell	Ordinary	10,000	Beneficially	-
Dr P.J. Dubois	Ordinary	-	-	-
C.J. Jackson	Ordinary	491,371	Personally	-
L.J. Panaccio	Ordinary	-	-	-
K.D. Spargo	Ordinary	-	-	-
Dr E.J. Wilson	Ordinary	-	-	-

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 2010, 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	11	13	3	3	2	2	-	-	10	10
Dr C.S. Goldschmidt	13	13	-	-	-	-	2	2	7	10
C.D. Wilks	13	13	-	-	-	-	2	2	-	-
R.P. Campbell	13	13	3	3	2	2	-	-	10	10
Dr P.J. Dubois	13	13	-	-	-	-	2	2	-	-
C.J. Jackson	10	13	-	-	-	-	-	-	-	-
L.J. Panaccio	13	13	3	3	-	-	-	-	-	-

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 costs and expenses, subject to the terms and conditions of the policy, 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.

Environmental regulation
The Group is subject to environmental regulation in respect of the transport and disposal of medical waste. The Group 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 Group 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 Group are important.

Details of the amounts paid or payable to the auditor of the Group (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

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 APES 110 Code of Ethics for Professional Accountants, 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 22.

During the year the following fees were paid or payable for non-audit services provided by the auditors of the Group.

	Consolidated Group	
	2010	2009
	$	$
PricewaterhouseCoopers – Australian firm		
Taxation, accounting and advisory services	**206,000**	**140,000**

Share options
Information on share options is 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 2010 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 Group’s operations, and to align remuneration with the creation of value for shareholders.

The Remuneration Committee, consisting of 4 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 (bonuses and share options) are dependant on the earnings per share (bonuses and options) and total shareholder return (options) performance of the Group 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, performance of the entity or function of the Group for which they have responsibility, 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 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. The base non-executive director fee is $125,000 per annum (set in May 2009). A committee fee of $10,000 per annum applies for each board committee upon which a 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 Group does not contract to provide retirement benefits to directors or executives.

Performance of the Group

Sonic Healthcare Limited’s total shareholder return over the five year period to June 2010 was 12% (2009: 71%). 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. Earnings over the five year period were as follows:

	2005	**2006**	**2007**	**2008**	**2009†**	**2010ˆ**	**Compound Average Annual Growth Rate***
Ordinary earnings per share (cps)	48.9	58.6	65.5	73.5	85.2	75.0	8.9%
Net profit attributable to members ($’000)	135,353	172,029	198,072	245,116	315,146	293,225	16.7%

* The compound average annual growth rate is calculated over the five year period shown.
† Net profit attributable to members and core earnings per share are based on ordinary earnings and exclude non-recurring items.
ˆ 2010 earnings were negatively impacted by currency exchange rate movements. Applying 2009 exchange rates to 2010 foreign currency earnings, net profit for 2010 grew by 1%.

Remuneration report (continued)

Key management personnel

(a) Directors

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

Non-executive directors

B.S. Patterson	*Chairman*
R.P. Campbell	
L.J. Panaccio	

Executive directors

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

The following persons were appointed as directors of Sonic Healthcare from 1 July 2010:

Non-executive directors

Kate D. Spargo
Dr E.J. (Jane) Wilson

(b) Other key management personnel

The following people also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and therefore were also key management personnel during the 2010 financial year:

Name	**Position**
Dr R.E. Connor	Chief Executive Officer, Sonic Healthcare USA, Inc.
D. Schultz	President and Chief Operating Officer, Sonic Healthcare USA, Inc.

All of the above persons, except K.D. Spargo and Dr E.J. Wilson, were also key management personnel during the year ended 30 June 2009.

The Group operates via a decentralised federated structure whereby the Chief Executive Officers of individual operating entities have delegated authority for their local operations. The Group’s Australian and New Zealand pathology and radiology activities are coordinated and controlled through the Pathology Sonic Executive Committee and the Imaging Sonic Executive Committee (“PSEC” and “ISEC” respectively). 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 both PSEC and ISEC. C.J. Jackson is an Executive Director of Sonic who is a member of PSEC, represents Sonic in industry matters and plays a role in Sonic’s New Zealand operations, and various projects and initiatives.

A German Sonic Executive Committee (“GSEC”) coordinates the Group’s German operations. Dr C.S. Goldschmidt is Chairman of GSEC and C.D. Wilks is also a member.

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 Dr R.E. Connor, Chief Executive Officer of Sonic Healthcare USA, Inc. and D. Schultz, President and Chief Operating Officer of Sonic Healthcare USA, Inc., who have authority and responsibility for planning, directing and controlling the Group’s USA operations.

Remuneration report (continued)

(c) Remuneration of directors and executives

Details of the nature and amount of each element of the remuneration of the key management personnel and other executives of the Group are set out below:

12 months to 30 June 2010

	Short-term employee benefits			Post-employment benefits	
Name	**Salary & fees** $	**Other benefits**[1] $	**Cash bonus** $	**Superannuation** $	**Total cash remuneration*** $
Dr C.S. Goldschmidt *Managing Director*	1,468,385	-	1,275,000	44,150	2,787,535
C.D. Wilks *Finance Director*	639,500	-	637,500	35,500	1,312,500
Dr P.J. Dubois *Director*	492,406	9,517	135,000	50,000	686,923
C.J. Jackson *Director*	406,982	-	-	21,479	428,461
B.S. Patterson *Chairman and non-executive Director*	141,050	-	-	13,950	155,000
R.P. Campbell *Non-executive Director*	141,050	-	-	13,950	155,000
L.J. Panaccio *Non-executive Director*	122,850	-	-	12,150	135,000
D. Byrne [3,5] *CEO The Doctors Laboratory*	451,600	50,640	-	90,320	592,560
Dr R.E. Connor [2,5] *CEO Sonic Healthcare USA, Inc.*	566,585	4,247	283,286	16,201	870,319
Dr R. Prudo [3,5] *Executive Chairman The Doctors Laboratory*	496,764	60,628	-	99,353	656,745
G. Schottdorf [4,5] *CEO Schottdorf Group*	797,739	28,096	-	-	825,835
D. Schultz [2,5] *President and COO Sonic Healthcare USA, Inc.*	385,290	11,991	407,932	17,985	823,198

1 Other benefits include fringe benefits tax.
2 D. Schultz and Dr R.E. Connor are employed by Sonic Healthcare USA, Inc. and are remunerated in US dollars.
3 D. Byrne and Dr R. Prudo are employed by The Doctors Laboratory Limited (TDL) in the United Kingdom. They are remunerated in British Pounds.
4 G. Schottdorf is employed by the Schottdorf Group in Germany and is remunerated in Euros.
5 Denotes one of the five highest paid executives of the Group as required to be disclosed under the Corporations Act 2001.
* Excludes long service leave and equity remuneration.

Remuneration report (continued)

(c) Remuneration of directors and executives (continued)

12 months to 30 June 2009

	Short-term employee benefits			Post-employment benefits	
Name	**Salary & fees** $	**Other benefits**[1] $	**Cash bonus** $	**Superannuation** $	**Total cash remuneration*** $
Dr C.S. Goldschmidt *Managing Director*	1,377,670	104,923	1,082,900	21,745	2,587,238
C.D. Wilks *Finance Director*	575,000	-	541,450	100,000	1,216,450
Dr P.J. Dubois *Director*	493,346	9,424	100,000	50,000	652,770
C.J. Jackson *Director*	387,890	-	-	77,110	465,000
Dr H.F. Scotton [2] *Director*	167,603	-	-	52,537	220,140
B.S. Patterson *Chairman and non-executive Director*	106,925	-	-	10,575	117,500
R.P. Campbell *Non-executive Director*	106,925	-	-	10,575	117,500
L.J. Panaccio *Non-executive Director*	88,725	-	-	8,775	97,500
D. Byrne [4,6] *CEO The Doctors Laboratory*	519,441	62,179	731,922	103,889	1,417,431
Dr R.E. Connor [3,6] *CEO Sonic Healthcare USA, Inc.*	314,124	-	334,717	-	648,841
Dr R. Prudo [4,6] *Executive Chairman The Doctors Laboratory*	571,386	61,043	205,167	114,278	951,874
G. Schottdorf [5,6] *CEO Schottdorf Group*	936,751	32,992	-	-	969,743
D. Schultz [3,6] *President and COO Sonic Healthcare USA, Inc.*	455,239	16,309	481,992	22,161	975,701

1 Other benefits include fringe benefits tax.
2 Dr H. F. Scotton's remuneration is for the period from 1 July 2008 to 31 December 2008 when he retired as a director of the Parent Company.
3 D. Schultz and Dr R.E. Connor are employed by Sonic Healthcare USA, Inc. and are remunerated in US dollars. Dr R.E. Connor's employment commenced on 1 January 2009.
4 D. Byrne and Dr R. Prudo are employed by The Doctors Laboratory Limited (TDL) in the United Kingdom. They are remunerated in British Pounds.
5 G. Schottdorf is employed by the Schottdorf Group in Germany and is remunerated in Euros.
6 Denotes one of the five highest paid executives of the Group as required to be disclosed under the Corporations Act 2001.
* Excludes long service leave and equity remuneration.

Remuneration report (continued)

(c) Remuneration of directors and executives (continued)

In addition to the cash remuneration disclosed above, the value of long service leave accrued for each relevant executive for the 12 months to 30 June 2010 was: Dr C.S. Goldschmidt $27,409 (2009: $336,894), C.D. Wilks $10,879 (2009: $25,729), and C.J. Jackson $4,155 (2009: $5,878).

Under the current remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks, options over unissued ordinary shares of Sonic Healthcare Limited vest upon the achievement of performance conditions (as set out in (d) below). The options issued under the Sonic Healthcare Limited Employee Option Plan (which form part of remuneration for the three financial years 2009-2011) replaced the Executive Incentive Plan which governed the remuneration arrangements for the five financial years to 30 June 2008. Under the Executive Incentive Plan ordinary shares and options over unissued ordinary shares of Sonic Healthcare Limited were issuable upon the achievement of certain performance conditions. 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. Dr C.S. Goldschmidt and C.D. Wilks were also required to take 50% of their short term incentive for the six months to December 2008 as Sonic shares acquired on market and held by the Sonic Healthcare Employee Share Trust. In addition to the remuneration disclosed above, the calculated remuneration values of shares and options for Dr C.S. Goldschmidt for the 12 month period to 30 June 2010 were $nil and $2,921,160 respectively (2009: $369,120 and $4,471,060). In addition to the remuneration disclosed above, the calculated remuneration values of shares and options for C.D. Wilks for the 12 month period 30 June 2010 were $nil and $1,568,720 respectively (2009: $186,034 and $2,387,647).

Of the options issued under the Sonic Healthcare Limited Employee Option Plan and the Executive Incentive Plan, the maximum total value of the options yet to vest for Dr C.S. Goldschmidt is $2,846,357, and for C.D. Wilks $1,475,480. These maximum values represent the fair value of the options, determined at grant date, which are yet to be expensed. The minimum total value of the options yet to vest is $nil. Of the total options issued under the Sonic Healthcare Limited Employee Option Plan 0% had vested at 30 June 2010. Of the total options issued under the Executive Incentive Plan, 70% had vested at 30 June 2010. No options have been forfeited to date under the Sonic Healthcare Limited Employee Option Plan or the Executive Incentive Plan.

Cash bonuses, 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 73% of Dr C.S. Goldschmidt’s remuneration for the 12 months to 30 June 2010 (2009: 76%), and 76% of C.D. Wilks’ remuneration for the 12 months to 30 June 2010 (2009: 82%). Cash bonuses are performance related components of Dr P.J. Dubois’ remuneration. These components make up 20% of Dr P.J. Dubois’ remuneration for the 12 months to 30 June 2010 (2009: 15%).

No options over unissued ordinary shares in Sonic Healthcare Limited were issued to Dr C.S. Goldschmidt or C.D. Wilks during the 2010 financial year.

Options over unissued ordinary shares in Sonic Healthcare Limited accounted for 51% of Dr C.S. Goldschmidt’s remuneration for the 12 months to 30 June 2010 (2009: 58%). Options issued to Dr C.S. Goldschmidt during the 12 months to 30 June 2010 had an aggregate fair value of $nil (2009: $10,650,000). Note that the prior year figure includes the Executive Incentive Plan tranche for the 2008 long term incentive, as well as the Employee Option Plan grant for the long term incentives for 2009, 2010 and 2011. Options over unissued ordinary shares in Sonic Healthcare Limited accounted for 54% of C.D. Wilks’ remuneration for the 12 months to 30 June 2010 (2009: 63%). Options issued to C.D. Wilks during the 12 months to 30 June 2010 had an aggregate fair value of $nil (2009: $5,619,000).

The relative proportions of conditional entitlements (including options) awarded to total remuneration for executives for the 12 months to 30 June 2010 were; D. Schultz 50% (2009: 49%), D. Byrne 0% (2009: 52%), Dr R. Prudo 0% (2009: 22%), G. Schottdorf 0% (2009: 0%) and Dr R.E. Connor 33% (2009: 52%).

During the financial year Dr C.S. Goldschmidt exercised 1,000,000 options at an exercise price of $7.50, issued as remuneration, over ordinary shares in the company (2009: 1,000,000). The total intrinsic value of the options at the date of exercise was $6,410,000 (2009: $6,440,000). In addition C.D. Wilks exercised 340,000 options at an exercise price of $7.50, issued as remuneration, over ordinary shares in the company (2009: 400,000). The total intrinsic value of the options at the date of exercise was $2,179,400 (2009: $2,576,000).

The maximum number of shares and options issuable in future years to Dr C.S. Goldschmidt and C. D. Wilks under the Sonic Healthcare Limited Employee Option Plan and the Executive Incentive Plan is nil shares and nil options.

Remuneration report (continued)

(c) Remuneration of directors and executives (continued)

The remuneration amounts disclosed relating to shares and options issued under the Sonic Healthcare Limited Employee Option Plan and 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 a pricing model consistent with the Black Scholes methodology that takes into account the exercise price, the term of the option, 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 fair value of the shares and options granted is adjusted to reflect market vesting conditions (using a Monte Carlo simulation) but excludes the impact of non-market vesting conditions.

(d) Service agreements

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

Dr P.J. Dubois has a cash bonus arrangement in place which is based on the satisfaction of performance conditions relating to the earnings of Queensland X-Ray, where he performs the role of CEO.

Remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks were revised with effect from 1 July 2008, following a detailed review by the Remuneration Committee. The key terms of the revised arrangements are set out below. The long term incentive component of the revised remuneration arrangements for the 2009, 2010 and 2011 financial years was approved by shareholders at the 2008 Annual General Meeting. 1,750,000 options were issued to Dr C.S. Goldschmidt and 875,000 were issued to C.D. Wilks under the Sonic Healthcare Limited Employee Option Plan. The options have an exercise price of $12.98 (Sonic's five day VWAP at the time of the 2008 Annual General Meeting) with vesting subject to the fulfilment of two separate performance conditions with a 50% weighting for each (that is, 50% of the options are subject to the first performance condition and the other 50% are subject to the second performance condition). Performance condition one requires a compound annual growth rate of EPS for the three years ending 30 June 2011 of 10%, which requires a 2011 EPS of at least 97.83 cents. If this performance condition is not met the relevant 50% of the total number of options will be forfeited on 30 September 2011. EPS is defined as diluted earnings per share, adjusted for significant items (as agreed by the Board, and including the effects of changes in applicable accounting standards from those in effect for the 2009 financial year), intangible asset write offs/provisions for impairment which represent more than 5% of the group's pre-tax profit for the year, and material capital restructurings that have occurred over the relevant period, as determined by the Board. Under performance condition two, Sonic's performance is ranked by percentile according to its Total Shareholder Return (TSR) against the TSRs of the companies forming the S&P ASX 100 Accumulation Index, excluding Banks and Resource companies, over the performance period from 1 July 2008 to 30 June 2011. A TSR below the 50th percentile will result in nil options vesting, a TSR of the 50th percentile will result in 50% of options vesting, with a progressive scale of an additional 2% for each percentile increase to the 75th percentile. A TSR of the 75th percentile and above will result in 100% of the relevant options vesting. Options to which performance condition two applies that do not vest (due to the appropriate percentile not being reached) will be forfeited on 30 September 2011. The options expire 60 months from the date of issue.

Base salaries for Dr C.S. Goldschmidt and C.D. Wilks were also revised from 1 July 2008, having remained unchanged for the previous five years.

Remuneration report (continued)

(d) Service agreements (continued)

Dr C.S. Goldschmidt

- Base salary, inclusive of superannuation of $1,500,000 per annum.

Short term incentive:

- Bonus, paid half yearly based on a 1,700,000 multiple of EPS (as defined above) for each 6 month period. For the 6 months to 31 December 2008, 50% of the bonus was required to be paid in Sonic shares acquired on market by the Sonic Healthcare Employee Share Trust. The shares will vest from the plan after 24 months or upon leaving the company, whichever is the earlier. The requirement to take part of the bonus in shares has been removed due to changes in the taxation treatment of such arrangements.

Long term incentive:

- 1,750,000 options for the three years 2009-2011, exercisable at $12.98 subject to the performance conditions outlined above.

C.D. Wilks

- Base salary, inclusive of superannuation of $675,000 per annum.

Short term incentive:

- Bonus, paid half yearly based on a 850,000 multiple of EPS (as defined above) for each 6 month period. For the 6 months to 31 December 2008, 50% of the bonus was required to be paid in Sonic shares acquired on market by the Sonic Healthcare Employee Share Trust. Shares will vest from the plan after 24 months or upon leaving the company, whichever is the earlier. The requirement to take part of the bonus in shares has been removed.

Long term incentive:

- 875,000 options for the three years 2009-2011, exercisable at $12.98 subject to the performance conditions outlined above.

Service agreements for other executives are detailed below.

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$340,000.
- Cash bonus arrangement based on the satisfaction of performance conditions relating to the earnings of the Group’s USA operations.

D. Byrne

Following the expiry of the initial term of the service contract established on the acquisition of TDL, a rolling service contract prevails with the following key terms:

- Base salary of £252,580 per annum, plus superannuation and other benefits to be reviewed annually.
- Cash bonus arrangement based on the satisfaction of performance conditions relating to the earnings of TDL (capped at 200% of base salary).
- Twelve month notice period by either party.

Dr R. Prudo

Following the expiry of the initial term of the service contract established on the acquisition of TDL, a rolling service contract prevails with the following key terms:

- Base salary of £277,840 per annum, plus superannuation and other benefits to be reviewed annually.
- Cash bonus arrangement based on the satisfaction of performance conditions relating to the earnings of TDL (capped at 200% of base salary).
- 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)

Dr R.E. Connor
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$500,000.
- Cash bonus arrangement based on the satisfaction of performance conditions relating to the earnings of the Group's USA operations.

(e) Share trading policy

Under the Sonic share trading policy, all Sonic Healthcare employees are prohibited from buying or selling Sonic Healthcare 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 Sonic Healthcare's provision to the market at any time 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. All trading by Designated Officers must be notified to the Company Secretary. Prohibitions also apply to trading in financial instruments related to Sonic Healthcare 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.

Designated Officers are prohibited from entering into transactions in products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes. Designated Officers are required to commit to this by signing the Share Trading Policy and will forfeit their equity reward should they be found to be in breach.

All Sonic Healthcare share dealings by directors are promptly notified to the Australian Securities Exchange (ASX) in accordance with Sonic's Continuous Disclosure obligations.

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

Dr C.S. Goldschmidt
Director

C.D. Wilks
Director

Sydney
30 September 2010

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Auditor's Independence Declaration

As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
30 September 2010

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 Group 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 August 2007, the ASX Corporate Governance Council published its second edition of Corporate Governance Principles and Recommendations (Revised Recommendations) to apply to financial years commencing on or after 1 January 2008. Sonic supports the Revised Recommendations in advancing good corporate governance and has applied them during the year. Sonic's board continues to review and improve Sonic's compliance with the Revised Recommendations, implementing change in a prudent manner. Sonic's website (www.sonichealthcare.com) includes a Corporate Governance section which sets out the information required by the Revised Recommendations plus other relevant information, including copies of all Policies, Charters and Codes referred to herein. Sonic has also assessed its compliance with the amendments to the Revised Recommendations issued on 3 June 2010. Whilst these amendments are to apply to financial years commencing on or after 1 January 2011, Sonic has commenced moving towards compliance.

Sonic's Code of Ethics and Core Values (discussed below) 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. Any issues of current non-compliance with the Revised Recommendations are specifically noted and explained.

1. Board of directors

(a) Role of the board

The Board of directors is accountable to shareholders for the performance of the company and the Group and is responsible for the corporate governance practices of the Group. The board's principal objective is to 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 for 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	69	17	Chairman Non-Executive, independent Director	Company Management	Chairman of Remuneration and Nominations Committees, member of Audit Committee
Dr Colin Goldschmidt	56	17	Managing Director	Healthcare Industry and Company Management	Member of Risk Management Committee
Mr Chris Wilks	52	20	Finance Director	Finance, Accounting, Banking, Secretarial and Company Management	Chairman of Risk Management Committee
Mr Peter Campbell	65	17	Non-Executive, independent Director	Finance and Accounting, Computing and Company Management	Chairman of Audit Committee, member of Remuneration and Nominations Committees
Dr Philip Dubois	64	9	Executive Director	Radiology Industry and Company Management	Member of Risk Management Committee
Mr Colin Jackson	62	10	Executive Director	Finance, Pathology Industry and Company Management	
Mr Lou Panaccio	53	5	Non-Executive, independent Director	Finance, Pathology Industry and Company Management	Member of Audit, Remuneration and Nominations Committees
Ms Kate Spargo	58	0.25	Non-Executive, independent Director	Law, Governance and Company oversight	Member of Audit Committee
Dr Jane Wilson	52	0.25	Non-Executive, independent Director	Medicine, Finance, Governance and Company oversight	Member of Remuneration and Nominations Committees

Corporate governance statement

(continued)

1. Board of directors (continued)

(b) Composition of the board (continued)

The composition of Sonic's board is consistent with the principle of medical management and leadership, which has been a core strategy of Sonic since 1992. Sonic's Managing Director is a qualified pathologist, and the board also includes a radiologist and a general practitioner, 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 and Mr Jackson 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, prior to 1 July 2010 Sonic did not comply with ASX Corporate Governance Council Revised Recommendation 2.1: "A majority of the board should be independent directors". On 1 July 2010 two additional independent directors were appointed creating a five to four majority of independent directors.

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 Mr Peter Campbell and has determined that they are 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.

Corporate governance statement

(continued)

1. Board of directors (continued)

(f) Share trading

Under Sonic's Share Trading Policy, all Sonic employees are prohibited from buying or selling Sonic Healthcare 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. All trading by Designated Officers must be notified to the Company Secretary. Prohibitions also apply to trading in financial instruments related to Sonic's shares, including products which limit the economic risk of option or share holdings in Sonic, 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 Securities 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. Details of committee meetings and attendances are set out in the Directors' report.

(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.

Members of the Remuneration Committee are:

Mr B.S. Patterson (Chairman)
Mr R.P. Campbell
Mr L.J. Panaccio (from 30 September 2010)
Dr E.J. Wilson (from 30 September 2010)

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

The current remuneration for non-executive directors is $125,000 per annum plus $10,000 per annum for each board committee upon which they serve. The maximum total remuneration per annum for non-executive directors of $800,000 was approved by shareholders in July 2001. Options are not issued and bonuses are not payable to non-executive directors. No retirement benefit schemes (other than statutory superannuation) apply to non-executive directors. 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 are 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.

Members of the Audit Committee are:

Mr R.P. Campbell (Chairman)
Mr L.J. Panaccio
Mr B.S. Patterson
Ms K.D. Spargo (from 30 September 2010)

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

2. Board committees (continued)

(b) Audit Committee (continued)
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 related policies,
  - compliance with the policy framework in place from time to time, and
  - internal controls, and the overall efficiency and effectiveness of financial operations.
- providing a forum for communication between the board, executive management and external auditors.
- providing a conduit to the board for external advice on audit and internal controls.

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, and 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
Members of the Risk Management Committee are:

Mr C.D. Wilks (Chairman)
Dr C.S. Goldschmidt
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 risks, including but not limited to:
    - business risks, including financial and strategic risks,
    - operational risks, including business continuity and practice management risks,
    - insurable risks including legal liability claims and property losses,
    - hazard risks including environmental and OHS risks.
  - internal controls and treatments for identified risks including the company's insurance program.
  - the company's overall 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 risk management.

The Committee meets at least twice per year.

2. Board committees (continued)

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

- review the board structure,
- 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
Mr L.J. Panaccio (from 30 September 2010)
Dr E.J. Wilson (from 30 September 2010)

Dr C.S. Goldschmidt was a member until 30 September 2010.

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 policies, controls and reporting mechanisms.

To assist the board in fulfilling its duties, it is aided by the Audit Committee and the Risk Management Committee. The board has delegated to these Committees responsibility for ensuring:

- the company's material business risks, including 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, and
- all Group companies are in compliance with laws and regulations relating to their activities.

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

Management is responsible for the identification, assessment and management of business risks. During the year, management reported on these matters, including the effectiveness of the management of Sonic's material business risks, to the Audit Committee and Risk Management Committee, who then reported these matters to the board.

3. Identifying and managing business risks (continued)

(b) Risk management policies, 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, in particular, through Sonic's Business Assurance Program, an internal audit function,
- 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, and
- the employment of a professional Risk Manager to coordinate the company's approach to material business risk management.

(c) Regulatory compliance

Sonic's pathology, radiology and medical centre 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 remain 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, medical leadership model, structured staff training and the external review activities serve to mitigate operational risk and support regulatory compliance.

(d) Managing Director and Finance Director certification

Sonic has adopted a policy requiring the Managing Director and the Finance Director to provide the Board with written certification in relation to its financial reporting processes. For the 2010 financial year, the Managing Director and Finance Director made the following certifications:

- that the financial records of the company have been properly maintained,
- that the financial statements and notes comply in all material respects with the accounting standards,
- that the financial statements and notes give a true and fair view, in all material respects, of the company's financial condition and operational results, and
- that the statements above are founded on a sound system of risk management and internal control which operates effectively in all material respects in relation to financial reporting risks.

Corporate governance statement

(continued)

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 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 then immediately posted on the company's website. Presentations to analysts on aspects of the company's operations are 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 available to all shareholders on the company's website and is distributed to those shareholders who elect to receive it. 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; and
- 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 online annual reports, notices of meetings, proxy forms and voting, and receive electronic statements (e.g. holding statements) by email. The company has an arrangement with eTree by which it donates $1 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 and 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 are 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 Group,
- fulfilment of objectives and duties,
- personnel and resource management,
- personal conduct and Sonic Core Values,
- corporate governance and compliance,
- risk management, and
- 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 2010

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Income statement

For the year ended 30 June 2010

	Notes	Consolidated Group 2010 $'000	2009 $'000
Revenue from operations	3	**2,972,613**	2,995,605
Other income	4	**22,020**	18,126
Total revenue		**2,994,633**	3,013,731
Labour and related costs	5	**(1,337,577)**	(1,314,637)
Consumables used		**(516,987)**	(524,205)
Operating lease rental expense	5	**(141,490)**	(141,443)
Impairment of New Zealand Pathology intangibles	16(c)	**-**	(120,100)
Restructuring costs – New Zealand Pathology	5	**-**	(22,772)
Depreciation and amortisation of physical assets	5	**(93,089)**	(93,087)
Transportation		**(86,439)**	(91,042)
Repairs and maintenance		**(68,252)**	(65,240)
Utilities		**(67,708)**	(66,719)
Borrowing costs expense	5	**(62,787)**	(86,652)
Amortisation of intangibles	5	**(15,357)**	(8,196)
Other expenses from ordinary activities	5	**(218,341)**	(230,030)
Profit from ordinary activities before income tax expense		**386,606**	249,608
Income tax expense	7	**(92,822)**	(77,053)
Profit from ordinary activities after income tax expense		**293,784**	172,555
Net (profit) attributable to minority interests		**(559)**	(1,195)
Profit attributable to members of Sonic Healthcare Limited	30(b)	**293,225**	171,360

	Notes	**Cents**	Cents
Basic earnings per share	40	**75.5**	46.9
Diluted earnings per share	40	**75.0**	46.3

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

Statement of comprehensive income

For the year ended 30 June 2010

	Notes	**Consolidated Group 2010 $'000**	2009 $'000
Profit from ordinary activities after income tax expense		**293,784**	172,555
Other comprehensive income			
Exchange differences on translation of foreign operations	30(a)	**(75,734)**	33,476
Cash flow hedges	30(a)	**2,181**	(21,147)
Actuarial (losses) on retirement benefit obligations	27(e)	**(917)**	(2,667)
Revaluation reserve reduction	30(a)	**(603)**	-
Other comprehensive income for the period, net of tax		**(75,073)**	9,662
Total comprehensive income for the period		**218,711**	182,217
Total comprehensive income attributable to:			
Members of Sonic Healthcare Limited		**218,107**	181,019
Minority interests		**604**	1,198
		218,711	182,217

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

Balance sheet
As at 30 June 2010

	Notes	Consolidated Group 2010 $'000	2009 $'000
Current assets			
Cash and cash equivalents	41(a)	**300,354**	557,932
Receivables	8	**406,988**	374,481
Inventories	9	**53,993**	51,872
Assets classified as held for sale	10	**9,688**	-
Other	11	**27,571**	28,019
Total current assets		**798,594**	1,012,304
Non-current assets			
Receivables	12	**3,222**	5,365
Other financial assets	13	**29,385**	22,423
Property, plant and equipment	14	**509,592**	476,446
Investment properties	15	**20,514**	16,510
Intangible assets	16	**3,466,457**	3,191,282
Deferred tax assets	17	**34,902**	35,256
Other	18	**1,059**	1,660
Total non-current assets		**4,065,131**	3,748,942
Total assets		**4,863,725**	4,761,246
Current liabilities			
Payables	19	**237,619**	234,301
Interest bearing liabilities	20	**448,827**	421,999
Current tax liabilities	21	**26,293**	9,264
Provisions	22	**124,236**	123,116
Other financial liabilities	23	**34,746**	40,289
Other	24	**12,051**	11,814
Total current liabilities		**883,772**	840,783
Non-current liabilities			
Interest bearing liabilities	25	**1,352,618**	1,334,268
Deferred tax liabilities	26	**23,537**	5,768
Provisions	27	**40,430**	40,210
Other	28	**4,627**	8,134
Total non-current liabilities		**1,421,212**	1,388,380
Total liabilities		**2,304,984**	2,229,163
Net assets		**2,558,741**	2,532,083
Equity			
Parent Company interest			
Contributed equity	29	**2,345,145**	2,299,256
Reserves	30(a)	**(78,357)**	4,557
Retained earnings	30(b)	**289,480**	226,346
Total Parent Company interest		**2,556,268**	2,530,159
Minority interests		**2,473**	1,924
Total equity		**2,558,741**	2,532,083

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

Statement of changes in equity

For the year ended 30 June 2010

	Share capital $'000	Reserves $'000	Retained earnings $'000	Total $'000	Minority interests $'000	Total $'000
Balance at 1 July 2008	1,709,577	(8,895)	249,308	1,949,990	12,089	1,962,079
Profit for period	-	-	171,360	171,360	1,195	172,555
Other comprehensive income for the period	-	12,327	(2,667)	9,660	2	9,662
Total comprehensive income for the period	-	12,327	168,693	181,020	1,197	182,217
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(191,655)	(191,655)	-	(191,655)
Shares issued	589,090	-	-	589,090	-	589,090
Transaction costs on shares issued, net of tax	(5,515)	-	-	(5,515)	-	(5,515)
Transfers to share capital	6,104	(6,104)	-	-	-	-
Share based payments	-	7,632	-	7,632	-	7,632
IPN option cancellation	-	(1,545)	-	(1,545)	-	(1,545)
Options forming part of consideration for business combinations	-	1,142	-	1,142	-	1,142
Reduction of IPN minority interests	-	-	-	-	(11,030)	(11,030)
Dividends paid to minority interests in controlled entities	-	-	-	-	(332)	(332)
Balance at 30 June 2009	2,299,256	4,557	226,346	2,530,159	1,924	2,532,083
Balance at 1 July 2009	2,299,256	4,557	226,346	2,530,159	1,924	**2,532,083**
Profit for period	-	-	293,225	293,225	559	**293,784**
Other comprehensive income for the period	-	(74,201)	(917)	(75,118)	45	**(75,073)**
Total comprehensive income for the period	-	(74,201)	292,308	218,107	604	**218,711**
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(229,174)	(229,174)	-	**(229,174)**
Shares issued	40,445	(8,857)	-	31,588	-	**31,588**
Transaction costs on shares issued, net of tax	(21)	-	-	(21)	-	**(21)**
Transfers to share capital	5,465	(5,465)	-	-	-	-
Share based payments	-	5,609	-	5,609	-	**5,609**
Minority interest on acquisition of subsidiary	-	-	-	-	189	**189**
Dividends paid to minority interests in controlled entities	-	-	-	-	(244)	**(244)**
Balance at 30 June 2010	**2,345,145**	**(78,357)**	**289,480**	**2,556,268**	**2,473**	**2,558,741**

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

Cash flow statement

For the year ended 30 June 2010

	Notes	Consolidated Group 2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**3,045,853**	3,058,303
Payments to suppliers and employees (inclusive of goods and services tax)		**(2,523,465)**	(2,488,891)
		522,388	569,412
Interest received		**13,982**	12,418
Borrowing costs		**(51,435)**	(89,388)
Income taxes paid		**(55,438)**	(62,490)
Net cash inflow from operating activities	41(b)	**429,497**	429,952
Cash flows from investing activities			
Payment for purchase of controlled entities, net of cash acquired	32(b)	**(429,559)**	(447,254)
Payments for property, plant and equipment		**(139,313)**	(121,154)
Proceeds from sale of non-current assets		**5,105**	3,197
Payments for investments		**(1,860)**	(15,780)
Payments from restructuring and surplus leased space provisions		**(9,835)**	(169)
Payments for intangibles		**(36,042)**	(29,363)
Repayment of loans by other entities		**6,394**	3,163
Loans to other entities		**(4,444)**	(4,555)
Net cash (outflow) from investing activities		**(609,554)**	(611,915)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		**31,557**	537,730
Proceeds from borrowings		**927,738**	827,692
Repayment of borrowings		**(799,608)**	(557,074)
Dividends paid to company's shareholders		**(229,174)**	(148,268)
Dividends paid to minority interests in subsidiaries		**(239)**	(339)
Net cash (outflow)/inflow from financing activities		**(69,726)**	659,741
Net (decrease)/increase in cash and cash equivalents		**(249,783)**	477,778
Cash and cash equivalents at the beginning of the financial year		**557,932**	63,865
Effects of exchange rate changes on cash and cash equivalents		**(7,795)**	16,289
Cash and cash equivalents at the end of the financial year	41(a)	**300,354**	557,932
Financing arrangements	20,25		
Non-cash financing and investing activities	41(c)		

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

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Note 1 Summary of significant accounting policies

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.

The financial report includes financial statements for the Consolidated Group ("the Group") consisting of Sonic Healthcare Limited ("Parent Company") and its subsidiaries. The financial statements were authorised for issue by the directors on 30 September 2010.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS
Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the consolidated financial statements and notes of Sonic Healthcare Limited comply with International Financial Reporting Standards ("IFRS"). The Parent Company financial information included in Note 43 also complies with IFRS.

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 and by investment properties which are held at fair value.

Financial statement presentation
With effect from 1 July 2009, the Group has adopted the revised AASB 101 *Presentation of Financial Statements*. This statement requires the presentation of a new statement of comprehensive income separate from changes in equity arising from transactions with shareholders. This amended standard impacts presentation only and has no effect on reported results.

Working capital deficiency
Sonic is required to disclose $443M of debt drawn under bank debt facilities which expire in November 2010 ($37M) and March 2011 ($406M) as current liabilities at 30 June 2010. As a result the consolidated balance sheet shows a deficiency of working capital of $85M. Sonic intends to refinance or extend most or all of this debt, and foresees no difficulties in doing so given the strong relationships Sonic has with its existing syndicate of banks (as evidenced by the April 2010 refinancing of ~$450M of bank facilities), its prudent credit metrics, and its strong and reliable operating cash flows. Any portion of the debt not refinanced will be repaid out of existing unutilised credit lines. The financial report has therefore been prepared on a "going concern" basis.

(b) Principles of consolidation

The Consolidated Group financial statements incorporate the assets and liabilities of all subsidiaries controlled by Sonic Healthcare Limited as at 30 June 2010 and the results of all subsidiaries for the year then ended. Sonic Healthcare Limited and its controlled entities together are referred to in this financial report as the Group or the Consolidated Group.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of controlled entities are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Where control of an entity is obtained during a reporting period, its results are included in the consolidated income statement 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.

Note 1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(e)). Investments in subsidiaries are accounted for at cost in the individual financial statements of Sonic Healthcare Limited.

Sonic Healthcare Limited Employee Share Trust ("SHEST")

The Group has formed a trust to obtain and hold shares for the purpose of providing shares under selected Group equity plans. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group. Shares held by SHEST are disclosed as treasury shares and deducted from contributed equity.

Changes in ownership interests

The Group treats transactions with minority interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and minority interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to minority interests and any consideration paid or received is recognised in a separate reserve within equity.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Changes in accounting policy

The Group has changed its accounting policy for transactions with minority interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements* became operative.

Previously transactions with minority interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously when the Group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date control, joint control or significant influence ceased became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policies prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements nor were any transactions occurring in the 2010 year effected.

(c) 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 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, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Note 1 Summary of significant accounting policies (continued)

(c) Income tax (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 Group 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. Deferred tax liabilities for taxable temporary differences relating to goodwill are recognised to the extent they do not arise from the initial recognition of goodwill.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Investment allowances
Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

Tax consolidation legislation
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. The head entity, Sonic Healthcare Limited, and the controlled entities in the tax consolidated group account for their own deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone tax payer in its own right. 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.

(d) 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 Group’s 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 the functional currency using the rates of exchange prevailing 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 foreign exchange differences are recognised in the income statement except where they are deferred in equity as cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Note 1 Summary of significant accounting policies (continued)

(d) Foreign currency translation (continued)

(iii) Foreign controlled entities
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 income and expenses are translated at the average of rates prevailing 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 recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

(e) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net identifiable assets.

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.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in an acquisition are measured initially at their fair values at the acquisition dates, irrespective of the extent of any minority interest. Goodwill is brought to account on the basis described in Note 1(m)(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, but only after a reassessment of the identification and measurement of the net assets acquired.

Change in accounting policy
A revised AASB 3 *Business Combinations* became operative on 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, but with some significant changes. All purchase consideration is now recorded at fair value at the acquisition date, with contingent payables classified as debt, if it meets the definition of debt, and subsequently remeasured through the income statement. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be reliably measured and were accounted for as an adjustment to the cost of the acquisition.

Acquisition related costs are now expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

Minority interests in an acquiree are now recognised at fair value or at the minority interest's proportionate share of the acquiree's net assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the minority interest was always recognised at its share of the acquiree's net assets.

Where a business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest is remeasured at fair value as at the acquisition date through profit or loss.

The changes were implemented prospectively from 1 July 2009 and the impact on the results of the Group is disclosed in Note 32.

Note 1 Summary of significant accounting policies (continued)

(f) Revenue recognition

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, duties and taxes paid. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised for the major business activities as follows:

(i) Medical services
Medical services revenue is recognised on a completed test or service basis.

(ii) Other services
Revenue from other services is recognised when the service has been provided.

(iii) Rental income
Rental income is recognised on a straight-line basis over the term of the lease.

(iv) Government grants
Government grants are recognised at their fair value where there is reasonable assurance that these grants will be received and the Group has complied with all attached conditions. At the time of income recognition, there are no unfulfilled conditions or other contingencies attached to these grants. Government grants related to income are presented as a credit in the income statement and are recognised as income on a systematic and rational basis over the periods necessary to match them with the related costs.

(v) Interest income
Interest income is recognised on a time proportion basis using the effective interest method.

(vi) Dividends
Dividends are recognised as revenue when the right to receive payment is established.

(g) Receivables

All trade debtors are initially recognised at their fair value being the amounts receivable and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade debtors are generally required to be settled within 30 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 impairment of receivables is raised during the year where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables and adjusted following a review of all outstanding amounts at the balance sheet date.

(h) 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.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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.

Note 1 Summary of significant accounting policies (continued)

(j) Investments and other financial assets

The Group 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 and held-to-maturity investments 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. 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 Group 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. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and re-classified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(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. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments are designated as available-for-sale if they do not have fixed maturities, and fixed or determinable payments and management intends to hold them for the medium or long term.

(v) Recognition and derecognition

Investments are initially recognised at fair value plus transaction costs associated with the investment for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(vi) Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. 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.

The fair values of any 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 Group 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.

Note 1 Summary of significant accounting policies (continued)

(j) Investments and other financial assets (continued)

(vii) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

(k) Property, plant and equipment

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

Depreciation is calculated using the straight-line method to allocate the net cost of each item of property, plant and equipment (excluding land), net of their residual values over their estimated useful lives to the Group. Land is not depreciated. Estimates of remaining useful lives and residual values are made on a regular basis for all assets, with annual reassessments for major items. The estimated 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 Group, 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 of the asset is greater than its estimated recoverable amount. 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.

(l) 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 costs are charged to the income statement.

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

Leases in which substantially all the risks and rewards of ownership of the asset are not transferred to the Group as lessee 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 Group.

Note 1 Summary of significant accounting policies (continued)

(m) 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 at the date of acquisition. 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 ("CGUs") expected to benefit from the combination's synergies. The goodwill allocated to the CGUs for the purpose of assessing impairment are identified according to business segment (pathology and radiology) and country of operation (Australia, New Zealand, UK, USA, Germany, Switzerland and Belgium). 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. No deferred tax liabilities relating to these brand names have been recognised.

The Group's brand names have been assessed as having an indefinite useful life after consideration of the following factors:

- the length of time during which the brand name has been in use,
- the stability of the healthcare industry,
- the market perception and recognition of the brands which have consistently facilitated the retention and growth of revenue in both the local and national market places,
- active promotion of the brands in the marketplace,
- brand names are a registered legal trademark of the business. The registration of brands is renewable at minimal cost and minimal difficulty.

(iii) Software development

Expenditure on software development is capitalised when it is probable that the project will, after considering its commercial and technical feasibility, be completed and the costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs. Capitalised software development costs are recorded as finite life intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its estimated useful life of 10 years. Capitalised development expenditure is stated at cost less accumulated amortisation. 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.

Note 1 Summary of significant accounting policies (continued)

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group 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.

(o) Interest bearing liabilities

All loans and borrowings are initially recognised at fair value. 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. Fees paid on the establishment of loan facilities are recognised as an asset and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) 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 at each reporting date. 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:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or;
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging 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.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 42. Movements in the hedging reserve in shareholders' equity are shown in Note 30.

(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 other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expenses.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within borrowing costs expense.

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.

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

Note 1 Summary of significant accounting policies (continued)

(p) Derivative financial instruments (continued)

(iii) Net investment hedges
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement within other income or other expenses.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

(iv) Derivatives that do not qualify for hedge accounting
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 and are included in other income or other expenses.

(q) Fair valuation estimation

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment
The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(ii) Investment property
The fair values of the property portfolio are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, and are supported by regular independent or directors' valuations.

(iii) Inventory
The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business.

(iv) Trade and other receivables
The carrying value less impairment provision of trade and other receivables are assumed to approximate their fair values due to their short term nature.

(v) Derivatives
The fair value of interest rate swap contracts is calculated as the present value of the estimated future cash flows.

(vi) Non-derivative financial liabilities
The carrying value of non-derivative financial liabilities are assumed to approximate their fair value due to their short term nature.

(vii) Share based payment transactions
The fair value of shares and options at grant date have been determined using a pricing model consistent with the Black Scholes methodology. Inputs to the valuation model include the exercise price, the term of the option, 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.

Note 1 Summary of significant accounting policies (continued)

(r) 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 current 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.

(iii) Retirement benefit obligations

Certain employees of the Group are entitled to benefits from defined contribution superannuation plans on retirement, disability or death. The defined contribution plans receive fixed contributions from Group companies and the Group’s legal or constructive obligation is limited to these contributions.

Contributions to the defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group also has defined benefit plans in relation to certain non-Australian employees, which provide defined lump sum benefits based on years of service and final average salary.

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund’s assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wages 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 and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, outside profit or loss, directly in the statement of comprehensive income.

Past service costs are recognised immediately in income, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

(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, or
- 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.

Note 1 Summary of significant accounting policies (continued)

(r) Employee benefits (continued)

(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
Equity-based compensation benefits are provided to employees under various plans. Information relating to these plans is set out in Note 38.

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 a pricing model consistent with the Black Scholes methodology that takes into account the exercise price, the term of the option, 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 is adjusted to reflect market vesting conditions (using a Monte Carlo simulation) but 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 due to a failure to meet a non-market vesting condition.

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 Company 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 Company's accounts, and eliminated on consolidation.

(vii) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(s) 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, and
- finance lease charges.

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 using the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

Note 1 Summary of significant accounting policies (continued)

(t) 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. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition.

(u) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and in hand, and deposits at call with financial institutions which are readily convertible to known amounts of cash and which 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.

(v) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing net profit after income tax attributable to members of the Parent Company by the weighted average number of ordinary shares on issue 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.

(w) Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Chief Executive Officer and the Board of directors.

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

Change in accounting policy

The Group has applied AASB 8 *Operating Segments* from 1 July 2009. AASB 8 requires a ‘management approach’ under which segment information is presented on the same basis as that used for internal reporting purposes. The application of the new standard has resulted in no changes to the reportable segments previously presented. However segment performance is monitored internally based on EBITA. This performance measure differs from previous annual financial statements for the financial year ended 30 June 2009 which was based on EBIT. Segment disclosures in Note 2 have been amended accordingly, together with comparative amounts.

(x) 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 year but not distributed at balance date.

(y) 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(k).

Note 1 Summary of significant accounting policies (continued)

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

Non-current assets (or disposal groups) are classified as held for sale and 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 and a sale is considered highly probable.

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.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

(aa) Investment property

Investment property for the Consolidated Group, principally comprising freehold office buildings, is held for long term rental yields and is not occupied by the Group. Investment property for the Parent Company comprises freehold office/laboratory buildings held for long term rental, mainly to certain subsidiaries. Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices in less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of other income.

(ab) Provisions

Provisions are recognised when the Group has a present legal, equitable or constructive obligation as a result of past transactions or other past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. 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.

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. Any increase in the provision due to the passage of time is recognised as interest expense.

Surplus leased space provisions are recognised where the Group 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.

Restructuring provisions are recognised where the Group has completed a business combination where there is a detailed formal plan for the restructure, and a present obligation immediately prior to the business combination and its execution was not conditional upon it being acquired by the Group.

(ac) 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.

(ad) 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.

Note 1 Summary of significant accounting policies (continued)

(ae) Significant accounting estimates and assumptions

The preparation of financial statements in conformity with AIFRS requires the use of estimates and assumptions of future events to determine the carrying amounts of certain assets and liabilities. Key estimates and assumptions used in the preparation of the financial report 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 a pricing model consistent with the Black Scholes methodology, taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 38.

Provisional accounting of business combinations
Sonic provisionally accounts for certain business combinations where the Group is in the process of ascertaining the fair values of the identifiable assets, liabilities and contingent liabilities acquired. In doing so, Sonic has relied on the best estimate of the identifiable assets, liabilities and contingent liabilities as disclosed in Note 32, until the quantification and treatment of items under review is complete.

Pension benefits
The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Market yields on government bonds are used in countries where there is no deep market in corporate bonds.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 27.

(af) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not applicable for the Group for the financial year ended 30 June 2010. The Group has elected not to early adopt these new standards and interpretations. An assessment of the future impact of the new standards and interpretations is set out below.

(i) AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB 2] (effective 1 January 2010)
The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as equity- or a cash-settled transaction. The Group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. No impact is expected on the Group's financial statements.

(ii) AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issue [AASB 132] (effective from 1 February 2010)
In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* The Group will apply the amended standard from 1 July 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's financial statements.

Note 1 Summary of significant accounting policies (continued)

(af) New accounting standards and interpretations (continued)

(iii) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2012)
AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is applicable from January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it would not materially alter the carrying value of the Group's financial assets. The Group has not yet decided when to adopt AASB 9.

(iv) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)
In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party but will require disclosures of transactions between subsidiaries and associates. The Group will apply the amended standard, which affects disclosure only, from 1 July 2011.

(v) AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective from 1 July 2010)
AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the Group has not entered into any debt for equity swaps since that date.

(vi) AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement (effective from 1 January 2011)
In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The Group does not make any such prepayments. The amendment is therefore not expected to have any impact on the Group's financial statements. The Group will apply the amendment from 1 July 2011.

(vii) AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 July 2010)
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 January 2010)
The AASB has issued a number of minor improvements to existing Australian Accounting Standards. The Group will apply the amendments for AASB 2010-3 and AASB 2009-5 from 1 July 2010. The Group does not expect any material adjustments will be necessary as a result of applying the revised rules.

(viii) AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 January 2011)
The AASB has issued a number of amendments to existing Australian Accounting Standards. The Group will apply the amendments from 1 July 2011 but does not expect any impacts on the amounts recognised in the financial statements as the changes mainly relate to disclosures.

Note 2 Segment information

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

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

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

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

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

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

2010	**Pathology $'000**	**Radiology $'000**	**Other $'000**	**Eliminations $'000**	**Consolidated Group $'000**
Revenue					
External sales	2,436,508	356,702	165,421	-	2,958,631
Inter-segment sales	2,671	230	2,541	(5,442)	-
Other income	5,689	187	16,144	-	22,020
Total segment revenue	2,444,868	357,119	184,106	(5,442)	2,980,651
Interest income					13,982
Total segment revenue					**2,994,633**
Result					
Segment result	428,069	33,770	(11,071)	-	450,768
Amortisation					(15,357)
Unallocated net interest expense					(48,805)
Profit before tax					386,606
Income tax expense					(92,822)
Profit after income tax expense					**293,784**
Segment assets*	3,717,541	567,219	1,914,996	(1,336,031)	**4,863,725**
Acquisition of non-current assets**	565,547	42,432	79,847	-	**687,826**
Depreciation	51,405	30,965	10,719	-	**93,089**
Other non-cash expenses	(6,903)	1,488	7,011	-	**1,596**

* Segment assets for pathology and radiology include the goodwill relating to these segments. Eliminations of segmental assets represent the investments held in the 'other' business segment. Inter-segment receivables are also included in the relevant business segment.

** Note that this includes property, plant and equipment and intangible assets acquired as part of business acquisitions but excludes deferred tax assets and financial instruments.

Note 2 Segment information (continued)

2009	**Pathology $'000**	**Radiology $'000**	**Other $'000**	**Eliminations $'000**	**Consolidated Group $'000**
Revenue					
External sales	2,496,605	345,142	141,440	-	2,983,187
Inter-segment sales	2,440	253	2,590	(5,283)	-
Other income	205	-	17,921	-	18,126
Total segment revenue	2,499,250	345,395	161,951	(5,283)	3,001,313
Interest income					12,418
Total segment revenue					**3,013,731**
Result					
Segment result before non-recurring items	464,549	34,754	(13,391)	-	485,912
Non-recurring items	(153,874)	-	-	-	(153,874)
Segment result after non-recurring items	310,675	34,754	(13,391)	-	332,038
Amortisation expense					(8,196)
Unallocated net interest expense					(74,234)
Profit before tax					249,608
Income tax expense					(77,053)
Profit after income tax expense					**172,555**
Segment assets*	3,449,599	563,891	1,977,443	(1,229,687)	**4,761,246**
Acquisition of non-current assets**	416,547	31,873	118,879	-	**567,299**
Depreciation	56,247	29,864	6,976	-	**93,087**
Other non-cash expenses	144,769	1,132	9,423	-	**155,324**

* Segment assets for pathology and radiology include the goodwill relating to these segments. Eliminations of segmental assets represent the investments held in the 'other' business segment. Inter-segment receivables are also included in the relevant business segment.

** Note that this includes property, plant and equipment and intangible assets acquired as part of business acquisitions but excludes deferred tax assets and financial instruments.

Geographical information

	Revenues from sales to external customers*		**Non-current assets****	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Australia	**1,396,011**	1,341,389	**1,522,136**	1,441,891
United States of America	**693,236**	700,500	**1,177,838**	1,125,792
Germany	**576,775**	626,235	**666,945**	764,182
Other	**292,609**	315,063	**663,310**	381,281
Total	**2,958,631**	2,983,187	**4,030,229**	3,713,686

* Note that changes between years are affected by exchange rate movements and the timing of business acquisitions.

** Note that this includes all non-current assets other than financial instruments and deferred tax assets.

	Consolidated Group 2010 $'000	Consolidated Group 2009 $'000
Note 3 Revenue		
Services revenue		
Medical services revenue	**2,935,895**	2,964,528
Other revenue		
Interest received or due and receivable	**13,982**	12,418
Rental income	**13,559**	14,195
Other revenue	**9,177**	4,464
	36,718	31,077
Revenue from operations	**2,972,613**	2,995,605

	Consolidated Group 2010 $'000	Consolidated Group 2009 $'000
Note 4 Other income		
Government grants	**12,278**	12,554
Net gain on disposal of non-current assets	**5,275**	231
Net foreign exchange gains	**467**	5,341
Fair value increment on investment property	**4,000**	-
	22,020	18,126

Note 5 Expenses

Profit before income tax includes the following specific expenses

	Consolidated Group 2010 $'000	Consolidated Group 2009 $'000
Finance costs		
Finance charges on capitalised leases and hire purchase agreements	**937**	1,516
Other entities	**61,850**	85,136
Total borrowing costs	**62,787**	86,652
Bad and doubtful debts		
Trade debtors	**71,257**	75,992
Amortisation of		
Intangibles	**15,357**	8,196
Leased plant and equipment	**3,013**	5,069
Total amortisation	**18,370**	13,265
Depreciation of		
Plant and equipment	**86,442**	84,130
Buildings	**3,634**	3,888
Total depreciation	**90,076**	88,018
Net loss on disposal of property, plant and equipment	**-**	773
Rental expense relating to operating leases		
Minimum lease payments	**141,490**	141,443
Defined contribution superannuation expense	**61,693**	64,324
Restructuring costs - New Zealand Pathology		
Redundancy and other labour costs	**-**	15,023
Other	**-**	7,749
	-	22,772
Labour and related costs		
Per income statement	**1,337,577**	1,314,637
Restructuring costs - New Zealand Pathology	**-**	15,023
	1,337,577	1,329,660
Other expenses from ordinary activities		
Per income statement	**218,341**	230,030
Restructuring costs - New Zealand Pathology	**-**	7,749
	218,341	237,779

Note 6 Dividends

	Consolidated Group 2010 $'000	2009 $'000
Total dividends paid on ordinary shares during the year		
Final dividend for the year ended 30 June 2009 of 35 cents (2008: 32 cents) per share paid on 28 September 2009 (2008: 9 October 2008), 35% (2008: 100%) franked	**135,950**	107,203*
Interim dividend for the year ended 30 June 2010 of 24 cents (2009: 22 cents) per share paid on 25 March 2010 (2009: 26 March 2009), 35% (2009: 60%) franked	**93,224**	84,452
	229,174	191,655

* Sonic's dividend reinvestment plan operated for this dividend

Dividends not recognised at year end

	Consolidated Group 2010 $'000	2009 $'000
In addition to the above dividends, since year end the directors declared a final dividend of 35 cents (2009: 35 cents) per ordinary share, franked to 35% based on tax paid at 30%. The aggregate amount of the final dividend paid on 28 September 2010 out of retained profits at the end of the year, but not recognised as a liability is:	**135,950**	135,950

Franked dividends

The 2010 final dividend declared after the year end was 35% franked out of existing franking credits and out of franking credits arising from the payment of income tax in the year ending 30 June 2011.

	Consolidated Group 2010 $'000	2009 $'000
Franking credits available at the year end for subsequent financial years based on a tax rate of 30%	**10,796**	9,312

The consolidated amounts include franking credits that would be available if distributable profits of subsidiaries not part of the Australian tax group were paid as dividends.

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, was a reduction in the franking account of $20,393,000 (2009: $20,393,000).

Dividend Reinvestment Plan ("DRP")

The company's DRP remains suspended for the 2010 final dividend and until further notice.

Note 7 Income tax

	Consolidated Group 2010 $'000	Consolidated Group 2009 $'000
(a) Income tax expense		
Current tax	**70,209**	70,697
Deferred tax	**20,103**	10,139
Under/(over) provision in prior years	**2,510**	(3,783)
Income tax expense	**92,822**	77,053
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets (Note 17)	**5,501**	6,975
Increase in deferred tax liabilities (Note 26)	**14,602**	3,164
	20,103	10,139
(b) 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	**386,606**	249,608
Tax at the Australian tax rate of 30% (2009 - 30%)	**115,982**	74,882
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible impairment of intangibles	**-**	36,030
Other deductible/non-taxable items (net)	**(23,160)**	(33,859)
Income tax expense	**92,822**	**77,053**
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly credited to equity*	**9**	2,363

* The movement in equity is shown net of tax.

	2010 $'000	2009 $'000
(d) Tax expense/(income) relating to items of other comprehensive income		
Cash flow hedges	**1,678**	(15,631)
Revaluation reserve	**603**	-
Actuarial gains/(losses) on retirement benefit obligations	**(1,210)**	-
	1,071	(15,631)

(e) Tax losses

Deferred tax assets of $11,686,000 (2009: $3,524,000) on the Group's balance sheet at 30 June 2010 relate to tax losses (Note 17). These tax losses were acquired as part of the acquisition of IPN in the 2005 financial year and increased this year due to losses incurred in New Zealand relating to the Auckland restructuring in 2009.

	2010 $'000	2009 $'000
The directors estimate that the potential deferred tax asset at 30 June 2010 in respect of tax losses not brought to account is:	**3,123**	3,073

This benefit of tax losses, the majority of which were acquired in the Omnilabs Pathology acquisition in the 2004 financial year with minor additional other losses occurring in the 2010 year, will only be obtained if:

(i) the Group 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 Group, and
(iii) the Group continues to comply with the conditions for deductibility imposed by tax legislation, and
(iv) no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

Note 7 Income tax (continued)

(f) Unrecognised temporary differences

	Consolidated Group 2010 $'000	2009 $'000
Temporary differences relating to investments in subsidiaries for which deferred tax assets and liabilities have not been recognised		
Foreign currency translation	**(29,084)**	(21,169)
Undistributed earnings	**8,228**	2,698
	(20,856)	(18,471)

A deferred tax asset has not been recognised in respect of temporary differences arising as a result of the translation of the financial statements of the Group's overseas subsidiaries. The deferred tax asset 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. A taxable temporary difference exists, however no deferred tax liability has been recognised as the Parent Company is able to control the timing of distributions from these subsidiaries and is not expected to distribute these profits in the foreseeable future.

(g) 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(c).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement. 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.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Sonic Healthcare Limited for any current tax payable assumed and are compensated by Sonic Healthcare Limited for any current tax receivable and deferred tax assets related to unused tax losses or unused tax credits that are transferred to Sonic Healthcare Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payable.

Note 8 Receivables – current

	Consolidated Group 2010 $'000	2009 $'000
Trade debtors	**379,778**	377,870
Less: Provision for impairment (a)	**(67,472)**	(67,785)
	312,306	310,085
Accrued revenue	**49,228**	36,786
Tax receivable	**3,146**	8,076
Amounts owing from other entities	**1,793**	1,913
Sundry debtors	**40,515**	17,621
	406,988	374,481

Note 8 Receivables – current (continued)

Significant terms and conditions

Trade debtors are generally required to be settled within 30 days.

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

Transactions outside the usual operating activities of the Group have given rise to amounts owing from other entities. Repayments are specified by agreements.

(a) Impaired trade debtors

A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. As at 30 June 2010 current trade debtors of the Group with a nominal value of $67,472,000 (2009: $67,785,000) were impaired.

Movements in the provision for impairment of receivables were as follows:

	Consolidated Group	
	2010	2009
	$'000	$'000
Opening balance at 1 July	**67,785**	44,803
Provision for impairment expensed	**71,257**	75,992
Provisions on acquisition of controlled entities	**1,927**	11,639
Foreign exchange movements	**(7,795)**	3,427
Receivables written off	**(65,702)**	(68,076)
Closing balance at 30 June	**67,472**	67,785

Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash in excess of the cost of recovery.

(b) Past due but not impaired

As of 30 June 2010, trade debtors of $120,875,000 (2009: $113,064,000) were past due but not impaired. The characteristics of these debtors support their recoverability. The ageing analysis of these trade debtors is as follows:

	Consolidated Group	
	2010	2009
	$'000	$'000
1-2 months	**48,626**	46,803
2-3 months	**23,985**	22,222
3-4 months	**18,071**	16,192
4 months +	**30,193**	27,847
Closing balance at 30 June	**120,875**	113,064

All other trade debtors and classes within "Receivables – current" do not contain impaired assets and are not past due. Based on the credit history of these receivables, it is expected that these amounts will be received when due. The Group does not hold collateral in relation to these receivables.

(c) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 42.

No material carrying amounts of the Group's trade debtors are denominated in a non-functional currency.

(d) Fair value and credit risk

Due to the short term nature of these receivables, the carrying value is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.

	Consolidated Group	
	2010	2009
	$'000	$'000

Note 9 Inventories – current

Consumable stores at cost	**53,993**	51,872

Note 10 Assets classified as held for sale

Land and buildings held for sale	**9,688**	-

During the financial year the decision was taken to sell the land and building held in New Zealand. There are several interested parties and the sale is expected to be completed before 30 June 2011. The assets are presented within total assets of the pathology segment in Note 2. No gain or loss has been recognised in the statement of comprehensive income on re-classification to an asset held for sale.

Note 11 Other – current

Prepayments	**27,571**	28,019

Note 12 Receivables – non-current

Amounts owing from other entities	**3,304**	5,447
Less: Provision for impairment	**(82)**	(82)
	3,222	5,365

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

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

Credit risk exposures
The credit risk on financial assets of the Group which have been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for impairment. 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.

None of the non-current receivables are past due but not impaired.

Note 13 Other financial assets – non-current

Investments in other entities	**29,430**	22,468
Less: Provision for write down to recoverable amount	**(45)**	(45)
Investments in other entities – at recoverable amount	**29,385**	22,423

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 Group.

Note 14 Property, plant and equipment – non-current

Consolidated Group	Freehold land & buildings $'000	Plant & equipment $'000	Leased plant & equipment $'000	Total $'000
At 1 July 2008				
Cost	120,224	730,885	47,626	898,735
Accumulated depreciation	(19,049)	(430,832)	(23,888)	(473,769)
Net book amount	101,175	300,053	23,738	424,966
Year ended 30 June 2009				
Opening net book amount at 1 July 2008	101,175	300,053	23,738	424,966
Additions	2,073	119,071	1,555	122,699
Additions through business combinations	-	12,428	4,514	16,942
Disposals	(63)	(3,616)	(122)	(3,801)
Depreciation/amortisation expense (Note 5)	(3,888)	(84,130)	(5,069)	(93,087)
Transfers from leased plant and equipment to plant and equipment	-	5,788	(5,788)	-
Foreign exchange movements	2,671	5,167	889	8,727
Closing net book amount	101,968	354,761	19,717	476,446
At 30 June 2009				
Cost	124,844	866,572	37,659	1,029,075
Accumulated depreciation	(22,876)	(511,811)	(17,942)	(552,629)
Net book amount	101,968	354,761	19,717	476,446
Year ended 30 June 2010				
Opening net book amount at 1 July 2009	101,968	354,761	19,717	476,446
Additions	5,297	134,011	3,021	142,329
Additions through business combinations (Note 32)	15,122	14,661	117	29,900
Disposals	(731)	(9,112)	(5,975)	(15,818)
Depreciation/amortisation expense (Note 5)	(3,634)	(86,442)	(3,013)	(93,089)
Transfers from leased plant and equipment to plant and equipment	-	4,050	(4,050)	-
Transfers to assets held for sale (Note 10)	(9,688)	-	-	(9,688)
Foreign exchange movements	(3,333)	(15,595)	(1,560)	(20,488)
Closing net book amount	**105,001**	**396,334**	**8,257**	**509,592**
At 30 June 2010				
Cost	131,290	958,510	14,555	1,104,355
Accumulated depreciation	(26,289)	(562,176)	(6,298)	(594,763)
Net book amount	**105,001**	**396,334**	**8,257**	**509,592**

	Consolidated Group	
	2010	2009
	$'000	$'000

Note 15 Investment properties

	2010 $'000	2009 $'000
Land and buildings at fair value	**20,514**	16,510
(a) Reconciliations		
Fair value at the beginning of the year	**16,510**	16,500
Additions/fair value increments	**4,004**	10
Fair value at the end of the year	**20,514**	16,510
(b) Amounts (charged) through the profit and loss for the investment properties		
Other outgoings	**(189)**	(185)

(c) Fair value

Of the fair value amount for the Group, $20,514,000 (2009: $16,500,000) was determined by directors' valuations. The remaining $nil (2009: $10,000) is based on recent values.

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account recent independent valuations and/or using current prices in an active market for similar investment properties.

(d) Leasing arrangement

The investment properties which are leased to subsidiaries of Sonic Healthcare Limited are held under operating leases with rentals payable monthly. These properties are used in the medical diagnostic operations of the Group. One investment property held by the Group is available for operating lease to external parties.

Minimum lease payments receivable on leases of investment properties were $nil (2009: $nil).

(e) Contractual obligations

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

Note 16 Intangible assets – non-current

Consolidated Group	Brand Names $'000	Goodwill* $'000	Software** $'000	Other $'000	Total $'000
At 1 July 2008					
Cost	182,959	2,486,073	66,797	9,779	2,745,608
Accumulated amortisation and impairment	(16,900)	-	(25,935)	(2,542)	(45,377)
Net book amount	166,059	2,486,073	40,862	7,237	2,700,231
Year ended 30 June 2009					
Opening net book amount	166,059	2,486,073	40,862	7,237	2,700,231
Acquisition of subsidiaries and minority interests	-	398,553	404	-	398,957
Additions	-	-	23,943	4,758	28,701
Disposals	-	-	(2,165)	(33)	(2,198)
Foreign exchange movements	180	190,632	270	-	191,082
Impairment charge – New Zealand Pathology (c)	(32,289)	(85,006)	-	-	(117,295)
Amortisation charge (Note 5)	-	-	(6,450)	(1,746)	(8,196)
Closing net book amount	133,950	2,990,252	56,864	10,216	3,191,282
At 30 June 2009					
Cost	183,157	3,075,258	89,805	14,497	3,362,717
Accumulated amortisation and impairment	(49,207)	(85,006)	(32,941)	(4,281)	(171,435)
Net book amount	133,950	2,990,252	56,864	10,216	3,191,282
Year ended 30 June 2010					
Opening net book amount	133,950	2,990,252	56,864	10,216	3,191,282
Acquisition of subsidiaries	-	471,185	1,091	644	472,920
Additions	-	-	38,690	3,987	42,677
Disposals	-	-	(3)	(581)	(584)
Foreign exchange movements	-	(222,635)	(1,846)	-	(224,481)
Amortisation charge (Note 5)	-	-	(13,149)	(2,208)	(15,357)
Closing net book amount	**133,950**	**3,238,802**	**81,647**	**12,058**	**3,466,457**
At 30 June 2010					
Cost	183,765	3,325,261	136,103	18,408	3,663,537
Accumulated amortisation and impairment	(49,815)	(86,459)	(54,456)	(6,350)	(197,080)
Net book amount	**133,950**	**3,238,802**	**81,647**	**12,058**	**3,466,457**

* At the time of transition to AIFRS (1 July 2004) the accumulated amortisation of goodwill was transferred into cost.
** Software includes capitalised development costs, being an internally generated intangible asset.

Note 16 Intangible assets – non-current (continued)

(a) Impairment testing of goodwill and intangibles with indefinite useful lives

Goodwill is allocated to the Group's cash-generating units (CGUs) for the purposes of assessing impairment according to business segment and geographic location. A summary of the goodwill allocation is presented below.

2010

Australia Pathology $'000	UK Pathology $'000	USA Pathology $'000	Germany Pathology $'000	Switzerland Pathology $'000	Belgium Pathology $'000	Radiology $'000	Total $'000
608,278	120,831	1,099,394	609,606	108,610	321,132	370,951	**3,238,802**

2009

Australia Pathology $'000	UK Pathology $'000	USA Pathology $'000	Germany Pathology $'000	Switzerland Pathology $'000	Belgium Pathology $'000	Radiology $'000	Total $'000
569,216	138,709	1,077,553	707,354	126,603	-	370,817	**2,990,252**

The carrying value of brand names of $133,950,000 (2009: $133,950,000) relates solely to the Australia Pathology CGU (2009: related solely to the Australia Pathology CGU) and the recoverable amounts are assessed as part of the recoverable amount of the CGU.

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:

- 2010/2011 management approved profit and loss and cash flow budgets for each cash generating unit;
- earnings cash flow growth factors consistent with historical growth rates and current performance: Australia Pathology 8.0-9.0% (2009: 8.0-9.0%), UK 8.0-9.0% (2009: 11.0-12.0%), USA 8.0-9.0% (2009: 10.0-11.0%), Germany 6.0-7.0% (2009: 8.0-9.0%), Switzerland 4.0-5.0% (2009: 7.0-8.0%), Belgium 5.0-6.0%, Radiology 5.0-6.0% (2009: 6.0-7.0%);
- prevailing market based pre-tax discount rates (2010: 10.5%, 2009: 11.8%); and
- terminal growth rates: 3.0-4.0% (2009: 3.0-4.0%).

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.

In previous years Switzerland Pathology was considered part of a Germany & Switzerland Pathology CGU, however following a review in the current year of the factors influencing the definition of a CGU, it was determined to separately identify Switzerland Pathology as a CGU.

Note 16 Intangible assets – non-current (continued)

(c) Impairment charges

In the prior year impairment charges of $85,006,000 to goodwill and $32,289,000 to brand names arose in the New Zealand Pathology CGU as a consequence of the conclusion of the Auckland laboratory contract and the adverse funding system operating in New Zealand. In addition investments in pathology operations with a carrying value of $2,805,000 held by New Zealand Pathology entities were written down to a nil value. These items were included in the Impairment of New Zealand Pathology intangibles expense in the income statement and reported as part of the Pathology reporting segment (Note 2). The recoverable amount of the New Zealand Pathology CGU is based upon value-in-use calculations using 2011/2012 management approved profit and loss and cash flow budgets, a pre-tax discount rate of 10.5% (2009: 11.8%), an earnings growth factor of 0% up to the expiry dates of the contracts currently in place (2009: (1.5)%) and a terminal growth rate of 0% (2009: 0%).

Note 17 Deferred tax assets – non-current

	Consolidated Group	
	2010	2009
	$'000	$'000
Deferred tax assets	**34,902**	35,256
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Doubtful debts	**11,875**	10,947
Employee benefits	**37,400**	33,224
Sundry accruals	**9,013**	13,694
Surplus leased space	**222**	101
Unrealised foreign exchange movements	**3**	1,925
Intangibles	**6,221**	233
Tax losses*	**11,686**	3,524
	76,420	63,648
Amounts recognised directly in equity/other comprehensive income		
Share issue costs	**2,100**	3,091
Cash flow hedges	**16,591**	19,782
Deferred tax assets	**95,111**	86,521
Less: amounts offset against deferred tax liabilities (Note 26)	**(60,209)**	(51,265)
Net deferred tax assets	**34,902**	35,256
Movements:		
Opening balance at 1 July	**35,256**	22,259
(Charged) to the income statement (Note 7)	**(5,501)**	(6,975)
Foreign exchange movements	**3,363**	(1,342)
Credited to equity	**9**	-
Credited to other comprehensive income	**1,210**	15,631
Acquisition of subsidiaries	**565**	5,683
Closing balance at 30 June	**34,902**	35,256
Deferred tax assets to be recovered after more than 12 months	**7,366**	3,514
Deferred tax assets to be recovered within 12 months	**27,536**	31,742
	34,902	35,256

* *The utilisation of the tax losses depends upon future taxable income derivation in addition to taxable income arising from the reversal of existing taxable temporary differences.*

	Consolidated Group	
	2010	2009
	$'000	$'000

Note 18 Other – non-current

	2010 $'000	2009 $'000
Prepayments	**1,059**	1,660

Note 19 Payables – current

	2010 $'000	2009 $'000
Trade creditors	**102,768**	93,516
Sundry creditors and accruals	**134,851**	140,785
	237,619	234,301

Risk exposure
Information about the Group's exposure to foreign currency exchange rate risk is provided in Note 42.

Note 20 Interest bearing liabilities – current

	2010 $'000	2009 $'000
Secured		
Bank loans (a)	**290**	348
Lease liabilities (Note 33(b))	**2,159**	5,901
Hire purchase liabilities (Note 33(b))	**402**	282
	2,851	6,531
Unsecured		
Bank loans (b)	**443,301**	414,574
Amounts owing to vendors (c)	**2,675**	894
	448,827	421,999

(a) Bank loans (secured)
The secured bank loans represent debt of the Bioscientia Healthcare Group. This loan has an interest rate of 2.9% and is repayable in instalments of €100,000 every six months, with the last repayment due on 30 June 2016.

(b) Bank loans (unsecured)
Sonic is required to disclose senior bank debt, which expires in November 2010 and March 2011, as a current liability at 30 June 2010. In April 2010, Sonic successfully completed the refinancing of a tranche (~A$450M) of syndicated senior bank debt, disclosed as a current liability at 30 June 2009, for a period of 5 years.

At 30 June 2009 unsecured bank loans also included a €900,000 loan to GLP Medical Group, with a variable interest rate of 2.857% at 30 June 2009. This loan was repaid on its expiry date of 15 September 2009.

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

(c) Amounts owing to vendors
The amounts owing to vendors comprises deferred consideration for business acquisitions. These amounts are interest-bearing. The carrying value of these amounts approximates the fair value.

Note 21 Tax liabilities – current

	Consolidated Group 2010 $'000	2009 $'000
Income tax	**26,293**	9,264

Note 22 Provisions - current

	Consolidated Group 2010 $'000	2009 $'000
Employee benefits	**124,122**	122,790
Surplus lease space	**114**	326
	124,236	123,116

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

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

	Consolidated Group $'000
Surplus lease space	
Carrying amount at 1 July 2009	326
Reclassification of non-current provision to current (Note 27)	128
Payments applied	(81)
Unused provisions reversed	(255)
Foreign exchange movements	(4)
Carrying amount at 30 June 2010	**114**

Note 23 Other financial liabilities - current

	Consolidated Group 2010 $'000	2009 $'000
Current		
Interest rate swaps	**34,746**	40,289

Details of interest rate swaps are outlined in Note 42.

Note 24 Other – current

	Consolidated Group 2010 $'000	2009 $'000
Unsecured		
Amounts owing to vendors	**11,774**	11,554
Other loans	**277**	260
	12,051	11,814

The amounts owing to vendors comprises deferred consideration for business acquisitions made in the current and prior periods (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 25 Interest bearing liabilities – non-current

	Consolidated Group 2010 $'000	2009 $'000
Secured		
Bank loans	**1,449**	2,089
Lease liabilities (Note 33(b))	**5,321**	14,677
Hire purchase liabilities (Note 33(b))	**35**	169
	6,805	16,935
Unsecured		
Amounts owing to vendors (a)	**3,059**	19
Bank loans	**1,047,908**	1,317,314
USPP notes (b)	**294,846**	-
	1,352,618	1,334,268

(a) Amounts owing to vendors

The amounts owing to vendors comprises the interest-bearing component of deferred consideration for business acquisitions. The carrying value of this amount approximates the fair value.

(b) USPP notes

Sonic successfully completed its debut issue of notes to investors in the United States private placement market in January 2010, raising US$250M of long term (7 and 10 years) debt.

(c) Financing facilities available

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

2010	**Total Facilities 000's**	**Facilities used at reporting date 000's**	**Facilities unused at reporting date 000's**
Bank overdraft	A$2,672	-	A$2,672
Bank loans (secured and unsecured)			
- Syndicated facilities USD limits	US$417,545	US$417,545	-
- Syndicated facilities Euro limits	€521,550	€435,850	A$124,221
- Syndicated facilities Multi-currency AUD limit	A$213,794	A$114,664	A$99,130
- Bilateral term facilities USD limits	US$48,500	US$48,500	-
- Bilateral term facilities Euro limits	€110,000	€110,000	-
- Bilateral revolving facilities AUD limits	A$37,000	A$35,509	A$1,491
- Bilateral revolving facilities USD limits	US$75,000	-	A$88,454
USPP notes	US$250,000	US$250,000	-
Leasing facilities	A$40,936	A$7,480	A$33,456
2009			
Bank overdraft	A$10,909	-	A$10,909
Bank loans (secured and unsecured)			
- Syndicated facility USD limit	US$609,186	US$609,186	-
- Syndicated facility Euro limit	€353,264	€353,264	-
- Syndicated facility Multi-currency AUD limit	A$179,021	A$176,536	A$2,485
- Bilateral term facility Euro limit	€84,160	€84,160	-
- Bilateral revolving facility AUD limit	A$37,000	A$35,819	A$1,181
Leasing facilities	A$52,875	A$20,578	A$32,297

In April 2010, Sonic successfully completed the refinancing of a tranche of senior bank debt for a period of 5 years. As part of the refinancing, Sonic changed the tranche denominations to AUD and Euro (previously in AUD, Euro and USD).

In September and October 2009 Sonic entered into Bilateral Facility Agreements with limits denominated in USD and Euro.

Note 25 Interest bearing liabilities – non-current (continued)

(d) Fair values
The carrying amounts of borrowings approximate fair value.

(e) Interest rate risk exposures
Details of the Group's exposure to interest rate changes on borrowings are set out in Note 42.

(f) Security
Details of the security relating to each of the secured liabilities are set out in Note 35.

Note 26 Deferred tax liabilities – non-current

	Consolidated Group	
	2010	2009
	$'000	$'000
Provision for deferred income tax	**23,537**	5,768
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Prepayments & sundry debtors	**2,375**	2,071
Inventories	**7,070**	5,924
Accrued revenue	**7,077**	5,439
Leased assets	**249**	337
Intangibles	**25,436**	17,393
Property, plant & equipment	**15,628**	13,252
Capitalised costs	**25,911**	12,617
	83,746	57,033
Less: amounts offset against deferred tax assets (Note 17)	**(60,209)**	(51,265)
Net deferred tax liabilities	**23,537**	5,768
Movements:		
Opening balance at 1 July	**5,768**	5,685
Foreign exchange movements	**886**	(718)
Charged to the income statement (Note 7)	**14,602**	3,164
(Credited) to equity	**-**	(2,363)
Charged to other comprehensive income	**2,281**	-
Closing balance at 30 June	**23,537**	5,768
Deferred tax liabilities to be settled after more than 12 months	**17,400**	4,082
Deferred tax liabilities to be settled within 12 months	**6,137**	1,686
	23,537	5,768

Note 27 Provisions – non-current

	Consolidated Group 2010 $'000	2009 $'000
Employee benefits	**19,304**	17,430
Retirement benefit obligations	**20,447**	21,173
Surplus lease space	**679**	1,607
	40,430	40,210

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, other than employee benefits, during the financial year are set out below:

	Consolidated Group $'000
Surplus lease space	
Carrying amount at 1 July 2009	1,607
Reclassification of non-current provision to current (Note 22)	(128)
Payments applied	(432)
Unused provisions reversed	(382)
Foreign exchange movements	14
Carrying amount at 30 June 2010	**679**

Retirement benefit obligations
Certain employees of the Group are entitled to benefits from superannuation plans on retirement, disability or death. The Group contributes to defined contribution plans for the majority of employees. The defined contribution plans receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions. Following the acquisition of the Medica Laboratory Group on 30 May 2007 (from 1 July 2008 also includes the Prof. Krech plan) and the Bioscientia Healthcare Group on 14 September 2007, the Group has defined benefit plans in relation to certain non-Australian employees. The defined benefit plans provide lump sum benefits based on years of service and final average salary.

The following sets out details in respect of the defined benefit plans only.

(a) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:

	Consolidated Group 2010 $'000	2009 $'000
Present value of the defined benefit obligation	**45,368**	41,682
Fair value of defined benefit plan assets	**(24,921)**	(20,509)
	20,447	21,173
Unrecognised past service costs	**-**	-
Net liability in the balance sheet	**20,447**	21,173

The Group has no legal obligation to settle this liability with an immediate contribution or additional one off contributions. The Group intends to continue to contribute to the Medica Laboratory defined benefit plans at a percentage of insured salaries (3.5% to 9.0% dependent on the employee's age bracket) in line with the actuary's latest recommendations and Swiss laws. No contributions are required to be made by the Group to the Bioscientia Healthcare defined benefit plan as future benefits are paid directly by Bioscientia and not from a separate plan asset pool.

Note 27 Provisions – non-current (continued)

(b) Categories of plan assets

The major categories of plan assets as a percentage of total plan assets are as follows:

	Consolidated Group	
	2010	2009
	%	%
Cash	**1.9**	1.3
Mortgages	**9.0**	9.8
Real estate	**9.1**	8.8
Bonds	**51.1**	53.7
Equities	**18.5**	17.2
Alternative investments	**10.4**	9.2
	100.0	100.0

(c) Reconciliations

	Consolidated Group	
	2010	2009
	$'000	$'000
Reconciliation of the present value of the defined benefit obligation, which is partly funded		
Balance at the beginning of the year	**41,682**	35,820
Current service cost	**810**	904
Interest cost	**1,694**	1,911
Actuarial losses/(gains)	**4,272**	(590)
Benefits paid	**(951)**	(1,012)
Member contributions	**2,012**	1,714
Curtailment (gain)/loss	**-**	(777)
Acquired in business combinations	**-**	627
Foreign exchange movements	**(4,151)**	3,085
Balance at the end of the year	**45,368**	41,682
Reconciliation of the fair value of plan assets		
Balance at the beginning of the year	**20,509**	18,679
Expected return on plan assets	**394**	717
Actuarial gains/(losses)	**2,145**	(3,257)
Contributions by Group companies	**886**	925
Member contributions	**2,012**	1,714
Benefits paid	**(307)**	(321)
Curtailment gain/(loss)	**-**	(620)
Acquired in business combinations	**-**	513
Foreign exchange movements	**(718)**	2,159
Balance at the end of the year	**24,921**	20,509

(d) Amounts recognised in income statement

Current service cost	**810**	904
Interest cost	**1,694**	1,911
Expected return on plan assets	**(394)**	(717)
Curtailment (gain)/loss	**-**	(157)
Total included in the employee benefit expense	**2,110**	1,941
Actual return on plan assets	**2,539**	(2,540)

Note 27 Provisions – non-current (continued)

(e) Amounts recognised in statement of comprehensive income

	Consolidated Group	
	2010	2009
	$'000	$'000
Actuarial (loss) recognised in the year	**(917)**	(2,667)
Cumulative actuarial (losses) recognised in the statement of comprehensive income	**(1,669)**	(752)

(f) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	Consolidated Group	
	2010	2009
	%	%
Discount rate	**4.41**	5.76
Expected return on plan asset	**2.00**	3.25
Future salary increases	**2.21**	2.47

The expected rate of return on assets has been calculated by the actuary based on historical and future expectations of returns for each of the major categories of asset classes as well as the expected and actual allocation of plan assets to these major categories.

(g) Employer contributions

Medica Laboratory Group defined benefit plan
Employer contributions to the defined benefit plans are based on recommendations by the plans' actuary. Actuarial assessments are made on a yearly basis.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding which seeks to have benefits funded by means of a total contribution which is expected to be a percentage of members' insured salaries over their working lifetimes.

Using the funding method described above and actuarial assumptions, the actuary recommended in the latest actuarial review the payment of employer contributions varying from 3.5% to 9% (2009: 3.5% to 9%) of the insured salaries of employees based on the employee age bracket and in accordance with Swiss laws.

Total employer contributions expected to be paid by Group companies for the year ending 30 June 2011 are based on the 2010 rates and are estimated at $971,000 (2009: $955,000).

The economic assumptions used by the actuary to make the funding recommendations were a long term investment earning rate of 3.00% p.a. (2009: 3.25%), a salary increase rate of 2.00% p.a. (2009: 2.00%) and a technical interest rate of 2.00% p.a. (2009: 2.00%).

(h) Historic summary

	Consolidated Group			
	2010	2009	2008	2007
	$'000	$'000	$'000	$'000
Defined benefit plan obligation	**(45,368)**	(41,682)	(35,820)	(18,247)
Plan assets	**24,921**	20,509	18,679	16,857
(Deficit)	**(20,447)**	(21,173)	(17,141)	(1,390)
Experience adjustments arising on plan liabilities	**(258)**	590	2,361	-
Experience adjustments arising on plan assets	**2,145**	(3,257)	(446)	-

Information for years prior to 2007 is not relevant, as the Group had no involvement with the plans prior to 30 May 2007.

Note 28 Other – non-current

	Consolidated Group 2010 $'000	2009 $'000
Amounts owing to vendors	**3,977**	7,703
Other	**650**	431
	4,627	8,134

The amounts owing to vendors comprises deferred consideration for business acquisitions made in current and prior periods (refer Note 32). These amounts are non-interest bearing. The carrying amounts approximate fair value.

Note 29 Contributed equity

	Notes	Consolidated Group 2010 Shares	2009 Shares
(a) Share capital			
Ordinary shares	(b)	**388,429,875**	383,970,875

	Notes	Consolidated Group 2010 $'000	2009 $'000
Ordinary shares	(b)	**2,345,145**	2,299,256

(b) Movements in ordinary share capital

2010

Date	Details	Notes	Number of shares	Issue price	Consolidated Group $'000
1/7/09	Opening balance of the Group		383,970,875		2,299,256
Various	Shares issued following exercise of options	(d)	4,459,000	Various	40,445
Various	Transfers from equity remuneration reserve		-	-	5,465
Various	Costs associated with share issues net of future income tax benefits		-	-	(21)
30/6/10	Balance of the Group		388,429,875		2,345,145

Note 29 Contributed equity (continued)

(b) Movements in ordinary share capital (continued)

2009

Date	Details	Notes	Number of shares	Issue price	Consolidated Group $'000
1/7/08	Opening balance of the Group		333,502,281		1,709,577
9/10/08	Shares issued under Dividend Reinvestment Plan ("DRP")	(f)	3,409,260	12.72	43,366
10/10/08	Shares issued to underwriter of DRP	(f)	4,939,366	12.92	63,817
19/11/08	Shares issued under share placement	(e)	36,637,932	11.60	425,000
19/12/08	Shares issued under Shareholder Purchase Plan ("SPP")	(e)	3,812,187	11.60	44,221
Various	Shares issued to executives under remuneration arrangements		39,349	-	116
Various	Shares issued following exercise of employee options	(d)	1,630,500	Various	12,570
Various	Transfers from equity remuneration reserve		-	-	6,104
Various	Costs associated with share issues net of future income tax benefits		-	-	(5,515)
30/6/09	Balance of the Group		383,970,875		2,299,256

(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 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 Shareholder Purchase Plan
During the 2009 financial year, Sonic undertook a share placement and an associated SPP to repay debt and to provide funding for future business acquisitions.

(f) Dividend reinvestment plan
The company's DRP operated for the 2008 final dividend offering a 2.5% discount. Shareholders holding ~40% of Sonic's ordinary shares elected to participate. The balance of the 2008 final dividend which was not reinvested by shareholders in the DRP was fully underwritten. The DRP was suspended for the 2010 and 2009 interim and final dividends and until further notice.

(g) Treasury shares
Treasury shares are shares in Sonic Healthcare Limited that are held by the Sonic Healthcare Limited Employee Share Trust ("SHEST") for the purpose of providing shares under selected Group equity plans.

Date	Details	Number of shares	Consolidated Group $'000
1/7/09	Opening balance	-	-
14/9/09	Subscriptions for unissued shares by SHEST	1,340,000	18,907
15/9/09	Transfer of shares to employees to satisfy exercise of options	(1,340,000)	(18,907)
30/6/10	Balance	-	-

Note 30 Reserves and retained earnings

(a) Reserves

		Consolidated Group 2010 $'000	2009 $'000
Equity remuneration reserve	(i)	**17,006**	25,719
Foreign currency translation reserve	(ii)	**(96,948)**	(21,169)
Share option reserve	(iii)	**16,427**	16,427
Hedging reserve	(iv)	**(18,114)**	(20,295)
Revaluation reserve	(v)	**3,272**	3,875
		(78,357)	4,557

Movements

	2010 $'000	2009 $'000
Equity remuneration reserve		
Balance 1 July	**25,719**	25,736
Option expense	**5,609**	7,632
Movements relating to IPN option cancellation	**-**	(1,545)
Employee share scheme issue	**(8,857)**	-
Transfer to share capital (options exercised)	**(5,465)**	(6,104)
Balance 30 June	**17,006**	25,719
Foreign currency translation reserve		
Balance 1 July	**(21,169)**	(54,643)
Net exchange movement on translation of foreign subsidiaries	**(75,779)**	33,474
Balance 30 June	**(96,948)**	(21,169)
Share option reserve		
Balance 1 July	**16,427**	15,285
Options forming part of consideration for business combinations	**-**	1,142
Balance 30 June	**16,427**	16,427
Hedging reserve		
Balance 1 July	**(20,295)**	852
Revaluation (net of deferred tax)	**(13,338)**	(28,379)
Transfer to net profit (net of deferred tax)	**15,519**	7,232
Balance 30 June	**(18,114)**	(20,295)
Revaluation reserve		
Balance 1 July	**3,875**	3,875
Recognition of deferred tax	**(603)**	-
Balance 30 June	**3,272**	3,875

Nature and purpose of reserves

(i) Equity remuneration reserve
The equity remuneration reserve reflects the fair value of equity-settled share based payments. Fair values are determined using a pricing model consistent with the Black Scholes methodology 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(d)(iii).

Note 30 Reserves and retained earnings (continued)

(iii) Share option reserve
The share option reserve reflects the value of options issued as part of consideration for business combinations. The value of the options represents the assessed fair value at the date they were granted and has been determined using a pricing model consistent with the Black Scholes methodology that takes into account the exercise price, the term of the option, 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.

(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(p). Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit and loss.

(v) Revaluation reserve
The revaluation reserve is used to record increments and decrements on the initial revaluation of non-current assets.

	Consolidated Group	
	2010	2009
	$'000	$'000
(b) Retained earnings		
Retained earnings at the beginning of the financial year	**226,346**	249,308
Actuarial (losses) on retirement benefit obligations (Note 27)	**(917)**	(2,667)
Net profit attributable to members of Sonic Healthcare Limited	**293,225**	171,360
Dividends paid in the year (Note 6)	**(229,174)**	(191,655)
Retained earnings at the end of the financial year	**289,480**	226,346

Note 31 Deed of cross guarantee

The "Closed Group" (refer Note 32) are parties to a deed of cross guarantee dated 28 June 2007 under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities which are large proprietary companies have been relieved from the requirements of the *Corporations Act 2001* to prepare and lodge a financial report, directors' report and auditor's report under Class Order 98/1418 (as amended) 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

	2010	2009
	$'000	$'000
Revenue	**1,590,689**	1,297,569
Labour and related costs	**(703,317)**	(610,506)
Consumables used	**(157,520)**	(135,201)
Operating lease rental expense	**(83,595)**	(61,342)
Depreciation and amortisation of physical assets	**(58,078)**	(50,040)
Repairs and maintenance	**(36,061)**	(30,809)
Utilities	**(36,377)**	(26,778)
Borrowing costs expense	**(26,300)**	(43,495)
Transportation	**(13,299)**	(12,481)
Amortisation of intangibles	**(7,591)**	(3,765)
Other expenses from ordinary activities	**(88,508)**	(114,193)
Profit before income tax expense	**380,043**	208,959
Income tax expense	**(46,195)**	(43,466)
Net profit attributable to members of the Extended Closed Group	**333,848**	165,493

Note 31 Deed of cross guarantee (continued)

(b) Consolidated statement of comprehensive income of the Extended Closed Group

	2010 $'000	2009 $'000
Profit from ordinary activities after income tax expense	**333,848**	165,493
Other comprehensive income		
Exchange differences on translation of foreign operations	**211**	-
Cash flow hedges	**2,080**	(14,661)
Revaluation reserve reduction	**(603)**	-
Other comprehensive income for the period, net of tax	**1,688**	(14,661)
Total comprehensive income for the period	**335,536**	150,832

(c) Reconciliation of retained earnings

	2010 $'000	2009 $'000
Retained earnings at the beginning of the financial year	**158,004**	171,043
Profit from ordinary activities after income tax expense	**333,848**	165,493
Retained earnings from new entities joining the deed of cross guarantee	**67,357**	13,123
Dividends paid during the year	**(229,174)**	(191,655)
Retained earnings at the end of the financial year	**330,035**	158,004

Note 31 Deed of cross guarantee (continued)

(d) Consolidated balance sheet of the Extended Closed Group

	2010 $'000	2009 $'000
Current assets		
Cash and cash equivalents	**184,549**	411,176
Receivables	**234,057**	343,806
Inventories	**20,513**	18,343
Assets classified as held for sale	**9,688**	-
Other	**1,488**	470
Total current assets	**450,295**	773,795
Non-current assets		
Receivables	**1,850**	89,358
Other financial assets (investments)	**1,896,290**	1,485,983
Property, plant and equipment	**349,139**	308,896
Investment properties	**20,514**	16,510
Intangible assets	**1,170,429**	867,818
Deferred tax assets	**14,392**	7,254
Other	**859**	993
Total non-current assets	**3,453,473**	2,776,812
Total assets	**3,903,768**	3,550,607
Current liabilities		
Payables	**218,681**	152,813
Interest bearing liabilities	**217,423**	34,902
Current tax liabilities	**9,659**	8,853
Provisions	**85,959**	76,101
Other financial liabilities (interest rate hedging)	**14,590**	16,981
Other	**810**	472
Total current liabilities	**547,122**	290,122
Non-current liabilities		
Interest bearing liabilities	**617,884**	744,313
Provisions	**17,514**	14,156
Deferred tax liabilities	**8,537**	-
Other	**1,140**	-
Total non-current liabilities	**645,075**	758,469
Total liabilities	**1,192,197**	1,048,591
Net assets	**2,711,571**	2,502,016
Equity		
Parent Company interest		
Contributed equity	**2,345,145**	2,299,256
Reserves	**36,391**	44,756
Retained earnings	**330,035**	158,004
Total equity	**2,711,571**	2,502,016

Note 32 Investments in subsidiaries

Details of subsidiaries	Country of incorporation	Class of share	Beneficial interest % 2010	Beneficial interest % 2009
Subsidiaries of Sonic Healthcare Limited:				
Clinpath Laboratories Pty Limited (i)	Australia	Ord	**100**	100
Douglass Hanly Moir Pathology Pty Limited (i)	Australia	Ord	**100**	100
Lifescreen Australia Pty Limited (i)	Australia	Ord	**100**	100
Sonic Clinical Institute Pty Limited	Australia	Ord	**100**	100
Sonic Clinical Trials Pty Limited	Australia	Ord	**100**	100
Sonic Healthcare Services Pty Limited (i)	Australia	Ord	**100**	100
Sonic Imaging Pty Limited (i)	Australia	Ord	**100**	100
Southern Pathology Services Pty Limited (i)	Australia	Ord	**100**	100
Independent Practitioner Network Pty Limited (i) (iii)	Australia	Ord	**100**	100
Sonic Healthcare (UK) Pty Limited	Australia	Ord	**100**	100
Sonic Healthcare Asia Limited	Hong Kong	Ord	**100**	100
Sonic Healthcare (Ireland) Limited	Ireland	Ord	**100**	100
Sonic Healthcare Holding Company	United Kingdom	Ord	**100**	100
Sonic Healthcare Europe GmbH	Germany	Ord	**100**	100
Sonic Healthcare Germany GmbH & Co.	Germany		**100**	100
Other subsidiaries in the 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
BPath 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
Hunter Imaging Group Pty Limited (i) (iii)	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
IPN Practice Management 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 (i)	Australia	Ord	**100**	100
Sonic Healthcare International Pty Limited (i)	Australia	Ord	**100**	100
Sonic Healthcare Pathology Pty Limited	Australia	Ord	**100**	100
A.C.N. 094 980 944 Pty Limited (i)	Australia	Ord	**100**	100
Sonic Medlab Holdings Australia Pty Limited (i)	Australia	Ord	**100**	100

Note 32 Investments in subsidiaries (continued)

Details of subsidiaries (continued)	Country of incorporation	Class of share	**Beneficial interest % 2010**	Beneficial interest % 2009
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
Sprague Kam Trust (ii)	Australia	Units	**100**	100
A.C.N. 002 889 545 Pty Limited	Australia	Ord	**100**	100
Subilabs Pty Limited (i)	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	**99.9**	99.9
IPN Healthcare Pty Limited (i) (iii)	Australia	Ord	**100**	100
Formulab International Limited	Australia	Ord	**100**	100
Edenlea Properties Pty Limited	Australia	Ord	**100**	100
IPN Medical Centres Pty Limited (i) (iii)	Australia	Ord	**100**	100
IPN Medical Centres (Qld) Pty Limited (i) (iii)	Australia	Ord	**100**	100
Continuous Care Doctor Training Pty Limited	Australia	Ord	**100**	100
Kedron Park 24 Hour Medical Centre Pty Limited	Australia	Ord	**100**	100
Royal Brisbane Place Medical Centre Pty Limited	Australia	Ord	**100**	100
Taringa 24 Hour Medical Centre Pty Limited	Australia	Ord	**100**	100
IPN Medical Centres (NSW) Pty Limited (i) (iii)	Australia	Ord	**100**	100
IPN Healthcare (Vic) Pty Limited	Australia	Ord	**100**	100
IPN Medical Centres (Vic) Pty Limited (i) (iii)	Australia	Ord	**100**	100
IPN Learning Pty Limited	Australia	Ord	**100**	100
Preston Property Pty Limited	Australia	Ord	**100**	100
United Healthcare Medical Centre Pty Limited	Australia	Ord	**100**	100
LUMC Pty Limited	Australia	Ord	**100**	100
Mark Edelman Pty Limited	Australia	Ord	**100**	100
Auburn Road Family Medical Centre Pty Limited	Australia	Ord	**100**	100
Joodie Holdings No. 2 Pty Limited	Australia	Ord	**100**	100
Todd Silbert Pty Limited	Australia	Ord	**100**	100
Edgecliff Medical Centre No. 2 Pty Limited	Australia	Ord	**100**	100
Marrickville Medical Centre No. 2 Pty Limited	Australia	Ord	**100**	100
Penrith Medical Centre No. 2 Pty Limited	Australia	Ord	**100**	100
Daraban Pty Limited	Australia	Ord	**100**	100
Sunshine Employment Pty Limited	Australia	Ord	**100**	100
Medihelp General Practice Pty Limited	Australia	Ord	**100**	100
Medihelp Services Pty Limited (i) (iii)	Australia	Ord	**100**	100
Medihelp BWMG Pty Limited	Australia	Ord	**100**	100
Medihelp (Brackenridge) Pty Limited	Australia	Ord	**100**	100
Medihelp Sunshine Coast Pty Limited	Australia	Ord	**100**	100
Denberry Pty Limited	Australia	Ord	**100**	100
Health Essentials Pty Limited	Australia	Ord	**100**	100
Redwood Park Medical Centre Pty Limited	Australia	Ord	**100**	100
Edanade Nominees Pty Limited	Australia	Ord	**100**	100
Clinmed Pty Limited	Australia	Ord	**100**	100
Margmax Pty Limited	Australia	Ord	**100**	100
IPN Ophthalmology Pty Limited	Australia	Ord	**100**	100
IPN Franchise Developments Pty Limited	Australia	Ord	**100**	100
IPN Services Pty Limited	Australia	Ord	**100**	100
Sports Medicine Centres of Victoria Pty Limited	Australia	Ord	**100**	100
Pilates Edge Pty Limited	Australia	Ord	**100**	100
Physiotherapy International Pty Limited	Australia	Ord	**100**	100

Note 32 Investment in subsidiaries (continued)

Details of subsidiaries (continued)	**Country of incorporation**	**Class of share**	**Beneficial interest % 2010**	Beneficial interest % 2009
Southcare Physiotherapy Pty Limited	Australia	Ord	**100**	100
Kinetikos Services Pty Limited	Australia	Ord	**100**	100
Re-Start Services Pty Limited	Australia	Ord	**100**	100
O.B. King & Associates Pty Limited	Australia	Ord	**100**	100
Redcliffe Peninsula Medical Services Pty Limited	Australia	Ord	**100**	100
Gemini Administration Services Pty Limited (i) (iii)	Australia	Ord	**100**	100
Gemini Medical Services Pty Limited (i) (iii)	Australia	Ord	**100**	100
Silverspoon Holdings Pty Limited	Australia	Ord	**100**	100
Delta Health Pty Limited	Australia	Ord	**100**	100
Gainsby Pty Limited	Australia	Ord	**100**	100
Stratum Medical Services Pty Limited	Australia	Ord	**100**	100
Prime Health Group Limited (i) (iii)	Australia	Ord	**100**	-
Advance Physiotherapy Services Limited	Australia	Ord	**100**	-
Prime Health Pty Limited	Australia	Ord	**100**	-
Sonic Healthcare Germany Six GmbH	Germany	Ord	**100**	100
Sonic Healthcare Seven GmbH	Germany	Ord	**100**	100
Sonic Healthcare Investments GmbH	Germany	Ord	**100**	100
Sonic Healthcare Germany GmbH	Germany	Ord	**100**	100
Labor Schottdorf Administration GmbH	Germany	Ord	**100**	100
Syscomp Biochemische Dienstleistungen GmbH	Germany	Ord	**100**	100
Virion Deutschland GmbH	Germany	Ord	**-**	100
Bioscientia Healthcare GmbH	Germany	Ord	**100**	100
Bioscientia Institut für medizinische Diagnostik GmbH	Germany	Ord	**100**	100
Bioscientia MVZ Jena GmbH	Germany	Ord	**100**	100
Bioscientia MVZ Saarbrücken GmbH	Germany	Ord	**100**	100
LabConsult GmbH	Germany	Ord	**100**	100
Orthopädietechnik Mayer & Behnsen GmbH	Germany	Ord	**100**	100
Labor Schottdorf MVZ GmbH	Germany	Ord	**100**	100
Labor Hannover MVZ GmbH	Germany	Ord	**100**	100
Labor 28 Management GmbH	Germany	Ord	**100**	100
Labor 28 AG	Germany	Ord	**100**	100
Labor 28 MVZ GbR	Germany	Ord	**70**	70
GLP Medical GmbH	Germany	Ord	**100**	100
Dr. Von Froreich - Bioscientia GmbH	Germany	Ord	**100**	100
GLP Laboratories GmbH	Germany	Ord	**100**	100
Labor Lademannbogen MVZ GmbH	Germany	Ord	**100**	-
ALH Laborbetriebsgesellschaft mbH	Germany	Ord	**100**	-
MVZ Labor Bochum MLB GmbH	Germany	Ord	**100**	-
Labor an der Salzbruecke MVZ GmbH	Germany	Ord	**100**	-
Labor Hamburg – Luebeck MVZ Gmbh	Germany	Ord	**100**	-
Bioscientia Real Estate GmbH & Co.	Germany		**100**	-
Sonic Healthcare (New Zealand) Limited (i) (iii)	New Zealand	Ord	**100**	100
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	**70**	70
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
Castlereagh Radiology (NZ) Limited	New Zealand	Ord	**100**	100

Note 32 Investment in subsidiaries (continued)

Details of subsidiaries (continued)	**Country of incorporation**	**Class of share**	**Beneficial interest % 2010**	Beneficial interest % 2009
Medica Ärztebedarf AG	Switzerland	Ord	**100**	100
Medica Medizinische Laboratorien Dr F Käppeli AG	Switzerland	Ord	**100**	100
Medizinisches Institut R. Rondez AG	Switzerland	Ord	**100**	100
Labormediz Laboratorien GmbH	Switzerland	Ord	**100**	100
Virion Labordiagnostik GmbH	Switzerland	Ord	**100**	100
Ärztelabor Dr. Kurt Furrer GmbH	Switzerland	Ord	**100**	100
LB Medizinisches Labor Solothurn GmbH	Switzerland	Ord	**100**	100
Institut Virion AG	Switzerland	Ord	**100**	100
Labor Prof. Krech und Partner AG	Switzerland	Ord	**100**	100
Selftesting.ch AG	Switzerland	Ord	**100**	100
Serolife GmbH	Switzerland	Ord	**100**	100
Mikrogen AG	Switzerland	Ord	**100**	100
The Doctors Laboratory Limited	United Kingdom	Ord	**100**	100
TDL Analytical Limited	United Kingdom	Ord	**100**	100
TDL Facilities Limited	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
The Doctors Laboratory (Manchester) Limited	United Kingdom	Ord	**100**	100
Omnilabs Ireland Limited	Ireland	Ord	**100**	100
Medlab Pathology Limited	Ireland	Ord	**100**	-
Sonic Healthcare Investments	United States		**100**	100
Clinical Pathology Laboratories, Inc.	United States	Ord	**100**	100
Fairfax Medical Laboratories, Inc.	United States	Ord	**100**	100
Pathology Laboratories, Inc.	United States	Ord	**100**	100
American Esoteric Laboratories, Inc.	United States	Ord	**100**	100
AEL of Memphis, LLC	United States	Ord	**100**	100
MPL Holdings, Inc.	United States	Ord	**100**	100
Clinical Pathology Laboratory Southeast, Inc.	United States	Ord	**100**	100
Labdoc, LLC	United States	Ord	**100**	100
Memphis Pathology Laboratory	United States		**100**	100
Sonic Healthcare USA, Inc.	United States	Ord	**100**	100
Sunrise Medical Laboratories	United States	Ord	**100**	100
Virion (US) Inc.	United States	Ord	**100**	100
Sonic Hawaii Holdings, Inc.	United States	Ord	**100**	100
Sonic USA Holdings, Inc.	United States	Ord	**100**	100
Clinical Laboratories of Hawaii, LLP	United States		**100**	100
Pan Pathologists, LLC	United States	Ord	**100**	100
Piedmont Joint Venture Laboratory, Inc	United States	Ord	**100**	-
East Side Clinical Laboratory, Inc.	United States	Ord	**100**	-
Medhold NV	Belgium	Ord	**100**	-
Labo-Lokeren BV BVBA	Belgium	Ord	**100**	-
Versal NV	Belgium	Ord	**100**	-
Medvet BV BVBA	Belgium	Ord	**100**	-
A.M.L. BV BVBA	Belgium	Ord	**100**	-
Clinilabo BV BVBA	Belgium	Ord	**100**	-
Medisch labo Van Waes D. BV CVBA	Belgium	Ord	**100**	-
Klinisch Labo Rigo BV BVBA	Belgium	Ord	**100**	-
ALTEHA ESV	Belgium	Ord	**100**	-

Note 32 Investments in subsidiaries (continued)

Details of subsidiaries (continued)

(i) These subsidiaries comprise the "Closed Group" under the deed of cross guarantee. By entering into the deed wholly-owned entities which are large proprietary companies have been granted relief from the necessity to prepare a financial report, directors' report and auditor's report in accordance with Class Order 98/1418 (as amended) 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 subsidiaries were added by assumption deed as parties to the deed of cross guarantee on 28 June 2010.

Business combinations

(a) Acquisition of subsidiaries/business assets

Acquisitions in the period include:

- On 31 July 2009, Sonic acquired 100% of Piedmont Medical Laboratory, based in Virginia, USA.
- On 30 November 2009, Sonic acquired 100% of East Side Clinical Laboratory, based in Rhode Island, USA.
- On 4 January 2010, Sonic acquired 100% of the Lademannbogen Laboratory Group, based in Hamburg, Germany.
- On 12 February 2010, Sonic acquired 100% of the Medhold Group, based in Antwerp, Belgium.
- IPN, a member of the Group, acquired Prime Health Group and a number of other medical centre businesses during the period.

The acquisitions outlined above represent valuable synergistic acquisitions for Sonic, adding further momentum to Sonic's growth in these regions. The acquisition of the Medhold Group provided entry into the new markets of Belgium and the Netherlands, meeting Sonic's criteria for growth in stable and reliable markets within Sonic's core regions of Western Europe, Australia and North America.

The contribution these acquisitions made to the Group's profit during the period was immaterial individually and in total. It is impracticable to determine the contribution these immaterial acquisitions made to the net profit of the Group during the period, and what they are likely to contribute on an annualised basis, as the majority of the acquisitions were merged with other entities in the Group. The initial accounting for the East Side, Lademannbogen and Medhold business combinations has only been determined provisionally at the date of this report, as the Group is still in the process of determining final fair values of the identifiable assets, liabilities and contingent liabilities acquired. The accounting for a number of the Other acquisitions has been finalised at the date of this report.

Note 32 Investments in subsidiaries (continued)

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

	Medhold Group $'000	Other $'000	Total $'000
Consideration - cash paid	277,676	147,203	**424,879**
Less: Cash of entities acquired	(15,030)	(2,581)	**(17,611)**
	262,646	144,622	**407,268**
Deferred consideration	-	12,687	**12,687**
Total consideration	262,646	157,309	**419,955**
Carrying/fair value of identifiable net assets of combinations acquired:			
Debtors & other receivables	15,606	18,878	**34,484**
Prepayments	1,129	719	**1,848**
Inventory	2,062	3,066	**5,128**
Deferred tax assets	-	448	**448**
Property, plant & equipment	7,447	22,453	**29,900**
Other non-current receivables	-	286	**286**
Investments	-	104	**104**
Identifiable intangibles	222	1,513	**1,735**
Trade payables	(5,767)	(5,658)	**(11,425)**
Sundry creditors and accruals	(11,860)	(4,258)	**(16,118)**
Income tax payable	(2,961)	(984)	**(3,945)**
Borrowings	(82,349)	(1,250)	**(83,599)**
Lease liabilities	(126)	(269)	**(395)**
Provisions	(2,284)	(1,116)	**(3,400)**
	(78,881)	33,932	**(44,949)**
Goodwill	341,527	123,377	**464,904**

The goodwill arising from the business combinations is attributable to their reputation in the local market, the benefit of marginal profit and synergies expected to be achieved from integrating the business with existing operations, expected revenue growth, future market development, the assembled workforce and knowledge of local markets. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured. $71,982,000 of the purchased goodwill recognised is expected to be deductible for income tax purposes over a fifteen year period.

Acquisition related costs of $3,033,000 are included in other expenses in the statement of comprehensive income.

The fair value of acquired debtors and other receivables is $15,606,000 for the Medhold Group and $19,164,000 for the aggregate of Other acquisitions in the period. The gross contractual amount due is $16,108,000 for the Medhold Group and $20,589,000 for Other acquisitions, of which $502,000 and $1,425,000 respectively is expected to be uncollectible.

The purchase price for the Lademannbogen Laboratory Group includes a performance based earn-out of up to an additional €4.5M payable eighteen months after settlement.

At the date of the 2009 financial statements, the accounting for the business combinations in the 2009 financial year were finalised and included in those financial statements.

Note 32 Investments in subsidiaries (continued)

(b) Reconciliation of cash paid to cash flow statement

	Consolidated Group	
	2010	2009
	$'000	$'000
Consideration – cash paid for acquisitions in the financial year	**427,355**	365,014
Consideration – cash paid for minority interests in subsidiaries in the financial year	**-**	81,774
Consideration – cash paid to vendors for acquisitions in previous financial years	**19,815**	10,117
Less: Cash of entities acquired	**(17,611)**	(9,651)
Payment for purchase of controlled entities, net of cash acquired	**429,559**	447,254

Note 33 Commitments for expenditure

	Consolidated Group	
	2010	2009
	$'000	$'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	**13,985**	18,023
(b) Lease commitments		
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	**110,944**	99,585
Later than one year but not later than 5 years	**207,773**	189,596
Later than 5 years	**58,952**	39,572
	377,669	328,753
Representing:		
Cancellable operating leases	**2,118**	913
Non-cancellable operating leases	**374,532**	326,724
Future finance charges on finance leases	**1,019**	1,116
	377,669	328,753

(i) Operating leases

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

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**109,796**	98,907
Later than one year but not later than 5 years	**206,862**	190,190
Later than 5 years	**58,667**	39,560
Less: Amount provided for surplus lease space under non-cancellable operating leases	**(793)**	(1,933)
Commitments not recognised in the financial statements	**374,532**	326,724
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases not recognised in the financial statements	**29,521**	33,755

Note 33 Commitments for expenditure (continued)

(b) Lease commitments (continued)

(i) Operating leases (continued)

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

	Consolidated Group	
	2010	2009
	$'000	$'000
Commitments for minimum lease payments in relation to cancellable operating leases are payable as follows:		
Within one year	**913**	426
Later than one year but not later than 5 years	**994**	487
Later than 5 years	**211**	-
Commitments not recognised in the financial statements	**2,118**	913

(ii) Finance leases

The Group finance leases and hire purchases various plant and equipment with a carrying amount of $8,257,000 (2009: $19,717,000) under contracts expiring within one month to seven years.

Within one year	**2,932**	7,264
Later than one year but not later than 5 years	**5,482**	10,077
Later than 5 years	**522**	11,434
Minimum lease payments	**8,936**	28,775
Less: Future finance charges	**(1,019)**	(7,746)
Total lease and hire purchase liabilities	**7,917**	21,029
Representing lease and hire purchase liabilities:		
Current (Note 20)	**2,561**	6,183
Non-current (Note 25)	**5,356**	14,846
	7,917	21,029
The present value of finance lease and hire purchase liabilities is as follows:		
Within one year	**2,561**	6,183
Later than one year but not later than 5 years	**4,908**	7,159
Later than 5 years	**448**	7,687
Minimum lease payments	**7,917**	21,029

The weighted average interest rate implicit in the contracts is 5.44% (2009: 5.96%).

Note 33 Commitments for expenditure (continued)

(c) Remuneration commitments

	Consolidated Group	
	2010	2009
	$'000	$'000
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	**23,766**	28,679
Later than one year but not later than 5 years	**10,937**	15,117
Later than 5 years	**184**	-
	34,887	43,796

Included within remuneration commitments are amounts arising from the service contracts of key management personnel referred to in the remuneration report that are not recognised as liabilities and are not included in the key management personnel compensation.

Note 34 Contingent liabilities

Sonic Healthcare Limited and certain subsidiaries, as disclosed in Note 32, are parties to a deed of cross guarantee under which each company guarantees the debts of the others.

The Group has given bank guarantees in respect of property leases of $8,029,000 (2009: $7,531,000). It is not expected that these payments will eventuate.

Note 35 Secured borrowings

	Consolidated Group	
	2010	2009
	$'000	$'000
The total secured liabilities (current and non-current) are as follows:		
Bank loans	**1,739**	2,437
Lease liabilities	**7,480**	20,578
Hire purchase liabilities	**437**	451
	9,656	23,466

Assets pledged as security
The bank loan of the Bioscientia Healthcare Group of $1,739,000 (2009: $2,437,000) is secured by the equipment acquired with the loan proceeds. This secured loan was in existence at the time Sonic acquired the group and the security will remain until the loan is repaid. Refer Note 20(a).

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 amounts of assets pledged as security for current and non-current borrowings are:

Non-current		
Finance lease & hire purchase agreements		
Property, plant and equipment	**8,791**	20,181
Fixed and floating charge		
Property, plant and equipment	**1,488**	2,598
Total assets pledged as security	**10,279**	22,779

Note 36 Key management personnel

Refer to the Remuneration report within the Directors' report for details of Sonic's key management personnel.

(a) Key management personnel compensation

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

	Consolidated Group	
	2010	2009
	$	$
Short term employee benefits	**7,128,571**	6,745,161
Long term employee benefits	**42,443**	368,501
Post employment benefits	**225,365**	353,478
Share based payments	**4,489,880**	7,413,861
	11,886,259	14,881,001

(b) Equity disclosures relating to key management personnel

(i) Option holdings

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 Group in relation to remuneration arrangements are set out below.

2010 Name	Balance at 1 July 2009	Issued during the 2010 year as remuneration	Exercised during the 2010 year	Balance at 30 June 2010	Vested and exercisable at the end of the 2010 year
Dr C.S. Goldschmidt	5,750,000	-	(1,000,000)	4,750,000	1,500,000
C.D. Wilks	3,175,000	-	(340,000)	2,835,000	1,150,000

2009 Name	Balance at 1 July 2008	Issued during the 2009 year as remuneration	Exercised during the 2009 year	Balance at 30 June 2009	Vested and exercisable at the end of the 2009 year
Dr C.S. Goldschmidt	4,000,000	2,750,000	(1,000,000)	5,750,000	1,500,000
C.D. Wilks	2,160,000	1,415,000	(400,000)	3,175,000	950,000

(ii) 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 Group are set out below.

2010 Name	Balance at 1 July 2009	Issued during the 2010 year on the exercise of options	Shares provided as remuneration during the 2010 year	Other changes during the 2010 year	Balance at 30 June 2010
B.S. Patterson	3,816,646	-	-	-	3,816,646
Dr C.S. Goldschmidt	330,243	1,000,000	-	(600,000)	730,243
C.D. Wilks	416,872	340,000	-	(228,750)	528,122
R.P. Campbell	-	-	-	10,000	10,000
Dr P.J. Dubois	-	-	-	-	-
C.J. Jackson	491,371	-	-	-	491,371
D. Schultz	180,293	-	-	-	180,293
Dr R.E. Connor	1,597,088	-	-	-	1,597,088

Note 36 Key management personnel (continued)

(b) Equity disclosures relating to key management personnel (continued)

(ii) Share holdings (continued)

2009 Name	Balance at 1 July 2008	Issued during the 2009 year on the exercise of options	Shares provided as remuneration during the 2009 year	Other changes during the 2009 year	Balance at 30 June 2009
B.S. Patterson	3,816,646	-	-	-	3,816,646
Dr C.S. Goldschmidt	280,000	1,000,000	50,243	(1,000,000)	330,243
C.D. Wilks	391,000	400,000	25,872	(400,000)	416,872
Dr P.J. Dubois	25,350	-	-	(25,350)	-
C.J. Jackson	490,940	-	-	431	491,371
Dr H.F. Scotton	181,194	-	-	-	181,194
D. Schultz	560,586	-	-	(380,293)	180,293
Dr R.E. Connor	1,597,088	-	-	-	1,597,088

(c) Other transactions with key management personnel

Other transactions with key management personnel are disclosed in Note 39.

Note 37 Remuneration of auditors

	Consolidated Group	
	2010	2009
	$	$
During the year the auditors of the Group and their related practices earned the following remuneration:		
PricewaterhouseCoopers – Australian firm		
Audit and review of financial reports of Group entities	**592,700**	609,000
Taxation, accounting and advisory services	**206,000**	140,000
Total audit and taxation/accounting/advisory services	**798,700**	749,000
Related practices of PricewaterhouseCoopers Australian firm (including overseas PricewaterhouseCoopers firms)		
Audit and review of the financial reports of Group entities	**964,950**	1,036,684
Total audit and accounting/advisory services	**964,950**	1,036,684

Statutory audit and tax compliance services are subject to periodic competitive tender processes involving the major Chartered Accounting firms. 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.

Note 38 Share based payments

(a) Share based payments relating to remuneration

The Group 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"). Details of the pricing model and the measurement inputs utilised to determine the fair value of shares and options granted are disclosed in Note 1(q) to the financial statements.

(i) 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.

The grant of options on 21 November 2008 related to the long term incentive component for the remuneration of Dr C.S. Goldschmidt and C.D. Wilks for the three years ending on 30 June 2011, and have different vesting conditions. The options vest on 22 November 2011 subject to the fulfilment of two separate performance conditions with a 50% weighting for each (that is, 50% of the options are subject to the first performance condition and the other 50% are subject to the second performance condition). Performance condition one requires a Compound Average Growth Rate of EPS for the three years ending 30 June 2011 of 10% p.a., which requires a 2011 EPS of at least 97.83 cents. If this performance condition is not met the relevant 50% of the total number of options will be forfeited on 30 September 2011. Under performance condition two, Sonic's performance is valued by percentile according to its Total Shareholder Return (TSR) against the TSRs of the companies forming the S&P ASX 100 Accumulation Index, excluding Banks and Resource companies, over the performance period from 1 July 2008 to 30 June 2011. A TSR below the 50th percentile will result in nil options vesting, a TSR of the 50th percentile will result in 50% of options vesting with a progressive scale of an additional 2% for each percentile increase up to the 75th percentile. A TSR of the 75th percentile and above will result in 100% of the options vesting. Options to which performance condition two applies that do not vest (due to the appropriate percentile not being reached) will be forfeited on 30 September 2011. The options expire 60 months from the date of issue.

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	Exercis-able at end of the year	Balance at date of this report
			Number	Number	Number	Number	Number	Number	Number	Number
Consolidated Group - 2010										
23/09/04	23/07/09	$9.51	10,000	-	-	(10,000)	-	-	-	-
23/09/04	23/07/09	$9.56	64,000	-	-	(64,000)	-	-	-	-
15/11/06	15/09/11	$13.10	1,075,000	-	(25,000)	(25,000)	-	1,025,000	768,750	1,025,000
13/08/07	13/06/12	$13.00	200,000	-	-	-	-	200,000	100,000	200,000
31/07/08	31/05/13	$13.65	110,000	-	-	-	-	110,000	-	110,000
21/11/08	22/11/13	$12.98	2,625,000	-	-	-	-	2,625,000	-	2,625,000
27/03/09	27/01/14	$11.10	1,500,000	-	-	-	-	1,500,000	-	1,500,000
10/06/10	10/04/15	$10.57	-	1,000,000	-	-	-	1,000,000	-	1,000,000
Total			5,584,000	1,000,000	(25,000)	(99,000)	-	6,460,000	868,750	6,460,000
Weighted Average Exercise Price			$12.47	$10.57	$13.10	$10.45	-	$12.20	$13.09	

Note 38 Share based payments (continued)

(a) Share based payments relating to remuneration (continued)

(i) Sonic Healthcare Limited Employee Option Plan (continued)

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 Group - 2009									
23/09/04	23/07/09	$9.51	10,000	-	-	-	-	10,000	10,000
23/09/04	23/07/09	$9.56	227,500	-	-	(163,500)	-	64,000	64,000
15/11/06	15/09/11	$13.10	1,200,000	-	(125,000)	-	-	1,075,000	537,500
13/08/07	13/06/12	$13.00	500,000	-	(300,000)	-	-	200,000	-
31/07/08	31/05/13	$13.65	-	200,000	(90,000)	-	-	110,000	-
21/11/08	22/11/13	$12.98	-	2,625,000	-	-	-	2,625,000	-
27/03/09	27/01/14	$11.10	-	1,500,000	-	-	-	1,500,000	-
Total			1,937,500	4,325,000	(515,000)	(163,500)	-	5,584,000	611,500
Weighted Average Exercise Price			$12.64	$12.36	$13.14	$9.56	-	$12.47	$12.67

The weighted average share price at the date of exercise for options exercised in the 12 months to 30 June 2010 was $12.26 (2009: $11.53).

The weighted average remaining contractual life of share options on issue at the end of the year was 3.3 years (2009: 3.9 years).

Fair value of options granted
The average assessed fair value of options granted during the year ended 30 June 2010 was $1.92 per option (2009: $1.84).

The valuation model inputs for options granted on 10 June 2010 (2009: 31 July 2008) include:

(a) exercise price: $10.57 (2009: $13.65)
(b) share price at time of grant: $10.86 (2009: $13.88)
(c) expected life: 4.17 years from date of issue (2009: 4.17 years)
(d) share price volatility: 26.9% (based on 3 year historic prices) (2009: 22.5%)
(e) risk free rate: 5.0% (2009: 6.2%)
(f) dividend yield: 5.3% (2009: 5.0%)

The valuation model inputs for options granted on 21 November 2008 include:

(a) exercise price: $12.98
(b) share price at time of grant: $13.05
(c) expected life: 4.0 years from date of issue
(d) share price volatility: 24.6% (based on 3 year historic prices)
(e) risk free rate: 4.2%
(f) dividend yield: 5.3%
(g) a Monte Carlo simulation was applied to fair value the TSR element of the options (performance condition two). The model simulated Sonic's TSR and compared it against the peer group over the vesting period.

The valuation model inputs for options granted on 27 March 2009 include:

(a) exercise price: $11.10
(b) share price at time of grant: $11.42
(c) expected life: 4.17 years from date of issue
(d) share price volatility: 26.4% (based on 3 year historic prices)
(e) risk free rate: 4.0%
(f) dividend yield: 6.0%

Note 38 Share based payments (continued)

(a) Share based payments relating to remuneration (continued)

(ii) 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 825,000 options have been issued, with the following tranches still in existence:

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	Exercis-able at end of the year	Balance at date of this report
			Number	Number	Number	Number	Number	Number	Number	Number
Consolidated Group – 2010										
24/07/06	24/05/11	$12.69	40,000	-	-	(20,000)	-	20,000	10,000	20,000
Weighted Average Exercise Price			$12.69	-	-	$12.69	-	$12.69	$12.69	
Consolidated Group - 2009										
19/04/04	19/12/08	$7.57	67,000	-	-	(67,000)	-	-	-	
24/07/06	24/05/11	$12.69	40,000	-	-	-	-	40,000	20,000	
Total			107,000	-	-	(67,000)	-	40,000	20,000	
Weighted Average Exercise Price			$9.48	-	-	$7.57	-	$12.69	$12.69	

The weighted average share price at the date of exercise for options exercised in the 12 months to 30 June 2010 was $13.91 (2009: $13.69).

The weighted average remaining contractual life of share options on issue at the end of the year was 0.9 years (2009: 1.9 years).

(iii) 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, which operated for the five years to 30 June 2008, are set out in the Remuneration report within the Directors' report.

Note 38 Share based payments (continued)

(a) Share based payments relating to remuneration (continued)

(iii) Executive Incentive Plan (continued)

A summary of options granted under this plan is 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	Balance at date of this report
			Number	Number	Number	Number	Number	Number	Number	Number
Consolidated Group - 2010										
26/11/04	26/11/09	$7.50	140,000	-	-	(140,000)	-	-	-	-
22/08/05	22/08/10	$7.50	1,540,000	-	-	(1,200,000)	-	340,000	340,000	-
22/08/06	22/08/11	$7.50	1,540,000	-	-	-	-	1,540,000	1,540,000	1,540,000
24/08/07	22/08/12	$7.50	1,540,000	-	-	-	-	1,540,000	770,000	1,540,000
22/08/08	22/08/13	$7.50	1,540,000	-	-	-	-	1,540,000	-	1,540,000
Total			6,300,000	-	-	(1,340,000)	-	4,960,000	2,650,000	4,620,000
Consolidated Group - 2009										
26/11/04	26/11/09	$7.50	1,540,000	-	-	(1,400,000)	-	140,000	140,000	
22/08/05	22/08/10	$7.50	1,540,000	-	-	-	-	1,540,000	1,540,000	
22/08/06	22/08/11	$7.50	1,540,000	-	-	-	-	1,540,000	770,000	
24/08/07	24/08/12	$7.50	1,540,000	-	-	-	-	1,540,000	-	
22/08/08	22/08/13	$7.50	-	1,540,000	-	-	-	1,540,000	-	
Total			6,160,000	1,540,000	-	(1,400,000)	-	6,300,000	2,450,000	

The weighted average share price at the date of exercise for options exercised in the 12 months to 30 June 2010 was $13.91 (2009: $13.94).

The weighted average remaining contractual life of options on issue at the end of the year was 2.0 years (2009: 2.6 years).

A summary of the ordinary shares granted under this plan is set out below:

	Consolidated Group	
	2010	2009
	Number	Number
Shares issued under the Executive Incentive Plan	**-**	30,750

Shares and options issued in the prior financial year represented satisfaction of performance conditions relating to the preceding years.

Fair value of shares and options granted

The assessed fair value of shares and options issued during the year ended 30 June 2010 was $nil per share and $nil per option respectively (2009: $13.54 and $7.34). 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 financial years to 30 June 2008. The final year of the performance related entitlement issuable under the Executive Incentive Plan was approved by shareholders at the 2005 Annual General Meeting and covered the issue made during the previous financial year.

The valuation model inputs for the valuation of shares and options approved at the 2005 Annual General Meeting were:

(a) exercise price: $7.50
(b) share price at time of grant: $14.80
(c) expected life: 5 years from date of issue
(d) share price volatility: 17.7% (based on 3 year historic prices)
(e) risk free rate: 5.1%
(f) dividend yield: 3.15%

Note 38 Share based payments (continued)

(a) Share based payments relating to remuneration (continued)

(iv) Independent Practitioner Network Limited Employee Share Option Scheme

Independent Practitioner Network Limited (a member of the Group) could, 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 the grants on the 29 November 2007, 7 December 2006 and 20 December 2006 the options were contracted to vest one third after two years, one third after three years and the balance after four years with the expiry being one year after each vesting date. Vesting was subject to EPS growth targets being met of 10% compounded annually. For all remaining grants under the plan 25% of the grant were to vest at each anniversary.

The IPN Employee Share Option Scheme was terminated on 16 September 2008 as required by the Scheme of Arrangement under which Sonic acquired all of the shares in IPN which it did not already own.

Set out below are summaries of options under the plan during 2009.

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Cancelled during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercis-able at end of the year Number	Balance at date of this report Number
Consolidated Group - 2009										
07/12/06	06/12/09	Nil	349,965	-	(349,965)	-	-	-	-	-
07/12/06	19/12/10	Nil	349,965	-	(349,965)	-	-	-	-	-
07/12/06	06/12/11	Nil	350,070	-	(350,070)	-	-	-	-	-
20/12/06	19/12/09	Nil	579,916	-	(579,916)	-	-	-	-	-
20/12/06	19/12/10	Nil	579,909	-	(579,909)	-	-	-	-	-
20/12/06	19/12/11	Nil	579,910	-	(579,910)	-	-	-	-	-
29/11/07	28/11/10	Nil	1,224,000	-	(1,224,000)	-	-	-	-	-
29/11/07	28/11/11	Nil	1,224,000	-	(1,224,000)	-	-	-	-	-
29/11/07	28/11/12	Nil	1,224,000	-	(1,224,000)	-	-	-	-	-
29/11/07	28/11/10	$0.2517	1,000,000	-	(1,000,000)	-	-	-	-	-
29/11/07	28/11/11	$0.2517	1,000,000	-	(1,000,000)	-	-	-	-	-
29/11/07	28/11/12	$0.2517	1,000,000	-	(1,000,000)	-	-	-	-	-
Total			9,461,735	-	(9,461,735)	-	-	-	-	-
Weighted Average Exercise Price			$0.080	-	$0.080	-	-	-	-	-

1,000,000 non-employee share option scheme options over unissued IPN shares were issued on 3 October 2006 to the sellers of the Redcliffe Medical Centre business. The options were to vest one third after two years, one third after three years and one third after four years from the date of acquisition, providing the recipients continued to practice from the Medical Centre business acquired. The options had an exercise price of $0.1441 calculated as the volume weighted average price of shares on the 30 days immediately proceeding the grant date. The options were due to expire on 2 October 2011 but were cancelled on 16 September 2008 as required by the Scheme or Arrangement under which Sonic acquired all of the shares in IPN which it did not already own.

Note 38 Share based payments (continued)

(a) Share based payments relating to remuneration (continued)

(v) 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 Group	
	2010	2009
	$'000	$'000
Equity remuneration	**5,609**	7,632

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

(a) Sonic Healthcare Limited Employee Option Plan options

A total of 99,000 ordinary shares of Sonic were issued during the year ended 30 June 2010 on the exercise of options granted under the Sonic Healthcare Limited Employee Option Plan. The amounts paid on issue of those shares were:

Number of options	**Amounts paid (per share)**
10,000	$9.51
64,000	$9.56
25,000	$13.10
99,000	

(b) Queensland X-Ray (QXR) options

A total of 20,000 ordinary shares of Sonic were issued during the year ended 30 June 2010 on the exercise of QXR options. The amount paid by the option holders per share was $12.69.

(c) Executive Incentive Plan options

A total of 1,340,000 ordinary shares were issued during the year ended 30 June 2010 on the exercise of Executive Incentive Plan options. A further 340,000 options were exercised since that date, but prior to the date of this report, however these were satisfied with existing shares purchased on market by the SHEST. The amount paid by the option holders per share was $7.50.

No amounts are unpaid on any of these shares.

(b) Options issued other than in relation to remuneration

(i) Schottdorf Group

3,000,000 options over unissued ordinary Sonic shares were granted on 1 July 2004 as part of the Schottdorf acquisition consideration. Each option was convertible into one ordinary share as set out below on or before 31 August 2009 at an exercise price of $6.75:

- Up to 20% could be exercised after 1 July 2005
- Up to 40% could be exercised after 1 July 2006
- Up to 60% could be exercised after 1 July 2007
- Up to 80% could be exercised after 1 July 2008
- Up to 100% could be exercised after 1 July 2009

Options granted carried no dividend or voting rights. No option holder had any right under the option to participate in any other issue of the company or of any other entity. All of the 3,000,000 options were exercised during the year ended 30 June 2010. The weighted average share price at the date of exercise for options exercised in the 12 months to 30 June 2010 was $12.20 (2009: $nil). The weighted average remaining contractual life of options outstanding at the end of the year was nil years (2009: 0.2 years).

Note 38 Share based payments (continued)

(b) Options issued other than in relation to remuneration (continued)

(ii) Clinical Pathology Laboratories, Inc. (CPL)
2,000,000 options over unissued ordinary Sonic shares were granted on 15 November 2006. Each option is convertible into one ordinary share as set out below at an exercise price of $13.10:

- 1,400,000 may be exercised after 1 October 2010, expiring 30 September 2011
- 300,000 may be exercised after 1 October 2011, expiring 30 September 2012
- 300,000 may be exercised after 1 October 2012, expiring 30 September 2013

Options granted carry no dividend or voting rights. No option holder has any right under the option to participate in any other issue of the company or of any other entity.

The weighted average remaining contractual life of options outstanding at the end of the year was 1.7 years (2009: 2.7 years). All of the 2,000,000 options remain unexercised as at the date of this report.

(iii) Medica Laboratory Group
1,000,000 options over unissued ordinary Sonic shares were granted on 13 August 2007 as part of the Medica acquisition consideration. Each option is convertible into one ordinary share as set out below on or before 30 September 2012 at an exercise price of $13.00 or, where the closing market share price for Sonic’s shares on 30 May 2012 is less than $15.00, $2.00 less than the closing price on that day.

- Up to 20% may be exercised after 30 May 2008
- Up to 40% may be exercised after 30 May 2009
- Up t0 60% may be exercised after 30 May 2010
- Up to 80% may be exercised after 30 May 2011
- Up to 100% may be exercised after 30 May 2012

Options granted carry no dividend or voting rights. No option holder has any right under the option to participate in any other issue of the company or of any other entity. All of the 1,000,000 options remain unexercised as at the date of this report. The weighted average remaining contractual life of options outstanding at the end of the year was 2.3 years (2009: 3.3 years).

(iv) Bioscientia Healthcare Group
1,000,000 options over unissued ordinary Sonic shares were granted on 3 October 2007 as part of the Bioscientia acquisition consideration. Each option is convertible into one ordinary share as set out below on or before 3 August 2012 at an exercise price of $14.16:

- Up to 50% may be exercised after 3 April 2010
- Up to 75% may be exercised after 3 April 2011
- Up to 100% may be exercised after 3 April 2012

Options granted carry no dividend or voting rights. No option holder has any right under the option to participate in any other issue of the company or of any other entity. All of the 1,000,000 options remain unexercised as at the date of this report. The weighted average remaining contractual life of options outstanding at the end of the year was 2.1 years (2009: 3.1 years).

Note 38 Share based payments (continued)

(b) Options issued other than in relation to remuneration (continued)

(v) Labor 28 Group
500,000 options over unissued ordinary Sonic shares were granted on 25 July 2008 as part of the Labor 28 acquisition consideration. Each option is convertible into one ordinary share as set out below on or before 25 May 2013 at an exercise price of $13.30:

- Up to 50% may be exercised after 25 January 2011
- Up to 75% may be exercised after 25 January 2012
- Up to 100% may be exercised after 25 January 2013

Options granted carry no dividend or voting rights. No option holder has any right under the option to participate in any other issue of the company or of any other entity. All of the 500,000 options remain unexercised as at the date of this report. The weighted average remaining contractual life of options outstanding at the end of the year was 2.9 years (2009: 3.9 years).

The valuation model inputs for the options granted in 2009 include:

(a) exercise price: $13.30
(b) share price at time of grant: $13.52
(c) expected life: 4.17 years from date of issue
(d) share price volatility: 22.4% (based on 3 year historic prices)
(e) risk free rate: 6.3%
(f) dividend yield: 5.0%

(c) IPN Exempt Employee Share Plan
The IPN Exempt Employee Share Plan ("IPN EESP") allowed full time or permanent part time employees to salary sacrifice up to $1,000 of their income in any one year to purchase ordinary shares in IPN. The shares were acquired by the Trustee of the IPN Exempt Employee Share Plan Trust and held in trust for the plan participants.

Shares were issued under the plan at the volume weighted average price at which the company's shares traded on the Australian Securities Exchange during the 5 trading days prior to the issue date ("5 day VWAP"). The shares were acquired by the plan on behalf of the plan participants at the beginning of each financial year. The number of shares acquired by the plan for each participant at the beginning of each quarter was calculated by taking the elected annual amount for salary sacrifice and dividing it by the 5 day VWAP before each issue date.

(d) IPN Deferred Employee Share Plan
The IPN Deferred Employee Share Plan ("IPN DESP") allowed executives and directors of IPN to salary sacrifice up to 25% of their income in any one year to purchase ordinary shares in IPN. The shares were acquired by the Trustee of the IPN Deferred Employee Share Plan Trust and held in trust for the plan participants. Shares purchased under the plan were bought on market.

The IPN DESP and IPN EESP were terminated on 16 September 2008, as required by the Scheme of Arrangement under which Sonic acquired all of the shares in IPN which it did not already own. No shares were issued under either Plan in the 2010 and 2009 financial years.

Note 39 Related parties

(a) Parent entities and subsidiaries
Sonic Healthcare Limited is the ultimate Parent Company in the Group comprising the company and its subsidiaries as detailed in Note 32.

(i) Transactions with directors of Sonic Healthcare Limited and other key management personnel
During the financial year rental expense payments totalling $677,581 (2009: $1,251,906) have been made by the Group 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. No balance was outstanding at the end of the current or preceding year. The directors who had an interest in the rental transactions in the current or preceding financial year were C.J. Jackson, Dr P.J. Dubois and Dr H.F. Scotton.

(ii) Transactions with directors of subsidiaries of the Group
During the financial year rental expense payments totalling $512,103 (2009: $498,130) have been made by the Group to subsidiary director related entities, including unit trusts, private companies and spouses. The rental transactions were based on commercial terms and conditions and at market rates. No balance was outstanding at the end of the current or preceding year. The directors of subsidiaries who had an interest in the rental transactions in the current or preceding financial year were M. Prentice and J. Roberts.

During the financial year rental expense payments totalling $419,379 (2009: $470,884) have been made by the Group to a subsidiary director related entity, SRD Immobilien AG. The rental transactions were based on commercial terms and conditions and at market rates. No balance was outstanding at the end of the current or preceding year. The director of the subsidiary who had an interest in the rental transaction was Dr F. Käppeli.

During the financial year rental expense payments of $180,661 (2009: $nil) have been made by the Group to a subsidiary director related entity, The Ascot Hospital and Clinics Limited. The rental transactions were based on commercial terms and conditions and at market rates. No balance was outstanding at the end of the current year. The director of the subsidiary who had an interest in the transaction was Dr A. Wong.

During the year ended 30 June 2009 pathology service expense payments of $7,458,778 were made and management fee revenue of $1,616,408 was received by the Group from a subsidiary director related entity, Clinical Pathology Associates. The transactions were based on commercial terms and conditions and at market rates. No balances were outstanding at the end of the previous financial year. The director of the subsidiary who had an interest in the transaction was Dr R.E. Connor. The related party transactions have been reflected up to 31 December 2008 when Dr R.E. Connor's relationship with Clinical Pathology Associates ended.

During the financial year IPN paid information technology service fees of $4,525,986 (2009: $3,775,031) to eHealth Networks Pty Limited, a company in which IPN director Dr M.W. Parmenter is a director but has no economic interest. The balance outstanding at 30 June 2010 was $209,232 (2009: $110,298). These transactions were made on normal commercial terms and conditions and at market rates.

During the financial year radiology service fees of $330,913 (2009: $nil) have been received by the Group from a subsidiary director related entity, Breast Care Limited. The service fees were based on commercial terms and conditions and at market rates. A current receivable balance of $33,581 existed at 30 June 2010. The director of the subsidiary who had an interest in the transaction was Dr D. Benson-Cooper.

(iii) Remuneration of directors and other key management personnel
Details of remuneration of directors and other key management personnel have been disclosed in the Remuneration report within the Directors' report.

Note 39 Related parties (continued)

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

There were no amounts receivable from/payable to other key management personnel at 30 June 2010 (2009: $nil).

(c) 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 Group	
	2010	2009
	Cents	Cents
Basic earnings per share	**75.5**	46.9
Diluted earnings per share	**75.0**	46.3

	2010	2009
	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	**388,140,826**	365,367,618
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**390,882,177**	369,722,154

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 Group	
	2010	2009
	$'000	$'000
Reconciliations of earnings used in calculating earnings per share		
Net profit	**293,784**	172,555
Net (profit) attributable to minority interests	**(559)**	(1,195)
Earnings used in calculating basic and diluted earnings per share	**293,225**	171,360

Note 41 Statement of cash flows

	Consolidated Group 2010 $'000	2009 $'000
(a) Cash at bank and on hand	**300,354**	557,932

Cash balances bear floating interest rates of between 0.01% - 4.76% (2009: 0.18% - 3.25%).

(b) Reconciliation of net cash inflow from operating activities to operating profit after income tax

	2010 $'000	2009 $'000
Operating profit after income tax	**293,784**	172,555
Add/(less) non-cash items:		
Depreciation and amortisation	**108,446**	101,283
Share based payments	**5,609**	7,632
Impairment of New Zealand Pathology intangibles	-	120,100
Other non-cash items	**(13,538)**	(2,105)
Add/(less) changes in assets and liabilities during the financial year:		
(Increase)/decrease in sundry debtors and prepayments	**(2,332)**	17,740
(Increase)/decrease in trade debtors and accrued revenue	**(11,516)**	(8,209)
(Increase)/decrease in inventories	**(778)**	(1,795)
(Increase)/decrease in deferred tax asset	**(2,552)**	10,302
Increase/(decrease) in trade creditors and accrued expenses	**5,534**	4,663
Increase/(decrease) in deferred tax liability	**17,368**	2,661
Increase/(decrease) in current tax liabilities	**19,075**	(15,769)
Increase/(decrease) in other provisions	**(695)**	1,241
Increase/(decrease) in other liabilities	**918**	413
Increase/(decrease) in provision for employee entitlements	**10,174**	19,240
Net cash inflow from operating activities	**429,497**	429,952

(c) Non-cash financing and investing activities

The following non-cash financing and investing activities occurred during the year and are not reflected in the cash flow statement:

- Plant and equipment with an aggregate fair value of $3,021,000 (2009: $1,555,000) was acquired by means of finance leases and hire purchase agreements.

- 1,000,000 (2009: 5,865,000) options over unissued Sonic shares were issued in relation to incentive arrangements along with nil (2009: 39,349) shares. In 2009, an additional 500,000 options were issued and the value of which ($1,142,000) was included as part of the consideration for the Labor 28 Group.

Note 42 Financial risk management

The Group is exposed to the following categories of financial risks as part of its overall capital structure; market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's risk management program addresses the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group has adopted the following philosophies towards financial risk management:

- to take a proactive approach in identifying and managing material treasury risks;
- not to take speculative derivative positions;
- to structure hedging to reflect underlying business objectives;
- to reduce volatility and provide more certainty of earnings.

Financial risk management is carried out by a central treasury department (Group Treasury) which identifies, evaluates and hedges financial risks to support the Group's strategic and operational objectives. Group Treasury operates within the parameters of a Board approved Treasury Policy approved by a sub-committee of the Board. The Treasury Policy provides written principles for overall financial risk management as well as policies covering specific areas, such as liquidity, funding and interest rate risk, foreign exchange risk, credit risk, and operational treasury risk. One of the key responsibilities of Group Treasury is the management of the Group's debt facilities.

(a) Capital risk management

The Group's objectives when managing capital are to safeguard the consolidated entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group is proactively managed by issuing new shares by way of institutional placements, shareholder purchase plans, rights issues, as part consideration for acquisitions, or activation from time to time of the Company's Dividend Reinvestment Plan; by utilising the SHEST to buy Sonic's shares on market; or by varying the amount of dividends paid to shareholders.

The capital structure of the Group is mainly monitored on the basis of the Debt to Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") ratio, which is also a covenant under Sonic's debt facilities (with a maximum permitted level of 3.5 times). Other ratios considered are the Gearing Ratio and Interest Cover Ratio, which are also covenants under the debt facilities. Future compliance with these debt covenants is modelled by reference to a rolling 5 year financial forecast model.

During 2010 and 2009 the Group maintained a Debt to EBITDA ratio of between 1.9 to 2.7 times, however short term spikes above these levels are considered to accommodate significant business acquisitions. The company's history demonstrates Debt to EBITDA being conservatively and consistently managed towards the lower end of a 2 to 3 times range.

The Debt to EBITDA ratio is calculated as Net (of cash) Interest Bearing Debt divided by EBITDA. EBITDA is normalised for acquisitions made during a period, equity remuneration expense (a non-cash item) and for acquisition related costs which are now expensed under the revised AASB 3 *Business Combinations*. Net Interest Bearing Debt is adjusted for currency rate fluctuations.

The Gearing ratio is calculated as Net Interest Bearing Debt divided by Net Interest Bearing Debt plus Equity (per the balance sheet), and must be maintained below 55% under the debt facilities.

The Group is required to maintain an Interest Cover Ratio greater than 3.25 under the debt facilities, calculated as EBITA divided by Net Interest Expense. EBITA is normalised for equity remuneration expense and acquisition related costs.

These three ratios are the only financial undertakings under Sonic's debt facilities.

The ratios calculated using the facility definitions at 30 June 2010 and 30 June 2009 were as follows:

	2010	2009
Debt to EBITDA (times)	**2.61**	2.25
Gearing	**37.0%**	32.1%
Interest Cover (times)	**9.41**	6.50

Note 42 Financial risk management (continued)

(b) Market risk

(i) Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates.

Foreign currency risk arising on the translation of the net assets of the Group's foreign controlled entities, which have a different functional currency, is managed at the Group level. The Group manages this foreign exchange translation risk by "natural" balance sheet hedges, i.e. having borrowings denominated in the same functional currencies of the foreign controlled entities. The foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve. As Sonic's foreign currency earnings grow and debt is repaid, the natural hedge becomes less effective, so AUD reported earnings do fluctuate. The underlying earnings in foreign currency however are not affected. Capital hedging is not undertaken given the cash flow implications of ongoing hedging and the long term nature of investments.

The Group is not significantly exposed to transactional foreign currency risk associated with receipts and payments that are required to be settled in foreign currencies. These transactions are limited in number; therefore the exposure is typically identified and managed on a case by case basis, usually by the spot or forward purchase of foreign currencies.

The carrying amount of the Group's bank loans and USPP notes are denominated in the following currencies:

	Consolidated Group	
	2010	2009
	$'000	$'000
NZD	**5,696**	5,600
USD	**931,767**	924,671
EURO	**829,178**	779,549
GBP	**21,153**	24,505
	1,787,794	1,734,325

Hedge of net investments in foreign operations

Of the total bank loans and USPP notes of $1,787,794,000 (2009: $1,734,325,000), $827,439,000 (2009: $777,112,000) are denominated in EURO and qualify as a hedge, as per accounting standards, of the Group's net investment in operations in Germany and Belgium. 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. The ineffectiveness recognised in the income statement from net investment hedges was $nil (2009: $nil).

The remaining bank loans and USPP notes of $960,355,000 (2009: $957,213,000) denominated in NZD, USD, EURO and GBP are in the same functional currencies as Sonic's operations in New Zealand, the United States, Germany and the United Kingdom and act as a "natural" balance sheet hedge against foreign currency earnings fluctuations.

Sensitivity analysis

Based on the financial instruments held at 30 June 2010, had the Australian dollar weakened/strengthened by 10% (2009: 10%) against all relevant currencies, the Group's post-tax profit would have been $nil higher/$nil lower (2009: $nil higher/$nil lower), as a result of having minimal exposure to foreign currency denominated financial instruments. Other components of equity would have been $nil lower/higher (2009: $nil lower/higher).

(ii) Interest rate risk

Sonic Healthcare Limited and certain subsidiaries are parties to derivative financial instruments such as interest rate swaps in the normal course of business in order to hedge exposure to fluctuations in interest rates. Derivatives are exclusively used for hedging purposes i.e. not as trading or speculative instruments. The Group's fixed rate borrowings are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7.

Note 42 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate swap contracts – cash flow hedge
The Group's main interest rate risk arises from bank loans that are subject to variable interest rates. It is the Group's policy to protect part of the variable interest rate loans drawn under its debt facilities (relevant loans totalling 2010: $1,491,209,000; 2009: $1,730,320,000) from exposure to increasing interest rates.

The Group's policy is to maintain a 5 year rolling hedge policy with minimum and maximum fixed rate debt levels set at 40% and 60% respectively, with a weighted average maturity of fixed rates in the 2.5 – 3.0 year range. Accordingly, the Group has entered into fixed rate debt (USPP notes) and 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 currencies of the underlying debt which are 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 sheet date cover approximately 41% (2009: 47%) of the Sonic senior variable rate bank debt outstanding. The fixed interest rates range between 2.57% and 8.05% (2009: 2.57% and 8.05%). The variable interest rates range between 0.85% and 4.03% (2009: 1.06% and 3.48%).

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

	Consolidated Group	
	2010	2009
	$'000	$'000
Less than 1 year	**122,123**	138,438
1 – 2 years	**166,354**	133,979
2 – 3 years	**157,505**	185,255
3 – 4 years	**166,231**	171,227
4 – 5 years	**-**	190,888
	612,213	819,787

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

One interest rate swap was terminated prior to its maturity in the financial year ended 30 June 2009. As the interest rate swap had met the criteria for hedge accounting, the immaterial cumulative loss in the hedging reserve was transferred to the income statement as an increase to borrowing costs expense.

Note 42 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate risk exposures

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

Consolidated Group		Fixed interest rate maturities							
	Notes	**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 2010									
Assets									
Cash and deposits	41(a)	155,742	-	-	-	-	-	34,952	190,694
Trade debtors	8	-	-	-	-	-	-	312,306	312,306
Accrued revenue	8	-	-	-	-	-	-	49,228	49,228
Sundry debtors	8	-	-	-	-	-	-	40,467	40,467
Amounts owing from other entities	8,12	1,060	161	1,456	-	-	197	591	3,465
Other financial assets	13	-	-	-	-	-	-	29,385	29,385
Total assets		156,802	161	1,456	-	-	197	466,929	625,545
Liabilities									
Trade and other creditors	19	-	-	-	-	-	-	237,619	237,619
Amounts owing to vendors	20,24,25,28	1,746	-	-	-	2,174	219	15,751	19,890
Other	24,28	-	-	-	-	-	-	927	927
Lease and hire purchase liabilities	20,25	2,314	2,175	1,395	1,061	524	448	-	7,917
USPP notes	25	-	-	-	-	-	294,846	-	294,846
Bank loans	20,25	290	290	290	290	290	289	-	1,739
Interest rate swaps pay fixed		122,123	166,354	157,505	166,231	-	-	-	612,213
Total liabilities		126,473	168,819	159,190	167,582	2,988	295,802	254,297	1,175,151

Consolidated Group		Fixed interest rate maturities							
	Notes	**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 2009									
Assets									
Cash and deposits	41(a)	290,731	-	-	-	-	-	13,480	304,211
Trade debtors	8	-	-	-	-	-	-	310,085	310,085
Accrued revenue	8	-	-	-	-	-	-	36,786	36,786
Sundry debtors	8	242	-	-	-	-	-	17,379	17,621
Amounts owing from other entities	8,12	242	258	243	6	-	2,997	3,366	7,112
Other financial assets	13	-	-	-	-	-	-	22,423	22,423
Total assets		291,215	258	243	6	-	2,997	403,519	698,238
Liabilities									
Trade and other creditors	19	-	-	-	-	-	-	234,301	234,301
Amounts owing to vendors	24,25,28	-	19	-	-	-	-	19,257	19,276
Other	24,28	-	-	-	-	-	-	691	691
Lease and hire purchase liabilities	20,25	6,184	2,612	2,242	1,345	959	7,687	-	21,029
Bank loans	20,25	348	348	348	348	348	697	-	2,437
Interest rate swaps pay fixed		138,438	133,979	185,255	171,227	190,888	-	-	819,787
Total liabilities		144,970	136,958	187,845	172,920	192,195	8,384	254,249	1,097,521

Note 42 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

Consolidated Group

	Notes	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**	**Weighted Average Interest Rate**
30 June 2010		**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**%**
Assets									
Cash and deposits	41(a)	109,660	-	-	-	-	-	109,660	2.55
Sundry debtors	8	48	-	-	-	-	-	48	0.25
Interest rate swaps receive floating		122,123	166,354	157,505	166,231	-	-	612,213	4.18
Amounts owing from other entities	8,12	742	333	475	-	-	-	1,550	4.57
		232,573	166,687	157,980	166,231	-	-	723,471	
Liabilities									
Bank loans	20,25	443,301	121,989	604,504	-	321,415	-	1,491,209	1.53
Amounts owing to vendors	20	929	333	333	-	-	-	1,595	4.57
		444,230	122,322	604,837	-	321,415	-	1,492,804	

Consolidated Group

	Notes	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**	**Weighted Average Interest Rate**
30 June 2009		**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**%**
Assets									
Cash and deposits	41(a)	253,721	-	-	-	-	-	253,721	1.92
Interest rate swaps receive floating		138,438	133,979	185,255	171,227	190,888	-	819,787	4.20
Amounts owing from other entities	8,12	166	-	-	-	-	-	166	4.44
		392,325	133,979	185,255	171,227	190,888	-	1,073,674	
Liabilities									
Bank loans	20,25	414,574	495,009	146,493	675,812	-	-	1,731,888	1.69
Amounts owing to vendors	20	894	-	-	-	-	-	894	6.00
		415,468	495,009	146,493	675,812	-	-	1,732,782	

Sensitivity analysis

At 30 June 2010, if interest rates in all relevant currencies had changed by -10/+100 basis points (2009: -10/+100 basis points) from the year end rates with all other variables held constant, the Group's post-tax profit for the year would have been $539,000/$5,385,000 higher/lower (2009: $461,000/$4,614,000 higher/lower) mainly as a result of lower/higher interest expense from bank loans. The movements in profit in 2010 are more sensitive than in 2009 due to the higher unhedged net debt position at 30 June 2010. Other components of equity would have been $1,216,000/$11,930,000 lower/higher (2009: $2,043,000/$19,974,000 lower/higher) mainly as a result of an increase/decrease in the fair value of the cash flow hedges of borrowings. Equity is less sensitive to movements in year end rates in 2010 than 2009 because of the decreased value of cash flow hedges in place at 30 June 2010.

(iii) Other price risk

The Group does not have significant exposure to fluctuations in the fair values or future cash flows of financial instruments associated with changes in market prices.

Note 42 Financial risk management (continued)

(c) Credit risk

The credit risk on financial assets of the Group which have been recognised on the balance sheet, other than investment in shares, is generally the carrying amount, net of any provisions for impairment. 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 Group does not have any material exposure to any individual customer or counterparty other than certain Government funded bodies in the countries in which the Group operates.

There are no significant concentrations of credit risk within the Group.

Receivable balances and ageing analysis are monitored on an ongoing basis. In order to minimise the Group's exposure to bad debts, rigorously enforced processes are in place to send reminder notices, demands for repayments and ultimately to refer to debt collection agencies. Credit limits are imposed and monitored for commercial customers.

The Group has not renegotiated any material collection/repayment terms of any financial assets in the current or previous financial year.

Credit risk in the treasury context is defined as the risk of sustaining a loss as a result of a counterparty that has accepted a deposit from the Group and/or entered into a financial transaction with the Group related to the management of treasury related risks. In general terms, Group Treasury will only arrange to enter into transactions with counterparties who are senior lenders to the Group.

(d) Liquidity risk

The Group is exposed to funding and liquidity risks including the risk that in refinancing its debt, the Group may be exposed to an increased credit spread (the credit spread is the margin that must be paid over the equivalent government or risk free rate or swap rate) and the risk of not being able to refinance debt obligations or meet other cash outflow obligations at a reasonable cost when required.

The Group's strong cash flows and balance sheet are a major mitigator of this type of risk, along with the dynamics of the medical diagnostic services market. The Group seeks to further mitigate these risks by structuring its debt with a spread of maturities, maintaining excellent relationships with a number of Australian and international banks, diversifying funding sources by accessing the private placement bond market in the USA, and keeping sufficient committed credit lines available for short to medium term needs (balanced against the cost of maintaining such lines).

The tables below analyse the Group's financial liabilities and net-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest (other than in the "Carrying Value" column). The table ignores the maturities of undrawn credit lines. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the reporting date.

Note 42 Financial risk management (continued)

(d) Liquidity risk (continued)

Consolidated Group

	Notes	1 year or less $'000	Over 1 and less than 2 years $'000	Over 2 and less than 5 years $'000	Over 5 years $'000	Total $'000	Carrying Value $'000
30 June 2010							
Liabilities							
Trade and other creditors	19	237,619	-	-	-	237,619	237,619
Amounts owing to vendors	20,24,25,28	14,707	3,485	3,427	99	21,718	21,485
Bank loans	20,25	484,945	151,154	958,950	296	1,595,345	1,492,948
USPP notes	25	16,334	16,334	49,003	358,939	440,610	294,846
Other	24,28	277	291	138	221	927	927
Lease and hire purchase liabilities	20,25	2,932	2,413	3,069	522	8,936	7,917
Net-settled interest rate swaps	23	4,366	8,262	22,118	-	34,746	34,746
Financial guarantee contracts		8,029	-	-	-	8,029	-
Total liabilities		769,209	181,939	1,036,705	360,077	2,347,930	2,090,488

Consolidated Group

	Notes	1 year or less $'000	Over 1 and less than 2 years $'000	Over 2 and less than 5 years $'000	Over 5 years $'000	Total $'000	Carrying Value $'000
30 June 2009							
Liabilities							
Trade and other creditors	19	234,301	-	-	-	234,301	234,301
Amounts owing to vendors	20,24,25,28	12,531	4,530	3,044	119	20,224	20,170
Bank loans	20,25	471,542	535,024	855,009	721	1,862,296	1,734,325
Other	24,28	270	53	111	257	691	691
Lease and hire purchase liabilities	20,25	7,264	3,498	6,579	11,434	28,775	21,029
Net-settled interest rate swaps	23	3,957	8,752	27,580	-	40,289	40,289
Financial guarantee contracts		7,531	-	-	-	7,531	-
Total liabilities		737,396	551,857	892,323	12,531	2,194,107	2,050,805

The financial guarantee contracts relate to bank guarantees given by the Group in respect of property leases. The bank guarantees are the maximum amounts allocated to the earliest period in which the guarantees could be called. The Group does not expect these payments to eventuate.

The expiry dates for the Group's main debt facilities are as follows (figures are facility limit amounts, not drawings):

	AUD $'000	USD $'000	EURO €'000
November 2010	37,000	-	-
March 2011	19,330	182,176	120,350
July 2011	-	-	84,160
September 2012	-	75,000	-
October 2012	15,464	235,369	215,200
November 2014	-	48,500	25,840
April 2015	179,000	-	186,000
January 2017	-	95,000	-
January 2020	-	155,000	-
	250,794	791,045	631,550

There have been no material breaches and no defaults of loans in the current or preceding reporting periods.

Note 42 Financial risk management (continued)

(e) 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 Group 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.

For non-traded equity investments, the net fair value is determined using valuation techniques (Note 1(j)).

(f) Fair values

The carrying amounts of assets and liabilities on the Consolidated Group balance sheet approximate their fair values.

Fair value hierarchy

As of 1 July 2009, the Group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(i) quoted prices (unadjusted) in active markets for identified assets or liabilities (level 1)
(ii) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
(iii) inputs for the asset or liability that are not based on observable market value (unobservable inputs) (level 3).

The only financial instrument measured and recognised at fair value at 30 June 2010 are the interest rate swaps which have a liability fair value of $34,746,000. The swaps are included within level 2 of the AASB 7 hierarchy and are calculated using the present value of estimated future cash flows. There were no transfers between level 1 and level 2 in the period.

Note 43 Parent Company financial information

(a) Summary financial information

The individual financial statements for the Parent Company show the following aggregate amounts:

	2010	2009
	$'000	$'000
Balance sheet		
Current assets	**1,241,996**	1,467,084
Total assets	**3,933,509**	3,743,043
Current liabilities	**821,664**	556,196
Total liabilities	**1,444,744**	1,287,032
Shareholders' equity		
Contributed equity	**2,382,092**	2,336,178
Reserves		
Equity remuneration reserve	**18,003**	26,717
Share option reserve	**16,427**	16,427
Retained earnings	**72,243**	76,689
	2,488,765	2,456,011
Profit or loss for the year	**224,728**	217,719
Total comprehensive income	**224,728**	217,719

(b) Guarantees entered into by the Parent Company

The Parent Company is a party of the deed of cross guarantee as disclosed in Note 31. No liabilities have been assumed by the Parent Company in relation to this guarantee as it is expected the parties to the deed of cross guarantee will continue to generate positive cash flows. As a result no liability was recognised by the Parent Company or the Consolidated Group in relation to this guarantee, as the fair value of the guarantee is immaterial.

Note 43 Parent Company financial information (continued)

(c) Contingent liabilities of the Parent Company

The Parent Company did not have any contingent liabilities as at 30 June 2010 or 30 June 2009. For information about guarantees given by the Parent Company, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

The Parent Company did not have any contractual commitments for the acquisition of property, plant or equipment as at 30 June 2010 or 30 June 2009.

Note 44 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 Group, the results of those operations or the state of affairs of the Group in subsequent financial years, other than as follows:

On 23 August 2010 Sonic's directors declared a final dividend of 35 cents (35% franked) per ordinary share, paid on 28 September 2010. Sonic's Dividend Reinvestment Plan remained suspended for this dividend. The final dividend included no conduit foreign income.

Directors' declaration
For the year ended 30 June 2010

In the directors' opinion:

(a) the financial statements and Notes set out on pages 32 to 112 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 Group's financial position as at 30 June 2010 and of its performance 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.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Managing Director and Finance Director required by section 295A of the *Corporations Act 2001*.

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

Dr C.S. Goldschmidt
Managing Director

C.D. Wilks
Director

Sydney
30 September 2010

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

Report on the financial report

We have audited the accompanying financial report of Sonic Healthcare Limited (the company), which comprises the balance sheet as at 30 June 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Sonic Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

PRICEWATERHOUSECOOPERS

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Sonic Healthcare Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 13 to 20 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Sonic Healthcare Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Sonic Healthcare Limited (the company) for the year ended 30 June 2010 included on the Sonic Healthcare Limited 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 auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration 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 and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
30 September 2010

Shareholders' information

1. Information relating to shareholders

(a) Distribution schedule as at 16 September 2010

	No. of holders ordinary shares
1 – 1,000	19,154
1,001 – 5,000	17,536
5,001 – 10,000	1,563
10,001 – 100,000	816
100,001 and over	120
	39,189
Voting rights – on a show of hands	1/member
– on a poll	1/share
Percentage of total holding held by the twenty largest registered holders	73.21%
Number of holders holding less than a marketable parcel	592

(b) Substantial shareholders as at 16 September 2010

The company has received substantial shareholding notices to 16 September 2010 in respect of the following holdings:

	No. of securities	Percentage held
The Capital Group Companies, Inc.	33,408,409	8.60%
Manning & Napier Advisors, Inc. and affiliates	31,454,495	8.01%

(c) Names of the twenty largest registered holders of equity securities as at 16 September 2010

	No. of securities	Percentage held
J P Morgan Nominees Australia Limited	80,231,692	20.66%
National Nominees Limited	74,533,645	19.19%
HSBC Custody Nominees (Australia) Limited	58,092,886	14.96%
Jardvan Pty Ltd	16,958,704	4.37%
Citicorp Nominees Pty Limited	11,860,308	3.05%
Cogent Nominees Pty Ltd	9,131,052	2.35%
ANZ Nominees Limited <Cash Income A/C>	5,244,287	1.35%
AMP Life Limited	4,944,421	1.27%
Polly Pty Ltd	3,816,646	0.98%
Perpetual Trustee Company Limited	2,728,236	0.70%
JP Morgan Nominees Australia Limited <Cash Income A/C>	2,568,947	0.66%
Australian Reward Investment Alliance	2,280,523	0.59%
Tasman Asset Management Ltd <Tyndall Australian Share Whole>	2,062,772	0.53%
Argo Investments Limited	2,004,483	0.52%
Goodoil Investments Pty Ltd <Timothy Roberts Invest A/C>	1,868,717	0.48%
Cogent Nominees Pty Limited <SMP Accounts>	1,601,826	0.41%
Quintal Pty Ltd	1,501,138	0.39%
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	1,040,296	0.27%
Mrs Jennifer Margaret Robson	934,359	0.24%
Citicorp Nominees Pty Ltd <Cwlth Bank Off Super A/C>	923,596	0.24%
	284,328,534	**73.21%**

2. Unquoted equity securities as at 16 September 2010

	No. on issue	No. of holders
Options over unissued ordinary shares	15,600,000	68

Shareholders' information

3. Share Registry

Computershare Investor Services Pty Limited
Registered address: Level 5, 115 Grenfell Street, Adelaide, SA 5000
Postal address: GPO Box 1903, Adelaide, SA 5001

Enquiries within Australia: 1300 556 161
Enquiries outside Australia: +61 3 9415 4000
Investor enquiries facsimile: +61 3 9473 2408
Email: web.queries@computershare.com.au

Shareholders with enquiries should email, telephone or write to the Share Registry.

Separate shareholdings may be consolidated by advising the Share Registry in writing or by completing a Request to Consolidate Holdings form which can be found online at the above website.

Shareholders who are issuer sponsored holders should notify the Share Registry of a change of address without delay. Shareholders who are broker sponsored on the CHESS sub-register must notify their sponsoring broker of a change of address.

Direct payment of dividends into a nominated account may be arranged with the Share Registry. Shareholders are encouraged to use this option by completing a payment instruction form online or advising the Share Registry in writing with particulars.

The Annual Report is produced for your information. However, should you receive more than one or wish to be removed from the mailing list for the Annual Report, please advise the Share Registry. You will continue to receive any Notices of Meetings and Proxy Forms.

Supporting the environment through eTree
Sonic Healthcare Limited is a participating member of eTree and is proud to support this environmental scheme encouraging security holders to register to access all their communications electronically. Our partnership with eTree is an ongoing commitment to driving sustainable initiatives that help security holders contribute to a greener future.

For every email address registered at www.eTree.com.au/sonichealthcare, a donation of $1 is made to Landcare Australia. With your support of the eTree project, Sonic Healthcare has decreased its annual report and print production by ~10%. The result, in conjunction with Landcare Australia, is thousands of new trees being planted in reforestation projects around Australia and New Zealand. Furthermore, the ongoing benefits of this initiative include a reduction in energy and water resources associated with paper production.

We also encourage you to visit eTree if your email address has changed and you need to update it. For every updated registration, $1 will be donated to Landcare Australia. To register, you will need your Security Holder Reference Number (SRN) or Holder Identification Number (HIN).

4. Annual General Meeting
The Annual General Meeting will be held in Ballroom 2 at the Four Seasons Hotel, 199 George Street, Sydney at 10.00am on Thursday 18 November 2010.