

Annual Report

2009



SONIC
HEALTHCARE

"We take it personally"

Corporate directory

Directors

Mr B.S. Patterson	<i>Chairman</i>
Dr C.S. Goldschmidt	<i>Managing Director</i>
Mr C.D. Wilks	<i>Finance Director</i>
Mr R.P. Campbell	
Dr P.J. Dubois	
Mr C.J. Jackson	
Mr L.J. Panaccio	

Company secretary

Mr P.J. Alexander

Principal registered office in Australia

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New South Wales, 2113, Australia.
Phone: +61 2 9855 5444
Fax: +61 2 9878 5066
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Share registry

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street, Adelaide,
South Australia, 5000, Australia.
Phone: 1300 556 161 (Within Australia)
Phone: +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.
National Australia Bank Limited
The Royal Bank of Scotland plc
Westpac Banking Corporation

Stock exchange listing

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

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Managing director's report



The 2009 financial year was an exceptional year for Sonic Healthcare. Revenues reached A\$3 billion, a significant milestone in the company's history and a 27% increase on the prior year. Earnings per share increased 16%, representing the company's 14th consecutive year of double-digit EPS growth. Strong organic revenue growth and significant margin expansion were achieved in Sonic's three largest markets – Australia, the USA and Germany – despite ongoing market uncertainty and stress associated with the global financial crisis. The year in review also saw Sonic push ahead with its important strategy of synergy capture, particularly in Germany and the USA – successful, measurable outcomes of this strategy were achieved through initiatives of infrastructure rationalisation, centralisation of testing, global purchasing, cost streamlining and IT innovation, amongst others.

Although acquisition activity slowed deliberately in tandem with the global credit crisis, the period nevertheless allowed Sonic the opportunity to significantly strengthen its balance sheet in the interim. Consistent strong cash flows, a successful equity raising in November 2008 and new debt facilities all contributed to the substantial increase in headroom available for future growth. With even greater security and financial flexibility, Sonic is now strongly positioned to move forward comfortably to resume its traditional acquisitional growth strategy, preferentially in the USA, Germany and other selected European countries, where fragmented markets provide good synergy opportunities.

Sonic's Australian pathology division performed with distinction, achieving an organic growth rate of 9%, substantially above the 4.8%



Strong organic revenue growth and significant margin expansion were achieved in Sonic's three largest markets – Australia, the USA and Germany – despite ongoing market uncertainty and stress associated with the global financial crisis.

general industry growth. Outstanding service delivery, innovative product offerings and the execution of prudent long-term strategies will continue to drive growth in this division. In its key Australian geographical sectors, Sonic holds dominant positions in the high-end hospital and specialist-referral markets, where established expertise in esoteric testing will continue to form the basis for sustained organic growth. Sonic is now the clear market leader in Australian pathology, with revenues 20% higher than its nearest competitor.

Sonic enjoys a premier growth position in the USA laboratory market, having established a strong foothold over the past years and having consolidated this position through the 2009 financial year. Strong organic growth rates have been matched by ongoing synergy capture, achieved through physical mergers, inter-company referrals, national purchasing and other initiatives. Sonic's Apollo IT system was successfully launched in the company's Southeast division in April 2009 – this is the first location outside of Australia to implement this proprietary and innovative laboratory information system. The acquisition of Clinical Laboratories of Hawaii and its associated anatomical pathology practice, Pan Pacific Pathologists, was completed in September 2008, with subsequent smooth integration of both entities into the Sonic Healthcare USA structure.

Net Profit \$M

2009*	315.1
2008	245.1
2007	198.1
2006	172.0
2005	135.4

*Based on Ordinary Earnings

Gross Revenue \$M

2009	3,014
2008	2,380
2007	1,886
2006	1,656
2005	1,381



Sonic is now the clear market leader in Australian pathology, with revenues 20% higher than its nearest competitor.

Sonic's laboratories in Germany reported strong organic growth and margin expansion in the 2009 year. Revenues increased by 5% (despite targeted fee cuts) and a range of collaborative initiatives have resulted in sizeable annual synergy gains. The creation of a Sonic Germany Executive Committee, comprising senior management of the four major laboratory companies, together with representatives from Sonic's head office, will further augment Sonic's national strategies in Germany in the future. The purchase of GLP Medical Group in Hamburg was completed in September 2008 and Sonic has more recently signed an agreement to acquire Ladenmannbogen Laboratory, also located in Hamburg.

TDL, Sonic's UK laboratory, showed robust revenue and earnings growth through the year. Organic revenue growth increased by a substantial 15%, partly due to the continued strength of referrals from the "Harley Street" market. A new laboratory operation has now been established in Manchester, following the signing of a government contract in that location. Sonic/TDL remains well-positioned to bid for future NHS and other laboratory contracts that become available.

Sonic's laboratory in Switzerland continued its solid financial performance in the 2009 financial year. Operations were augmented by the acquisition of the Prof. Krech laboratory, completed in July 2008, which produced early synergy gains, including the physical consolidation of two laboratory operations.

In New Zealand, Sonic's Auckland-based laboratory, DML was notified that its long-standing contract to provide community laboratory services would terminate in September 2009. The Auckland contract represented less than 2% of Sonic's total revenue and earnings. As a consequence, Sonic took the step of writing off the total book value of intangible assets associated with all its New Zealand laboratory operations. DML will continue to provide cytology and other private pathology services, independent of community laboratory contracts. At the time of writing, service issues associated with the newly contracted provider have created some uncertainty as to the future of Auckland's contracted laboratory services.



Earnings per share increased 16%, representing the company's 14th consecutive year of double-digit EPS growth.

Earnings per Share ¢

2009*	85.2
2008	73.5
2007	65.5
2006	58.6
2005	48.9

*Based on Ordinary Earnings

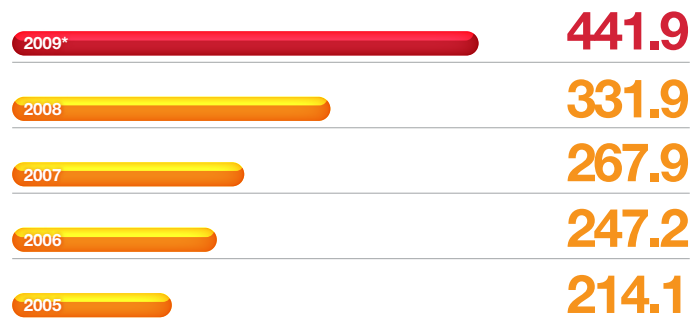
EBITA \$M

2009*	485.9
2008	402.7
2007	343.6
2006	306.0
2005	253.0

*Based on Ordinary Earnings

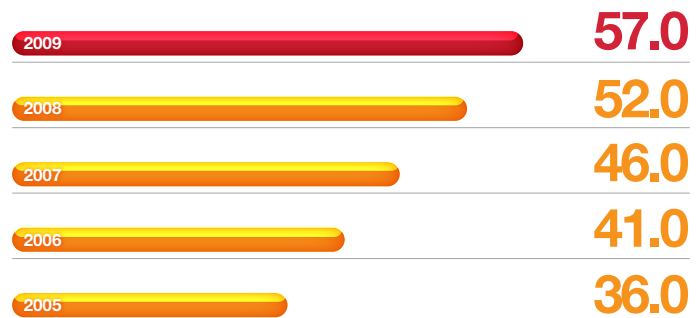


Net Operating Cash Flow \$M



*Based on Ordinary Earnings

Dividends per Share ¢



Although Sonic's radiology division has continued to face challenging market conditions over recent years, there is an expectation of improved performance in response to government mandated fee increases, effective 1 November 2009. Despite difficult conditions, Sonic's radiology practices continue to provide outstanding services and to contribute in no small measure to Sonic's high standing as a leading medical diagnostics company.

IPN became a wholly-owned subsidiary in September 2008. This transition occurred seamlessly and IPN now operates comfortably within the Sonic family. It has grown dramatically this financial year, both organically and through medical centre acquisition. IPN's differentiated market model, backed by a strong and stable management team, will work to ensure that IPN continues to perform with distinction.

Over the 22 years of its history, Sonic Healthcare has progressed to become an international medical diagnostics company, with an outstanding reputation for professional excellence and uncompromising integrity. From an investment point of view, the company presents a compelling proposition, with combined proven attributes of **growth, security** and deeply embedded corporate **culture and values**.

In terms of its **growth** record, over the past 16 years, Sonic has delivered compound annual revenue and earnings per share growth rates of 33% and 23% respectively. The global diagnostics industry in which Sonic operates is in strong growth mode itself, driven by combined influences of population ageing, new test development and an increasing emphasis on preventative medicine.

From a **security** perspective, the company's balance sheet is at investment grade standard, risk is spread by virtue of multinational, global operations, Sonic holds market leadership positions in Australia, Germany and the UK – and a solid number three position in the large US laboratory



Sonic's culture and values represent the greatest innate strength of the organisation – they provide invaluable product differentiation and competitive advantage in all the company's markets.

market and in Switzerland – and the company enjoys management stability throughout its operations.

It is my view that Sonic's **culture and values** represent the greatest innate strength of the organisation – they provide invaluable product differentiation and competitive advantage in all the company's markets. The formation of *SonicConnect*, an internal Sonic division to foster the company's cultural and operational uniqueness to its people, will ensure that this advantage becomes deeply embedded into the fabric of the organisation.

The solid achievements over the year highlight the underlying strength and resilience of Sonic Healthcare. The company's success is directly attributable to its people, now numbering more than 22,000 in six countries and in three continents. The innovation, expertise, loyalty and hard work of Sonic's global staff are directly responsible for the outstanding international reputation that Sonic enjoys today and I would like to end this report by thanking all Sonic people for their contribution to the company's outstanding achievements to date.

Dr Colin Goldschmidt
CEO and Managing Director



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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 2009.

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

Dr H.F. Scotton was a director from the beginning of the financial year until his retirement on 31 December 2008.

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:

	2009 \$'000	2008 \$'000
Interim dividend paid	84,452	66,695
Final dividend paid on 28 September 2009	135,950	107,203
Total dividend for the year	220,402	173,898

On 27 August 2009, the board declared a final dividend in respect of the year ended 30 June 2009 of 35 cents per ordinary share, 35% franked (at 30%) paid on 28 September 2009 with a record date of 14 September 2009. An interim dividend of 22 cents per ordinary share 60% franked (at 30%) was paid on 26 March 2009. These dividends included no conduit foreign income.

A final dividend of 32 cents per ordinary share was paid on 9 October 2008 in respect of the year ended 30 June 2008, 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 2008 was 20 cents per ordinary share, paid on 26 March 2008.

As a result of the Group's international expansion it is likely that future dividends will not be fully franked. It is expected that the 2010 interim dividend will be franked to ~35%.

Dividend Reinvestment Plan (DRP)

The company's DRP remains suspended for the 2009 final dividend and until further notice.

Review of operations

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

	2009 Ordinary Earnings \$'000	2009 Non- recurring items \$'000	2009 Statutory \$'000	2008 \$'000	% Change 2009 Ordinary v 2008
Revenue from ordinary activities	3,013,731	–	3,013,731	2,380,327	26.6%
Earnings before interest, tax, depreciation and intangibles amortisation (EBITDA)	578,999	–	578,999	478,568	21.0%
Depreciation and lease amortisation	(93,087)	–	(93,087)	(75,909)	22.6%
Earnings before interest, tax and intangibles amortisation (EBITA)	485,912	–	485,912	402,659	20.7%
Amortisation of intangibles	(8,196)	–	(8,196)	(5,906)	38.8%
Impairment of New Zealand Pathology intangibles	–	(120,100)	(120,100)	–	
Restructuring costs – New Zealand Pathology	–	(22,772)	(22,772)	–	
Non-recurring items expensed in first half of 2009	–	(11,002)	(11,002)	–	
Net interest expense	(74,234)	–	(74,234)	(64,886)	14.4%
Income tax attributable to Operating Profit	(87,141)	10,088	(77,053)	(81,461)	7.0%
Net Profit attributable to Outside Equity Interests	(1,195)	–	(1,195)	(5,290)	(77.4%)
Net Profit attributable to shareholders of Sonic Healthcare Limited	315,146	(143,786)	171,360	245,116	28.6%
Cash generated from operations	441,910	(11,958)	429,952	331,885	33.2%

Earnings per share

	2009 Ordinary Earnings	2009 Non- recurring items	2009 Statutory	2008	% Change 2009 Ordinary v 2008
Cents per share					
Basic earnings per share	86.3¢	(39.4)¢	46.9¢	75.0¢	15.1%
Diluted earnings per share	85.2¢	(38.9)¢	46.3¢	73.5¢	15.9%

Review of operations (continued)

1. Key highlights

- Out-performed both revenue and EPS growth guidance.
- Significant market share gains in Australian Pathology contributing to 9% organic revenue growth.
- Market share gains through strong organic growth in the USA, Germany and the UK.
- Strong margin expansion in key pathology operations.
- German and US synergies on track and driving margin growth.
- Successful equity raising, strong cash flow and new debt facilities providing ~\$775M of available funding for future acquisitions.

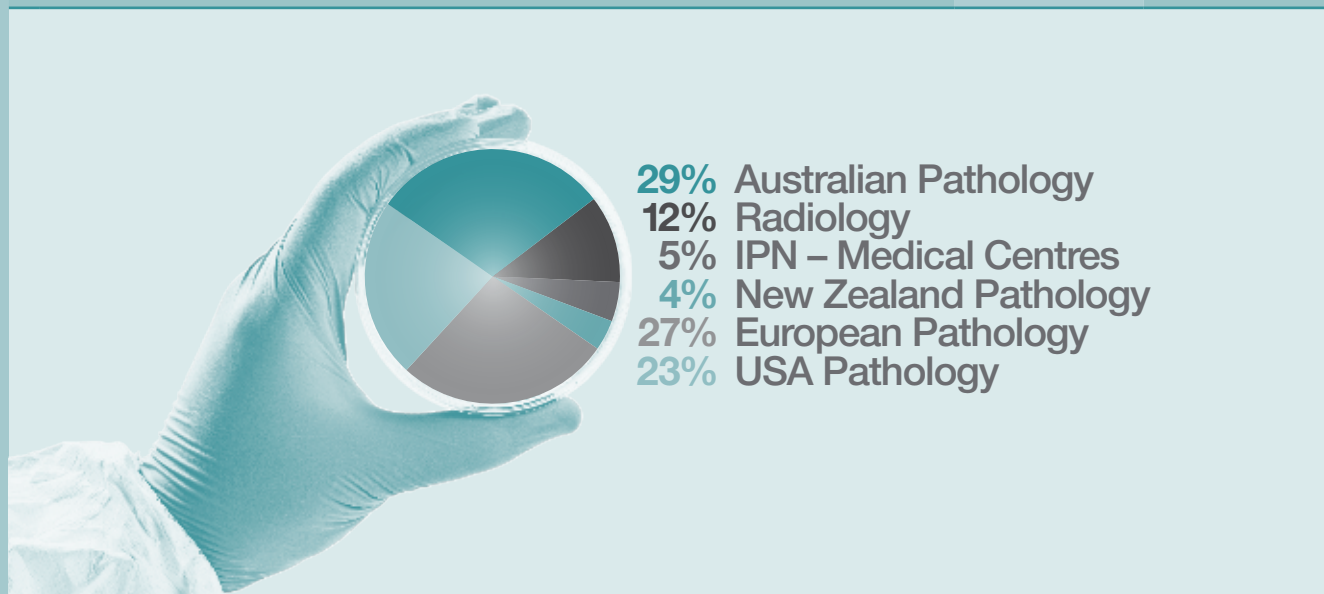
2. Explanation of results

(a) Revenue

Total revenue growth for the year was 26.6% (18.7% at 2008 currency exchange rates), exceeding guidance of greater than 15%.

Revenue split

	2009 Revenue AUD \$M	% of 2009 Revenue
Pathology – Australia	881	29%
Pathology – US	700	23%
Pathology – Europe	802	27%
Pathology – NZ	114	4%
Radiology	345	12%
Medical centres	159	5%
Revenue excluding interest income	3,001	100%



Review of operations (continued)

2. Explanation of results (continued)

(a) Revenue (continued)

Pathology organic revenue growth

AUD \$M	2009	2008	Organic growth
Australia (i) (ii)	880.5	807.5	9.0%
US (i) (ii)	482.9	459.8	5.0%
Europe (i) (ii)	634.3	599.8	5.8%
New Zealand (i) (ii)	120.4	117.2	2.7%
Effect of acquisitions (i) (iii)	192.4	(67.9)	
Exchange rate movement effect (i)	188.8	–	
Pathology revenue as reported	2,499.3	1,916.4	

Notes:

- (i) The geographic revenue figures shown for 2009 are presented using 2008 currency exchange rates, and excluding the revenue of acquisitions completed in the 2009 year, the total of which is shown separately (\$192.4M). The currency exchange rate effect is also shown separately (\$188.8M).
- (ii) The geographic revenue figures shown for 2008 have been adjusted (increased) to include a full year of revenue of acquisitions completed in the 2008 year. The total of these adjustments (\$67.9M) is then reversed to reconcile back to the reported total.
- (iii) Effect of acquisitions includes the effect on revenue of the Schottdorf restructure in December 2007 (see below for more details).

Organic (non-acquisitional) revenue growth in each of Sonic's pathology operations was at or above what Sonic believes are the relevant laboratory market growth rates. Particularly pleasing was the Australian Pathology organic growth (9.0%), which has taken Sonic to a revenue level almost 20% above its largest competitor. The organic growth rates in Australia and Europe were very strong given the effect during the year of cuts to the Australian Medicare (effective 1 July 2008) and German EBM (effective 1 January 2009) fee schedules.

Sonic's Australian Pathology operations did not significantly change their billing policies (mix between bulk-bill and private billing) during the year as Sonic's approach was to wait to see what changes were to be announced in the May 2009 Federal Budget. As further Medicare fee cuts were announced in the Budget, to take effect from 1 November 2009, Sonic's operations are now in the process of implementing significant billing policy changes which are expected to at least offset the November 2009 Medicare fee cuts.

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

- Sunrise Medical Laboratories, USA (31 July 2007)
- Bioscientia Healthcare Group, Germany (14 September 2007)
- American Clinical Services, USA (2 January 2008)
- Gemini Administration Services, Australia (11 April 2008)
- Laboratory Prof. Krech Group, Switzerland (1 July 2008)
- Labor 28 Group, Germany (1 July 2008)
- GLP Medical Group, Germany (1 September 2008)
- Clinical Laboratories of Hawaii, USA (2 September 2008)

In addition, the reported revenue of the Schottdorf Group (in Germany) has increased by ~A\$18M for the period compared to the prior year as the legal restructure carried out to enable Sonic to reach 100% ownership at 31 December 2007 caused a change in the legal entities consolidated in Sonic's results.

Review of operations (continued)

2. Explanation of results (continued)

(a) Revenue (continued)

This change, which will continue in the future, only affects reported revenue, and does not change profit. It therefore causes a dilution in reported operating margins.

Radiology revenue growth was 3.7%. Sonic remains the second largest participant in the Australian radiology market. Sonic's medical centre business, Independent Practitioner Network ("IPN"), achieved revenue growth of 30% through a combination of acquisitions and organic growth.

Revenue was impacted by currency exchange rate movements, which increased reported revenue by \$188M compared to the prior year.

(b) Non-recurring items

A number of non-recurring expenses occurred during the 2009 year, comprising:

	Pre-tax AUD \$M	Tax AUD \$M	Post-Tax AUD \$M
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 (ii)	5.3	(1.6)	3.7
Implementation of the Apollo laboratory information system into Douglass Hanly Moir (NSW, Australia) (ii)	3.5	(1.1)	2.4
UK pre-acquisition related insurance claim (ii)	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.

(ii) These costs were incurred in the first half of the 2009 financial year.

All further commentary and analysis will refer to "Ordinary Earnings", i.e. adjusted for these non-recurring items, unless labelled "Statutory".

(c) Group margin analysis

	2009	2008	Movement
EBITDA as a % of Revenue	19.2%	20.1%	(90) bps*
EBITA as a % of Revenue	16.1%	16.9%	(80) bps*

*bps = basis points of margin

Total operating margins have been significantly diluted by the acquisitions of businesses during the current and prior year (including those listed in (a) above) which have lower margins than the average of Sonic's other businesses. The change in the Schottdorf Group structure described above also caused reported margin dilution. Excluding these effects, pathology margins have expanded in total by 80 bps, as shown below.

Review of operations (continued)

2. Explanation of results (continued)

(d) Pathology margin analysis

	Revenue AUD \$M	EBITDA AUD \$M	Margin
2008 as reported (A)	1,916.4	410.9	21.4%
Exchange rate effects	188.8	32.6	
Effect of acquisitions*	260.3	33.6	12.9%
Organic growth (B)	133.8	43.7	32.7%
2009 Ordinary earnings	2,499.3	520.8	20.8%
Organic growth (B) over 2008 normalised for acquisitions	6.7%	10.5%	
Organic growth plus 2008 reported (A)+(B)	2,050.2	454.6	22.2%
Margin improvement of 80 bps (22.2% less 21.4%)			

* Effect of acquisitions includes the effect on revenue of the Schottdorf Group restructure in December 2007.

The table above shows that Sonic's pathology operations achieved marginal profit (EBITDA) of 32.7% on each dollar of organic revenue growth, and 80 bps of margin expansion in total. Margin expansion was strongest in the US (greater than 200 bps) and Germany (greater than 100 bps), where synergy capture from acquisitions in the last few years are on track. Australian Pathology also increased margins for the year, with a strong recovery in the second half. New Zealand Pathology margins contracted by 200 bps, reflecting the adverse funding system now operating in New Zealand, which comprises fixed fee contracts. German margin expansion was particularly pleasing in light of the ~2% fee cuts to the EBM fee schedule which took effect from January and April 2009.

Sonic's Radiology division margins continued to suffer from difficult market conditions, which the Australian Government recognised in the 2009 Federal Budget by announcing Medicare fee increases to come into effect from 1 November 2009. It was pleasing to see that despite this being one of the most difficult Federal Budgets in decades, the Government recognised the importance of the diagnostic sector to the Australian healthcare system.

(e) Interest expense and debt facilities

Net interest expense has increased 14.4% on the comparative period, mainly due to increased average debt levels as a result of business acquisitions and currency exchange rate movements.

All of Sonic's bank debt is drawn in foreign currencies as "natural" balance sheet hedging of Sonic's offshore operations.

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

Review of operations (continued)

2. Explanation of results (continued)

(e) Interest expense and debt facilities (continued)

Sonic's net interest bearing debt at 30 June 2009 comprised:

	Facility Limit M	Drawn M	AUD \$M Available
Syndicated facility			
USD limit	US\$609	US\$609	–
Euro limit	€354	€354	–
Multicurrency limit*	A\$179	A\$177	2
Bilateral term facility	€84	€84	–
Bilateral revolving facility	A\$40	A\$39	1
Minor debt/leasing facilities	n/a	A\$26*	–
Cash	n/a	A\$(558)*	558
Available funds at 30 June 2009			561

*Various currencies, cash mainly AUD

The significant cash balance shown above reflects the A\$469M of equity raised in November and December 2008, which has set Sonic's balance sheet for future growth.

In addition to the available funds noted above, Sonic has approval for, and is currently finalising the documentation of, additional foreign currency bilateral debt facilities with limits totalling ~A\$254M, with 3 and 5 year tenors. Sonic has also received over A\$31M of cash from the exercise of options over ordinary shares since year end.

(f) Tax expense

The effective tax rate in the second half of the year was 24.1%, in line with the guidance provided in February 2009. The full year effective tax rate of 21.6% is lower than the prior year (24.5%) as a result of Sonic's offshore expansion and over provisions in prior periods. Ignoring the impact of future acquisitions, and any short term fluctuations, the effective tax rate for future periods is expected to be in the range of 22-25%.

3. Operational developments

The Australian Federal Government has announced its intention to conduct reviews of the Government funding (via Medicare) of pathology and radiology. The reviews are expected to be completed by May 2011. Input into the reviews from industry (via the industry associations) has been invited. Sonic does not expect the outcomes of the reviews to materially impact its future financial performance.

Sonic's Auckland-based subsidiary's (Diagnostic Medlab) contract for the provision of community laboratory services in the Auckland region concluded on 6 September 2009. Diagnostic Medlab has operated in Auckland for over 50 years, joining the Sonic Healthcare group in 1999 as part of a larger acquisition involving eight pathology businesses in Australia and New Zealand. Under Sonic's ownership, Diagnostic Medlab has provided one of the finest and most efficient laboratory services in the world.

Review of operations (continued)

3. Operational developments (continued)

The Auckland contract represented less than 2% of Sonic's total revenue and earnings and will therefore not have a material impact on Sonic's future performance.

Sonic's Board resolved to write off the total book value of intangible assets associated with all its New Zealand Pathology operations as a consequence of the conclusion of the Auckland laboratory contract and the adverse funding system now operating in New Zealand, which is not considered conducive to further investment given the risk of non-renewal of contracts. Sonic confirms that the current New Zealand system of tendered, fixed-term contracts for community laboratory services is unique and does not exist in any other market in which Sonic operates.

Sonic is not exiting the New Zealand market, however, New Zealand Pathology is expected to represent less than 1% of Sonic's future global earnings.

Sonic's proprietary Apollo Laboratory Information System was seamlessly implemented into Douglass Hanly Moir Pathology's central laboratory in Macquarie Park, Sydney in the first half of the year, the largest Apollo implementation to date. More recently, the first implementation of Apollo in the USA was successfully completed in Sonic's Southeast division, headquartered in Orlando, Florida.

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:

- The synergistic acquisitions of the Labor 28 Group (Berlin, Germany, settled on 1 July 2008) and GLP Medical Group (Hamburg, Germany, settled on 1 September 2008).
- The synergistic acquisition on 1 July 2008 of the Swiss Laboratory Prof. Krech Group, and subsequent merger into the Medica Laboratory Group.
- The acquisition on 2 September 2008 of Clinical Laboratories of Hawaii, the leading medical laboratory group in Hawaii.
- Acquisition of the balance of Independent Practitioner Network via a Scheme of Arrangement implemented on 30 September 2008.
- Successful completion in late 2008 of an institutional private placement and Shareholder Purchase Plan, raising A\$469M of new capital which set Sonic's balance sheet for future growth.
- Successful establishment in July 2008 of an additional €84M 3 year term bank debt facility with two of the syndicate members of Sonic's senior syndicated bank debt facility.

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 27 August 2009 Sonic's Directors declared a final dividend of 35 cents (35% franked) per ordinary share, paid on 28 September 2009. Sonic's Dividend Reinvestment Plan remained suspended for this dividend.

Likely developments and expected results of operations

Sonic's main focus during the 2010 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 US and Europe and expects significant growth in these large fragmented laboratory markets over the coming years. Since year-end Sonic has announced a number of small but highly synergistic acquisitions, being Labor Lademannbogen (Hamburg, Germany), Axiom Laboratories (Tampa, Florida, USA) and Piedmont Medical Laboratory (Winchester, Virginia, USA).

On 27 August 2009 Sonic provided guidance to the market in relation to forecast results for the 2010 financial year as follows:

Assuming 2009 average currency exchange rates apply in 2010, Sonic expects to grow Net Profit by 10-15% over the 2009 level of \$315M. This guidance excludes the impact of future business acquisitions not already announced, and may be impacted by changes in interest rates.

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 Nominations Committee. 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).

Information on directors (continued)

(a) Directors' profiles (continued)



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 an executive 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 Vice-President of the Australian Diagnostic Imaging Association (ADIA), and a Councillor and the Radiology Craft Group Representative of the Australian Medical Association (AMA). Dr Dubois is a member of Sonic's Risk Management Committee. Dr Dubois is a non-executive director of Magnetica Limited (since December 2004).



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 and Treasurer 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. Mr Jackson was formerly Chairman and a non-executive director of Independent Practitioner Network Limited (2004-2008).

Directors' report

Information on directors (continued)

(a) Directors' profiles (continued)



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 Managing Director of the Monash IVF Group, non-executive Chairman of Health Networks Australia, non-executive Chairman of CPW Group and a non-executive director 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 Committee.

(b) Company secretary



Paul Alexander

B.Ec., C.A., FFin.

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).

(c) Directors' interests in shares and options as at 21 September 2009

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	1,100,000	Personally	4,750,000
	Ordinary	230,243	Beneficially	–
C.D. Wilks	Ordinary	468,750	Personally	2,835,000
	Ordinary	288,122	Beneficially	–
R.P. Campbell	Ordinary	–	–	–
Dr P.J. Dubois	Ordinary	–	–	–
C.J. Jackson	Ordinary	491,371	Personally	–
L.J. Panaccio	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 2009, and the numbers of meetings attended by each director were:

	Meetings of committees									
	Full meetings of directors		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	13	17	3	4	2	2	–	–	3	3
Dr C.S. Goldschmidt	17	17	–	–	–	–	3	3	3	3
C.D. Wilks	17	17	–	–	–	–	3	3	–	–
R.P. Campbell	16	17	4	4	2	2	–	–	3	3
Dr P.J. Dubois	17	17	–	–	–	–	3	3	–	–
C.J. Jackson	16	17	–	–	–	–	–	–	–	–
L.J. Panaccio	17	17	4	4	–	–	–	–	–	–
Dr H.F. Scotton*	11	11	–	–	–	–	–	–	–	–

* Retired on 31 December 2008

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.

Directors' report

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 and Parent Company (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

PricewaterhouseCoopers was appointed as auditor of IPN for the 2009 year. Details of the amounts paid in the prior year for the previous auditor of Independent Practitioners Network Limited (Deloitte Touche Tohmatsu) are also 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 33.

During the year the following fees were paid or payable for non-audit services provided by the auditors of the Group and the Parent Company, and, for the prior year, the auditor of Independent Practitioner Network Limited.

	Consolidated Group		Parent Company	
	2009 \$	2008 \$	2009 \$	2008 \$
PricewaterhouseCoopers – Australian firm				
Accounting and advisory services	140,000	–	–	–
Deloitte Touche Tohmatsu – Australian firm				
Accounting and advisory services	–	165,000	–	–

Share options

Information on share options is detailed in Note 6 – Share options.

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 2009 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 2 non-executive independent directors, makes specific recommendations to the Board on remuneration packages and other terms of employment for the Managing Director and Finance Director and advises the Board in relation to equity-based incentive schemes for other employees.

Sonic Healthcare Limited's remuneration policy links the remuneration of the Managing Director and the Finance Director to Sonic's performance through the award of conditional entitlements. These conditional entitlements (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. Given the growth of the company over the last two years, and following a review of market practice and non-executive director fees for entities of similar size and complexity, the board resolved that with effect from 1 May 2009, the base non-executive director fee of \$80,000 per annum (set in June 2006) be increased to \$125,000 per annum. The committee fee of \$10,000 per annum for each board committee upon which the director serves remained unchanged. 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.

Directors' report

Remuneration report (continued)

Performance of the Group

Sonic Healthcare Limited's total shareholder return over the five year period to June 2009 was 71% (2008: 167%). 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:

	2004	2005	2006	2007	2008	2009 [†]	Compound Average Annual Growth Rate*
Ordinary earnings per share (cps)	40.2	48.9	58.6	65.5	73.5	85.2	16.2%
Net profit attributable to members (\$'000)	108,212	135,353	172,029	198,072	245,116	315,146	23.8%

*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.

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

Dr H.F. Scotton (until his retirement on 31 December 2008)

Remuneration report (continued)

(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, during the financial year:

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

All of the above persons, except Dr R.E. Connor, were also key management personnel during the year ended 30 June 2008.

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, procurement and various projects and initiatives.

A German Sonic Executive Committee ("GSEC") has recently been established to coordinate 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 US operations.

Directors' report

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 2009

Name	Short-term employee benefits			Post-employment benefits
	Salary & fees \$	Other benefits ¹ \$	Cash bonus \$	Superannuation \$
Dr C.S. Goldschmidt ² <i>Managing Director</i>	1,377,670	104,923	1,082,900	21,745
C.D. Wilks ² <i>Finance Director</i>	575,000	–	541,450	100,000
Dr P.J. Dubois <i>Director</i>	493,346	9,424	100,000	50,000
C.J. Jackson <i>Director</i>	387,890	–	–	77,110
Dr H.F. Scotton ⁷ <i>Director</i>	167,603	–	–	49,997
B.S. Patterson <i>Chairman and non-executive Director</i>	106,925	–	–	10,575
R.P. Campbell <i>Non-executive Director</i>	106,925	–	–	10,575
L.J. Panaccio <i>Non-executive Director</i>	88,725	–	–	8,775
D. Byrne ^{4,6} <i>CEO, The Doctors Laboratory</i>	571,386	61,043	731,922	114,278
Dr R.E. Connor ^{3,6} <i>CEO, Sonic Healthcare USA, Inc.</i>	314,124	–	334,717	–
Dr R. Prudo ^{4,6} <i>Executive Chairman, The Doctors Laboratory</i>	519,441	62,179	205,167	103,889
G. Schottdorf ^{5,6} <i>CEO, Schottdorf Group</i>	936,751	32,992	–	–
D. Schultz ^{3,6} <i>President and COO, Sonic Healthcare USA, Inc.</i>	455,239	16,309	481,992	22,161

1 Other benefits include fringe benefits tax.

2 Dr C.S. Goldschmidt and C.D. Wilks' salaries reflect a review from 1 July 2008 after no changes to their base salaries for the previous five years.

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*. The Parent Company does not have any executives as defined under the *Corporations Act 2001*.

7 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.

Remuneration report (continued)

(c) Remuneration of directors and executives (continued)

12 months to 30 June 2008

Name	Short-term employee benefits			Post-employment benefits
	Salary & fees \$	Other benefits ¹ \$	Cash bonus \$	Superannuation \$
Dr C.S. Goldschmidt <i>Managing Director</i>	604,371	124,500	735,000	21,129
C.D. Wilks <i>Finance Director</i>	446,257	-	396,900	13,129
Dr P.J. Dubois <i>Director</i>	442,738	8,228	150,000	50,000
C.J. Jackson <i>Director</i>	444,853	-	-	20,147
Dr H.F. Scotton <i>Director</i>	326,481	-	-	102,328
B.S. Patterson <i>Chairman and non-executive Director</i>	100,916	-	-	9,084
R.P. Campbell <i>Non-executive Director</i>	75,687	-	-	34,313
L.J. Panaccio <i>Non-executive Director</i>	82,568	-	-	7,432
D. Byrne ^{3,5} <i>CEO, The Doctors Laboratory</i>	446,528	61,936	1,022,987	343,622
Dr M.W. Parmenter ⁵ <i>Managing Director, Independent Practitioner Network Limited</i>	511,871	-	147,000	13,129
Dr R. Prudo ^{3,5} <i>Executive Chairman, The Doctors Laboratory</i>	350,691	77,258	708,165	470,923
G. Schottdorf ^{4,5} <i>CEO, Schottdorf Group</i>	833,333	29,349	218,723	-
D. Schultz ^{2,5} <i>President and COO, Sonic Healthcare USA, Inc.</i>	362,359	3,510	329,490	27,896

1 Other benefits include fringe benefits tax.

2 D. Schultz is employed by Sonic Healthcare USA, Inc. and is 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*. The Parent Company does not have any executives as defined under the *Corporations Act 2001*.

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 2009 was: Dr C.S. Goldschmidt \$336,894 (2008: \$7,153), C.D. Wilks \$25,729 (2008: \$48,375), and C.J. Jackson \$5,878 (2008: (\$40,585)).

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 2009 were \$369,120 and \$4,471,060 respectively (2008: \$261,025 and \$4,995,949). 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 2009 were \$186,034 and \$2,387,647 respectively (2008: \$140,301 and \$2,697,812).

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 \$6,653,310, and for C.D. Wilks \$3,487,096. 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 2009. Of the total options issued under the Executive Incentive Plan, 50% had vested at 30 June 2009. No options have been forfeited to date under the Sonic Healthcare Limited Employee Option Plan or the Executive Incentive Plan.

In addition to the remuneration disclosed above, the calculated remuneration value of options over unissued ordinary IPN shares for Dr M.W. Parmenter for the 12 month period to 30 June 2008 (\$195,785) accounted for 23% of his remuneration. The fair value of the options at the time of grant had been determined and had been allocated equally over the service periods up to the vesting dates.

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 76% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2009 (2008: 89%), and 82% of C.D. Wilks' remuneration for the 12 months to 30 June 2009 (2008: 86%). Cash bonuses are performance related components of Dr P.J. Dubois' remuneration. These components make up 15% of Dr P.J. Dubois' remuneration for the 12 months to 30 June 2009 (2008: 23%).

During the financial year 1,750,000 options over unissued ordinary shares in Sonic Healthcare Limited were issued to Dr C.S. Goldschmidt and 875,000 options issued to C.D. Wilks, under the revised executive remuneration arrangements as set out in (d) below. These performance related issues comprise their long term incentive awards in relation to the 2009, 2010 and 2011 financial years. In addition 20,000 ordinary shares and 1,000,000 options over unissued ordinary shares in Sonic Healthcare Limited were issued to Dr C.S. Goldschmidt, and 10,750 shares and 540,000 options were issued to C.D. Wilks, under the Executive Incentive Plan during the year. These performance related issues represented their short term and long term incentive awards in relation to the 2008 financial year.

Options over unissued ordinary shares in Sonic Healthcare Limited accounted for 58% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2009. Options, which are subject to performance conditions, issued to Dr C.S. Goldschmidt during the 12 months to 30 June 2009 had an aggregate fair value of \$10,650,000

Remuneration report (continued)

(c) Remuneration of directors and executives (continued)

(2008: \$3,990,000). Note that the current 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 63% of C.D. Wilks' remuneration for the 12 months to 30 June 2009. Options, which are subject to performance conditions, issued to C.D. Wilks during the 12 months to 30 June 2009 (for his 2008, 2009, 2010 and 2011 long term incentives) had an aggregate fair value of \$5,619,000 (2008: \$2,154,600).

The relative proportions of conditional entitlements (including options) awarded to total remuneration for executives for the 12 months to 30 June 2009 were; D. Schultz 49% (2008: 46%), D. Byrne 50% (2008: 55%), Dr R. Prudo 23% (2008: 44%), G. Schottdorf 0% (2008: 20%), Dr R.E. Connor 52%, and in 2008 Dr M.W. Parmenter 40%.

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 (2008: nil). The total intrinsic value of the options at the date of exercise was \$6,440,000. In addition C.D. Wilks exercised 400,000 options at an exercise price of \$7.50, issued as remuneration, over ordinary shares in the company (2008: nil). The total intrinsic value of the options at the date of exercise was \$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.

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. Sonic has applied no discount to the calculated fair value of these options for non-market vesting conditions.

The assessed fair value at grant date of IPN options granted to Dr M.W. Parmenter were allocated equally over the period from grant date to vesting date. Fair values at grant date were independently determined using a binomial approximation option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, 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 option. IPN had applied a discount to the calculated fair value of these options for service continuity risk. All options over unissued IPN shares were cancelled on 1 October 2008, on payment of fair value at that time, after IPN became a wholly-owned subsidiary of Sonic.

(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

Remuneration report (continued)

(d) Service agreements (continued)

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.

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 (defined above – for the 2009 year EPS has been adjusted to exclude the effect of New Zealand Pathology related non-recurring items) 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 (“deferred share plan”). 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 since been removed, due to announced 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 (“deferred share plan”). 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 since been removed.

Remuneration report (continued)

(d) Service agreements (continued)

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 US 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 £264,600 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 £240,450 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.

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 US operations.

Remuneration report (continued)

(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 2009

Auditors' independence declaration



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As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2009, 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.

A handwritten signature in black ink, appearing to read 'Matthew Lunn', with a long horizontal flourish extending to the right.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
30 September 2009

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'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.

Corporate governance statement

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.

Corporate governance statement

1. Board of directors (continued)

(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	68	16	Chairman Non-Executive, independent Director	Company Management	Chairman of Remuneration and Nominations Committees, member of Audit Committee
Dr Colin Goldschmidt	55	16	Managing Director	Healthcare Industry and Company Management	Member of Risk Management and Nominations Committees
Mr Chris Wilks	51	19	Finance Director	Finance, Accounting, Banking, Secretarial and Company Management	Chairman of Risk Management Committee
Mr Peter Campbell	64	16	Non-Executive, independent Director	Finance and Accounting, Computing and Company Management	Chairman of Audit Committee, member of Remuneration and Nominations Committees
Dr Philip Dubois	63	8	Executive Director	Radiology Industry and Company Management	Member of Risk Management Committee
Mr Colin Jackson	61	9	Executive Director	Finance, Pathology Industry and Company Management	
Mr Lou Panaccio	52	4	Non-Executive, independent Director	Finance, Pathology Industry and Company Management	Member of Audit Committee

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, 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, Sonic does not comply with ASX Corporate Governance Council Revised Recommendation 2.1: "A majority of the board should be independent directors". Due to the importance to Sonic of medical leadership and representation of major medical practice subsidiaries on the board, it is envisaged that Sonic will not fully comply with Recommendation 2.1 in the short to medium term. However, the establishment of a Nominations Committee in July 2003, the retirement of three executive directors since the 2003 Annual General Meeting and the appointment of Mr Lou Panaccio (June 2005) as an additional independent director were significant steps towards compliance. The Nominations Committee is currently in the process of recruiting an additional independent, non-executive director.

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.

Corporate governance statement

1. Board of directors (continued)

(e) Conflicts of interest of directors

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

(f) Share trading

Under Sonic's Share Trading Policy, all Sonic employees are prohibited from buying or selling Sonic 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.

The members of the Remuneration Committee during the year were:

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

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

The current remuneration for non-executive directors is \$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.

2. Board committees (continued)

(b) Audit Committee

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

The members of the Audit Committee are:

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

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

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

- assisting the board in its oversight responsibilities by monitoring and advising on:
 - the integrity of the financial statements of the company,
 - the company's accounting policies and practices in accordance with current and emerging accounting standards,
 - the external auditors' independence and performance,
 - compliance with legal and regulatory requirements and 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

The members of the Risk Management Committee are:

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

Corporate governance statement

2. Board committees (continued)

(c) Risk Management Committee (continued)

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.

(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
Dr C.S. Goldschmidt

The Committee meets on an as required basis.

3. Identifying and managing business risks

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

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

3. Identifying and managing business risks (continued)

(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.

(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 unifying 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 better coordinate the company's approach to material business risk management.

Corporate governance statement

3. Identifying and managing business risks (continued)

(c) Regulatory compliance

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

Sonic's network of pathology laboratories, collection centres and radiology centres are required to meet and 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 2009 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.

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.

5. Continuous disclosure (continued)

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.

Corporate governance statement

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

(a) The board and its committees (continued)

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

Concise financial report 30 June 2009

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The concise financial report is an extract from the full financial report for the year ended 30 June 2009. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report. The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Sonic Healthcare Limited and its controlled entities as the full financial report. Further financial information can be obtained from the full financial report.

The full financial report and auditor's report can be accessed via the internet on our website: www.sonichealthcare.com. Alternatively, members can call +61 2 9855 5444 and request a copy of the full financial report and auditor's report, which will be sent free of charge.

Consolidated income statement

For the year ended 30 June 2009

	Notes	2009 \$'000	2008 \$'000
Revenue from operations	3	2,995,605	2,365,014
Other income		18,126	15,313
Total revenue		3,013,731	2,380,327
Labour and related costs		(1,314,637)	(1,054,236)
Consumables used		(524,205)	(395,265)
Operating lease rental expense		(141,443)	(116,254)
Impairment of New Zealand Pathology intangibles		(120,100)	–
Restructuring costs – New Zealand Pathology		(22,772)	–
Depreciation and amortisation of physical assets		(93,087)	(75,909)
Borrowing costs expense		(86,652)	(73,795)
Transportation		(91,042)	(71,595)
Utilities		(66,719)	(53,512)
Repairs and maintenance		(65,240)	(48,902)
Amortisation of intangibles		(8,196)	(5,906)
Other expenses from ordinary activities		(230,030)	(153,086)
Profit from ordinary activities before income tax expense		249,608	331,867
Income tax expense		(77,053)	(81,461)
Profit from ordinary activities after income tax expense		172,555	250,406
Net (profit) attributable to minority interests		(1,195)	(5,290)
Profit attributable to members of Sonic Healthcare Limited		171,360	245,116
		Cents	Cents
Basic earnings per share	5	46.9	75.0
Diluted earnings per share	5	46.3	73.5
Diluted earnings per share before non-recurring items	5	85.2	73.5

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

Consolidated balance sheet

As at 30 June 2009

	2009 \$'000	2008 \$'000
Current assets		
Cash and cash equivalents	557,932	63,865
Other financial assets (interest rate hedges)	–	4,710
Receivables	374,481	314,151
Inventories	51,872	41,342
Other	28,019	23,775
Total current assets	1,012,304	447,843
Non-current assets		
Receivables	5,365	3,872
Other financial assets (investments)	22,423	11,618
Property, plant and equipment	476,446	424,966
Investment properties	16,510	16,500
Intangible assets	3,191,282	2,700,231
Deferred tax assets	35,256	22,259
Other	1,660	1,712
Total non-current assets	3,748,942	3,181,158
Total assets	4,761,246	3,629,001
Current liabilities		
Payables	234,301	187,808
Interest bearing liabilities	421,999	510,348
Current tax liabilities	9,264	19,615
Provisions	123,116	93,994
Other financial liabilities (interest rate hedges)	40,289	7,269
Other	11,814	12,159
Total current liabilities	840,783	831,193
Non-current liabilities		
Interest bearing liabilities	1,334,268	791,702
Deferred tax liabilities	5,768	5,685
Provisions	40,210	35,450
Other	8,134	2,892
Total non-current liabilities	1,388,380	835,729
Total liabilities	2,229,163	1,666,922
Net assets	2,532,083	1,962,079
Equity		
Parent Company interest		
Contributed equity	2,299,256	1,709,577
Reserves	4,557	(8,895)
Accumulated profits	226,346	249,308
Total Parent Company interest	2,530,159	1,949,990
Minority interests	1,924	12,089
Total equity	2,532,083	1,962,079

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

Consolidated statement of recognised income and expense

For the year ended 30 June 2009

	2009 \$'000	2008 \$'000
Exchange differences on translation of foreign operations	33,476	(34,997)
Cash flow hedges (net of tax)	(21,147)	(1,788)
Revaluation of property	–	3,875
Actuarial (losses)/gains on retirement benefit obligations (net of tax)	(2,667)	1,915
Net movements recognised directly in equity	9,662	(30,995)
Profit for the year	172,555	250,406
	182,217	219,411
Attributable to:		
Members of Sonic Healthcare Limited	181,019	213,814
Minority interests	1,198	5,597
	182,217	219,411

The above consolidated statement of recognised income and expense should be read in conjunction with the accompanying notes.

Consolidated cash flow statement

For the year ended 30 June 2009

	2009 \$'000	2008 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	3,058,303	2,428,021
Payments to suppliers and employees (inclusive of goods and services tax)	(2,488,891)	(1,975,469)
	569,412	452,552
Interest received	12,418	8,909
Borrowing costs	(89,388)	(71,904)
Income taxes paid	(62,490)	(57,672)
Net cash inflow from operating activities	429,952	331,885
Cash flows from investing activities		
Payment for purchase of controlled entities, net of cash acquired	(447,254)	(683,468)
Payments for property, plant and equipment	(121,154)	(122,756)
Proceeds from sale of non-current assets	3,197	9,286
Payments for investments	(15,780)	(4,341)
Payments from restructuring and surplus leased space provisions	(169)	(847)
Payments for intangibles	(29,363)	(20,068)
Repayment of loans by other entities	3,163	11,328
Loans to other entities	(4,555)	(7,984)
Net cash (outflow) from investing activities	(611,915)	(818,850)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	537,730	462,392
Proceeds from borrowings	827,692	1,751,675
Repayment of borrowings	(557,074)	(1,549,594)
Dividends paid to company's shareholders	(148,268)	(161,953)
Dividends paid to minority interests in subsidiaries	(339)	(527)
Net cash inflow from financing activities	659,741	501,993
Net increase in cash and cash equivalents	477,778	15,028
Cash and cash equivalents at the beginning of the financial year	63,865	35,960
Effects of exchange rate changes on cash and cash equivalents	16,289	12,877
Cash and cash equivalents at the end of the financial year	557,932	63,865

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

Sonic Healthcare Limited and controlled entities

Notes to the consolidated financial statements

30 June 2009

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57	Note 6	Share options
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This concise financial report relates to the Group consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the year ended 30 June 2009. The accounting policies adopted have been consistently applied to all years presented.

Note 1 Presentation currency

The presentation currency used in this concise financial report is Australian dollars.

Note 2 Segment information

Business segments

The Group's primary segment reporting format is business segments. The Group delivers medical diagnostic services in the following segments:

(i) Pathology

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

(ii) Radiology

Radiology and diagnostic imaging services provided in Australia and New Zealand.

(iii) Other

Includes the corporate office function and other minor operations, as well as the consolidated results of Independent Practitioner Network Limited (IPN).

Notes to the consolidated financial statements

30 June 2009

Note 2 Segment information (continued)

Primary Reporting – Business Segments

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	459,941	33,910	(16,135)	–	477,716
Non-recurring items	(153,874)	–	–	–	(153,874)
Segment result after non-recurring items	306,067	33,910	(16,135)	–	323,842
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
Segment liabilities**	443,423	282,033	69,208	(321,768)	472,896
Unallocated liabilities					1,756,267
Total liabilities					2,229,163

* 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.

** Segment liabilities exclude interest bearing liabilities which are deemed an unallocated liability. Inter-segment payables are included in the relevant business segment.

Notes to the consolidated financial statements

30 June 2009

Note 2 Segment information (continued)

Primary Reporting – Business Segments

2008	Pathology \$'000	Radiology \$'000	Other \$'000	Eliminations \$'000	Consolidated Group \$'000
Revenue					
External sales	1,914,338	331,389	110,378	–	2,356,105
Inter-segment sales	364	296	3,990	(4,650)	–
Other income	440	1,530	13,343	–	15,313
Total segment revenue	1,915,142	333,215	127,711	(4,650)	2,371,418
Interest income					8,909
Total segment revenue					2,380,327
Result					
Segment result before interest and tax	365,675	40,547	(9,469)	–	396,753
Unallocated net interest expense					(64,886)
Profit before tax					331,867
Income tax expense					(81,461)
Profit after income tax expense					250,406
Segment assets*	2,861,535	548,068	1,519,502	(1,300,104)	3,629,001
Segment liabilities**	448,673	269,658	46,652	(400,111)	364,872
Unallocated liabilities					1,302,050
Total liabilities					1,666,922

* 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.

** Segment liabilities exclude interest bearing liabilities which are deemed an unallocated liability. Inter-segment payables are included in the relevant business segment.

Notes to the consolidated financial statements

30 June 2009

Note 3 Revenue

	2009 \$'000	2008 \$'000
Services revenue		
Medical services revenue	2,964,528	2,331,425
Other revenue		
Interest received or due and receivable	12,418	8,909
Rental income	14,195	13,484
Other revenue	4,464	11,196
	31,077	33,589
Revenue from operations	2,995,605	2,365,014

Note 4 Dividends

	2009 \$'000	2008 \$'000
Total dividends paid on ordinary shares during the year		
Final dividend for the year ended 30 June 2008 of 32 cents (2007: 29 cents) per share paid on 9 October 2008 (2007: 20 September 2007), fully franked based on tax paid at 30%	107,203	95,248
Interim dividend for the year ended 30 June 2009 of 22 cents (2008: 20 cents) per share paid on 26 March 2009 (2008: 26 March 2008), franked to 60% (2008: 100%)	84,452	66,695
	191,655	161,943
Dividends not recognised at year end		
In addition to the above dividends, since year end the directors have declared the payment of a final dividend of 35 cents (2008: 32 cents) per ordinary share, franked to 35% based on tax paid at 30%. The aggregate amount of the final dividend paid on 28 September 2009 out of retained profits at the end of the year, but not recognised as a liability is:	135,950	107,203
Franked dividends		
The 2009 final dividend declared after the year end will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2010.		
	2009 \$'000	2008 \$'000
Franking credits available at the year end for subsequent financial years based on a tax rate of 30%	9,312	37,751
The consolidated amounts include franking credits that would be available to the Parent Company if distributable profits of subsidiaries not part of the Australian tax group were paid as dividends. Under the tax consolidation legislation all of the franking credits of the Australian tax consolidated group are held by the Parent Company.		
The impact on the franking account of the dividend declared by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$20,393,000 (2008: \$45,944,000).		
Dividend Reinvestment Plan (DRP)		
The company's DRP remains suspended for the 2009 final dividend and until further notice.		

Notes to the consolidated financial statements

30 June 2009

Note 5 Earnings per share

	2009 Cents	2008 Cents
Basic earnings per share	46.9	75.0
Diluted earnings per share	46.3	73.5
Diluted earnings per share before non-recurring items	85.2	73.5
	2009 Shares	2008 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	365,367,618	326,845,998
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	369,722,154	333,379,534
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 6.		
	2009 \$'000	2008 \$'000
Reconciliations of earnings used in calculating earnings per share		
Net profit	172,555	250,406
Net (profit) attributable to minority interests	(1,195)	(5,290)
Earnings used in calculating basic and diluted earnings per share	171,360	245,116
Reconciliations of earnings used in calculating diluted earnings per share before non-recurring items (after tax)		
Earnings used in calculating basic and diluted earnings per share	171,360	245,116
Restructuring costs – New Zealand Pathology	15,940	–
Impairment of New Zealand Pathology intangibles	120,100	–
Implementation of the direct billing system in Germany*	3,710	–
Implementation of the Apollo laboratory information system (Australia)*	2,450	–
UK pre-acquisition related insurance claim**	1,586	–
Earnings used in calculating basic and diluted earnings per share before non-recurring items	315,146	245,116

* included within labour and related costs line in Income Statement

** included within other expenses from ordinary activities line in Income Statement

Note 6 Share options

(a) Shares under option

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

(i) *Sonic Healthcare Limited Employee Option Plan*

Grant date	Expiry date	Issue price of shares	Number of options at date of report
15/11/06	15/09/11	\$13.10	1,050,000
13/08/07	13/06/12	\$13.00	200,000
31/07/08	31/05/13	\$13.65	110,000
21/11/08	22/11/13	\$12.98	2,625,000
27/03/09	27/01/14	\$11.10	1,500,000
Total			5,485,000

The above 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

The grant of options on 21 November 2008 relates 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 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.

Notes to the consolidated financial statements

30 June 2009

Note 6 Share options (continued)

(a) Shares under option (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 of which 825,000 options have been issued at the date of this report. The vesting and other conditions for these options are the same as those for the Sonic Healthcare Limited Employee Option Plan.

Grant date	Expiry date	Issue price of shares	Number of options at date of report
24/07/06	24/05/11	\$12.69	20,000
Total			20,000

(iii) Executive Incentive Plan

At the date of this report the following options are on issue:

Grant date	Expiry date	Issue price of shares	Number of options at date of report
22/08/05	22/08/10	\$7.50	340,000
22/08/06	22/08/11	\$7.50	1,540,000
24/08/07	24/08/12	\$7.50	1,540,000
22/08/08	22/08/13	\$7.50	1,540,000
Total			4,960,000

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

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

(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.

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 preceding the grant date.

Note 6 Share options (continued)

(a) Shares under option (continued)

(iv) Independent Practitioner Network Limited Employee Share Option Scheme (continued)

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.

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.

(v) 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

All of the 3,000,000 options were exercised between 30 June 2009 and the date of this report.

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

(vi) 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

All of the 2,000,000 options remain unexercised as at the date of this report.

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

(vii) 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 after 30 May 2012 and 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.

All of the 1,000,000 options remain unexercised as at the date of this report.

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

Notes to the consolidated financial statements

30 June 2009

Note 6 Share options (continued)

(a) Shares under option (continued)

(viii) 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

All of the 1,000,000 options remain unexercised as at the date of this report.

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

(ix) 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

All of the 500,000 options remain unexercised as at the date of this report.

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

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

(i) Sonic Healthcare Limited Employee Option Plan Options:

A total of 163,500 ordinary shares of Sonic were issued during the year ended 30 June 2009 on the exercise of options granted under the Sonic Healthcare Limited Employee Option Plan and a further 99,000 shares have been issued since that date, but prior to the date of this report. The amounts paid on issue of those shares were:

Number of options	Amounts paid (per share)
10,000	\$9.51
227,500	\$9.56
25,000	\$13.10
262,500	

Note 6 Share options (continued)

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

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

A total of 67,000 ordinary shares of Sonic were issued during the year ended 30 June 2009 on the exercise of QXR options and a further 20,000 shares have been issued since that date, but prior to the date of this report. The amounts paid on issue of those shares were:

Number of options	Amounts paid (per share)
67,000	\$7.57
20,000	\$12.69
87,000	

(iii) Executive Incentive Plan:

A total of 1,400,000 ordinary shares were issued during the year ended 30 June 2009 on the exercise of Executive Incentive options and a further 1,340,000 shares have been issued since that date, but prior to the date of this report. The amount paid by the option holders per share was \$7.50.

No amounts are unpaid on any of these shares.

Note 7 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 27 August 2009 Sonic's directors declared a final dividend of 35 cents (35% franked) per ordinary share, paid on 28 September 2009. Sonic's Dividend Reinvestment Plan remained suspended for this dividend.

Directors' declaration

30 June 2009

The directors declare that in their opinion, the concise financial report of the Group for the year ended 30 June 2009 as set out on pages 45 to 61 complies with Accounting Standard AASB 1039: *Concise Financial Reports*.

The concise financial report is an extract from the full financial report for the year ended 30 June 2009. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report, which is available on request.

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 2009

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



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Report on the concise financial report

The accompanying concise financial report of Sonic Healthcare Limited comprises the balance sheet as at 30 June 2009, the income statement, statement of recognised income and expense and cash flow statement for the year then ended and related notes, derived from the audited financial report of Sonic Healthcare Limited for the year ended 30 June 2009. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

Directors' responsibility for the concise financial report

The directors are responsible for the preparation and presentation of the concise financial report in accordance with Accounting Standard AASB 1039: *Concise Financial Reports*, and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation of the concise financial report; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Sonic Healthcare Limited for the year ended 30 June 2009. Our audit report on the financial report for the year was signed on 30 September 2009 and was not subject to any modification. The Australian 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 for the year is free from material misstatement.

Our procedures in respect of the concise financial report included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039: *Concise Financial Reports*.

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

Liability limited by a scheme approved under Professional Standards Legislation

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



Independence

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

Auditor's opinion on the financial report

In our opinion, the concise financial report of Sonic Healthcare Limited for the year ended 30 June 2009 complies with Australian Accounting Standard AASB 1039: *Concise Financial Reports*.

Auditor's opinion on the remuneration report

In our opinion, the Remuneration Report of Sonic Healthcare Limited for the year ended 30 June 2009 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 2009 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.

A handwritten signature in black ink, appearing to read 'Matthew Lunn', is written over the printed name.

PricewaterhouseCoopers

A large, stylized handwritten signature in black ink, appearing to read 'Matthew Lunn', is written over the printed name.

Matthew Lunn
Partner

Sydney
30 September 2009

Shareholders' information

1. Information relating to shareholders

(a) Distribution schedule as at 21 September 2009

	No. of holders ordinary shares
1 – 1,000	15,192
1,001 – 5,000	15,204
5,001 – 10,000	1,346
10,001 – 100,000	765
100,001 and over	128
	32,635
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	74.38%
Number of holders holding less than a marketable parcel	262

(b) Substantial shareholders as at 21 September 2009

The company has received substantial shareholding notices to 21 September 2009 in respect of the following holdings:

	No. of securities	Percentage held
The Capital Group Companies, Inc.	24,414,655	6.29%

Shareholders' information

1. Information relating to shareholders (continued)

(c) Names of the twenty largest registered holders of equity securities as at 21 September 2009

	No. of securities	Percentage held
J P Morgan Nominees Australia Limited	70,463,115	18.14%
National Nominees Limited	68,186,510	17.55%
HSBC Custody Nominees (Australia) Limited	60,584,790	15.60%
Jardvan Pty Ltd	18,458,704	4.75%
Cogent Nominees Pty Ltd	13,077,724	3.37%
Citicorp Nominees Pty Limited	12,408,304	3.19%
ANZ Nominees Limited	9,010,150	2.32%
RBC Dexia Investor Services Australia Nominees Pty Limited (Pipooled Account)	4,991,794	1.29%
Citicorp Nominees Pty Limited (CFS WSLE Geared Share Fund Account)	4,654,279	1.20%
UBS Nominees Pty Ltd	4,075,296	1.05%
Polly Pty Ltd	3,816,646	0.98%
Queensland Investment Corporation	3,475,852	0.89%
Tasman Asset Management Ltd	2,968,211	0.76%
AMP Life Limited	2,371,991	0.61%
Citicorp Nominees Pty Limited (CFS WSLE Imputation Fund Account)	2,047,323	0.53%
Australian Reward Investment Alliance	1,938,930	0.50%
Argo Investments Limited	1,774,483	0.46%
RBC Dexia Investor Services Australia Nominees Pty Limited	1,660,995	0.43%
Quintal Pty Ltd	1,501,138	0.39%
Citicorp Nominees Pty Ltd (CFS Imputation Fund Account)	1,451,939	0.37%
	288,918,174	74.38%

2. Unquoted equity securities as at 21 September 2009

	No. on issue	No. of holders
Options over unissued ordinary shares	14,965,000	64

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.

Change of address should be notified to the Share Registry by telephone or in writing 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 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 at the Fort Macquarie Room, The InterContinental Hotel Sydney, 117 Macquarie Street, Sydney at 10.00am on Thursday 19 November 2009.



SONIC
HEALTHCARE

"We take it personally"