



SONIC  
HEALTHCARE

*"We take it personally"*



*Annual Report*  
**2006**

# CORPORATE DIRECTORY

## Directors

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

## Company secretary

Mr P.J. Alexander

## Principal registered office in Australia

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New South Wales, 2113, Australia.  
Ph: 61 2 9855 5444  
Fax: 61 2 9878 5066  
Website: [www.sonichealthcare.com](http://www.sonichealthcare.com)

## Share registry

Computershare Investor Services Pty Limited  
Level 5, 115 Grenfell Street, Adelaide,  
South Australia, 5000, Australia.  
Ph: 1300 556 161 (Within Australia)  
Ph: 61 3 9415 4000 (Outside Australia)  
Fax: 61 8 8236 2305  
Website: [www.computershare.com](http://www.computershare.com)

## Auditor

PricewaterhouseCoopers

## Solicitors

Allens Arthur Robinson  
Baker McKenzie

## Bankers

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

## Stock exchange listings

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

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*Sonic has continued to demonstrate strong organic growth and synergy capture*

**2006**

FINANCIAL  
HIGHLIGHTS

**20%**

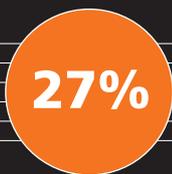
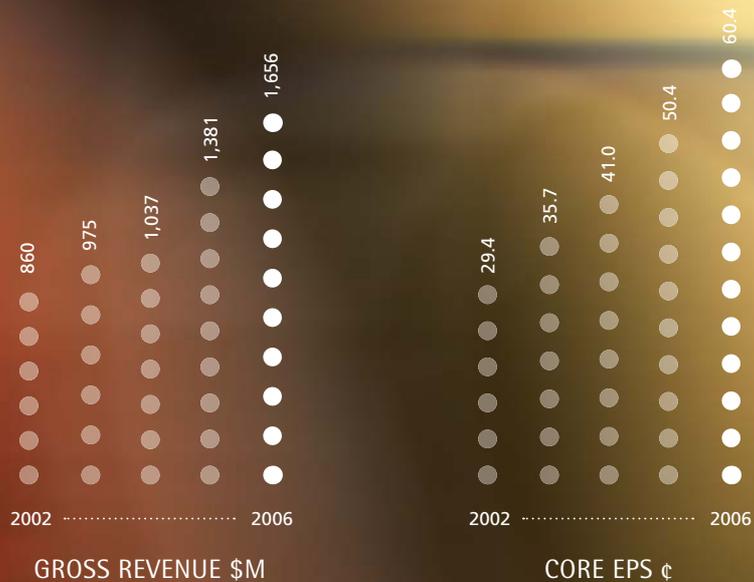
REVENUE  
GROWTH

**21%**

EBITA  
GROWTH

## **2006 SUMMARY**

- Sonic delivers record earnings result
- Sonic full-year guidance (given in August 2005) achieved
- CPL consolidated from October 2005
- Strong organic revenue growth
- 11th consecutive year of double-digit core EPS growth



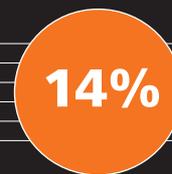
NPAT  
GROWTH



EPS  
GROWTH



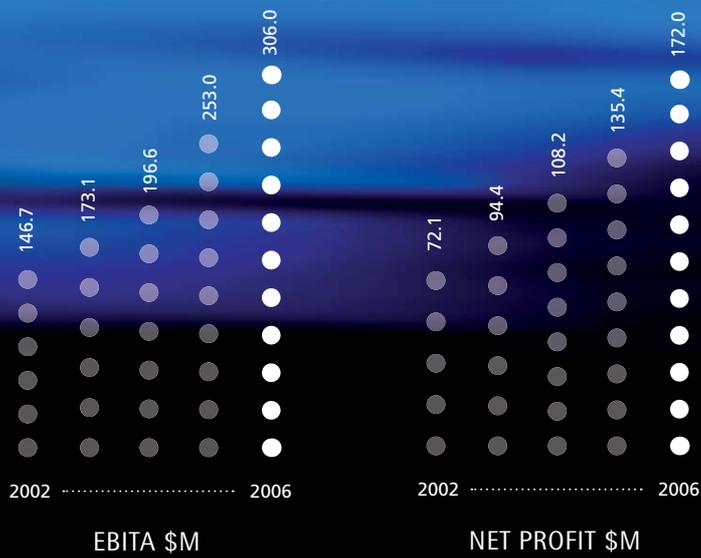
OPERATING  
CASH FLOW  
GROWTH



FULL YEAR  
DIVIDEND  
GROWTH

## FUTURE OUTLOOK

- Sonic progressing negotiations with several acquisition targets in Europe and North America
- Continued organic revenue growth
- IPN progressing growth strategy
- Continued focus on realising synergies and efficiencies



The year in review has been important for Sonic Healthcare in terms of consolidation and positioning for growth in new global markets. Expansion into laboratory markets in the UK, Germany and most recently the USA, have created the opportunity for Sonic to embark on an extended new growth phase in Europe and North America, applying a unique and proven model, successfully launched and executed in Australia over the past decade.

*Expansion into laboratory markets in the UK, Germany and most recently the USA, have created the opportunity for Sonic to embark on an extended new growth phase*

**\$1,656M**  
Group revenue

Within its existing markets, the company has continued to demonstrate strong organic growth and synergy capture, driving further value creation for shareholders.

Financial results for the year were outstanding, with revenue growth of 20%, net earnings growth of 27%, earnings per share growth of 20% and dividend growth of 14%.

The year's growth included Sonic Healthcare's new US laboratory partner, CPL, consolidated into Sonic's accounts from October 2005. At organic growth level, Sonic exceeded market rates, with particularly strong performance from the group's larger laboratory and radiology subsidiaries in Australia.

A note of disappointment was experienced in July when it was announced that Diagnostic Medlab (DML), Sonic's Auckland, New Zealand-based subsidiary would lose its community laboratory contract from 1 July 2007 to a newly formed and untested company. It is peculiar to the system currently in place in New Zealand, that a world-class business of many decades' standing can be treated as a contract. The dramatic and very widespread public and professional outcry over this decision is indicative of the high esteem that DML holds and of the senseless destruction of value that will result if the decision holds sway. Sonic is working diligently with DML senior management and staff to overturn the decision and litigation will commence in November 2006 on the grounds of flawed process and lack of probity. It is unconscionable that a decision of such moment could be made with such poor regard for the fundamentals of laboratory medicine.

*The culture of Sonic Healthcare rests with its Core Values, its medical leadership model, its federation structure and its uncompromising commitment to personalised customer service.*

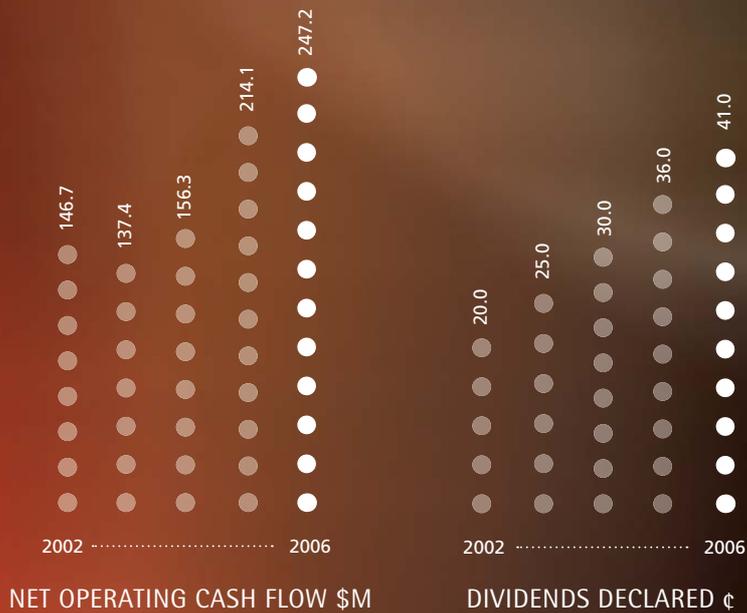
Sonic's majority-owned primary care company, IPN (Independent Practitioner Network) continues to perform with increasing strength. Under newly appointed CEO Dr Malcolm Parmenter, IPN has transformed into a stable and growth-oriented organisation with a bright future. IPN's re-focused medical approach presents an appealing model to doctors and is naturally conducive to Sonic's own operating model. Collaboration and synergy between the two organisations will therefore be enhanced into the future.

The year has been noteworthy for the mounting awareness and understanding of Sonic Healthcare - and what the company represents - in the health care markets of Europe and North America. Sonic is in a uniquely strong market position because of its deeply embedded and very special culture. The culture of Sonic Healthcare rests with its Core Values (a code of internal behaviour), its medical leadership model (remaining true to the tenets of the medical profession), its federation structure (reinforcing identity

and management autonomy for subsidiary companies) and its uncompromising commitment to personalised customer service (now neatly captured in the Sonic slogan "We take it personally"). This "cultural model" provides a major point of differentiation in an increasingly competitive global market place.



# 20% growth in EPS



Sonic Healthcare currently operates 28 separate subsidiary companies, in both hemispheres, and employs over 14,000 staff. The increasing scale and distribution of the company's operations have made it necessary to ensure the preservation of those particular corporate and cultural features that have determined Sonic's success to date. To this end, the Sonic Corporate Development department was established during the year, specifically to preserve and advance the Sonic Healthcare culture throughout the group's operations. This is an important step for the organisation and one that I believe will yield value for decades to come. Dr Gloria Armellin, one of Sonic's senior pathologists, heads up the department and I wish her and her team well in this novel and exciting initiative.

*It is with great pride that Sonic Healthcare stands on the threshold of an exciting future.*

It is with great pride that Sonic Healthcare stands on the threshold of an exciting future. With a history spanning less than twenty years, the company has matured to become a force on the global stage of medical diagnostics. There can be no doubt that it is the relentless and passionate dedication of

thousands of Sonic people that has propelled the company to the eminent position it now enjoys. I take this opportunity to offer them my thanks and congratulations for an outstanding achievement to date.



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Dr Colin Goldschmidt  
CEO and Managing Director

*Sonic Healthcare Annual Report*  
*2006*



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

### DIRECTORS

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

Mr B.S. Patterson	<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	
Dr H.F. Scotton	
Mr L.J. Panaccio	

### PRINCIPAL ACTIVITIES

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

### DIVIDENDS

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

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

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

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

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

**REVIEW OF OPERATIONS**

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

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

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

**(a) Revenue**

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

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

**(b) Profit**

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

Operating margin:	2006	2005
EBITA as a % of Revenue	18.5%	18.3%

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

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

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

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

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

- The acquisition of an ~ 82% interest in CPL, the largest privately owned pathology business in the United States, and its integration into the Sonic group. CPL's results have been consolidated into Sonic from 1 October 2005.
- The successful raising of over \$250m of equity comprising a combination of an institutional placement and a Shareholder Purchase Plan. The proceeds of both were used to retire debt associated with the CPL acquisition.
- Sonic completed a restructuring and expansion of its senior debt facility, leading to the establishment of a \$1 billion facility which is more flexible, has a lower cost of funds and which provides Sonic with significant "head room" for expansion.

### MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

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

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

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

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

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

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

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

### INFORMATION ON DIRECTORS

#### (a) Directors' profiles



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

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



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

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



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

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



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

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



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

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



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

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



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

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



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

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

### (b) Company secretary

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

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

## DIRECTORS' REPORT (CONTINUED)

### INFORMATION ON DIRECTORS (CONTINUED)

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

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

### MEETINGS OF DIRECTORS

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

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

### INSURANCE OF OFFICERS

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

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

### ENVIRONMENTAL REGULATION

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

### NON-AUDIT SERVICES

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

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are as follows:

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

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

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 26.

### SHARE OPTIONS

Information on share options are 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 2006 in accordance with section 300A of the Corporations Act.

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

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

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

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

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

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

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

**Performance of the consolidated entity**

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

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

\* The compound average annual growth rate is calculated over the period shown.

\*\* Net profit attributable to members and core earnings per share have been restated to reflect the application of AIFRS in prior periods.

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

	2006 \$	2005* \$
Short term employee benefits	7,338,846	7,260,282
Post employment benefits (superannuation contributions)	769,412	695,117
Share based payments	5,210,123	4,284,159
	<b>13,318,381</b>	<b>12,239,558</b>

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

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

**(a) Non-executive directors of Sonic Healthcare Limited**

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

\* Appointment effective 30 June 2005.

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

**REMUNERATION REPORT (CONTINUED)**

**(b) Executive directors of Sonic Healthcare Limited**

12 months to 30 June 2006

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

\* Other benefits include fringe benefits tax.

12 months to 30 June 2005

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

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

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

**(c) Other executives of the consolidated entity**

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

12 months to 30 June 2006

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

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

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

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

**REMUNERATION REPORT (CONTINUED)**

12 months to 30 June 2005

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

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

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

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

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

**(d) Service agreements**

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

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

### Dr C.S. Goldschmidt

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

Short term incentives:

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

Long term incentive:

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

### C.D. Wilks

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

Short term incentives:

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

Long term incentive:

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

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

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

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

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

### REMUNERATION REPORT (CONTINUED)

#### (d) Service agreements (continued)

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

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

Service agreements for other executives are detailed below.

#### D. Byrne

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Following the acquisition of TDL in April 2002, a 5 year service contract was established with the following key terms:

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

#### Dr R. Prudo

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Following the acquisition of TDL, a 5 year service contract was established with the following key terms:

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

#### Dr B. Schottdorf

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Following the acquisition of the Schottdorf Group in June 2004, a rolling service contract was established with the following key terms:

- Base salary of €579,000.
- Cash bonus arrangement (capped at €165,000) based on the satisfaction of performance conditions relating to the earnings of the Schottdorf Group.
- Twelve month notice period by either party.

#### G. Schottdorf

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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.

#### D. Schultz

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

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

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

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



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Dr C.S. Goldschmidt  
*Director*



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C.D. Wilks  
*Director*

Sydney  
29 September 2006



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#### AUDITORS' INDEPENDENCE DECLARATION

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

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

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

A handwritten signature in black ink, appearing to read 'B K Hunter'. The signature is written in a cursive, flowing style.

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B K Hunter  
Partner  
PricewaterhouseCoopers

Sydney  
29 September 2006

Liability limited by a scheme approved under Professional Standards Legislation.

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

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

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

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

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

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

- ***Commit to Service Excellence***  
To willingly serve all those with whom we deal with unsurpassed excellence.
- ***Treat each other with Respect & Honesty***  
To grow a workplace where trust, team spirit and equity are an integral part of everything we do.
- ***Demonstrate Responsibility & Accountability***  
To set an example, to take ownership of each situation to the best of our ability and to seek help when needed.
- ***Be Enthusiastic about Continuous Improvement***  
To never be complacent, to recognise limitations and opportunities for ourselves and processes and to learn through these.
- ***Maintain Confidentiality***  
With regard to patient records and all information pertaining to patients as well as other professional and commercial issues.

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

**1. BOARD OF DIRECTORS**

**(a) Role of the board**

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

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

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

The board's overall responsibilities include:

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

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

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

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

**(b) Composition of the board**

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

Name	Age	Term of office (Years)	Position	Expertise	Committees
Mr Barry Patterson	65	13	Chairman Non-Executive, independent Director	Company Management	Chairman of Remuneration and Nominations Committees, member of Audit Committee
Dr Colin Goldschmidt	52	13	Managing Director	Healthcare Industry and Company Management	Chairman of Risk Management Committee, member of Nominations Committee
Mr Chris Wilks	48	16	Finance Director	Finance, Accounting, Banking, Secretarial and Company Management	Member of Risk Management Committee
Mr Peter Campbell	61	13	Non-Executive, independent Director	Finance and Accounting, Computing and Company Management	Chairman of Audit Committee, member of Remuneration and Nominations Committees

Name	Age	Term of office (Years)	Position	Expertise	Committees
Dr Philip Dubois	60	5	Executive Director	Radiology Industry and Company Management	Member of Risk Management Committee
Mr Colin Jackson	58	6	Executive Director	Finance, Pathology Industry and Company Management	
Mr Lou Panaccio	49	1	Non-Executive, independent Director	Finance, Pathology Industry and Company Management	Member of Audit Committee
Dr Hugh Scotton	64	5	Executive Director	Radiology Industry and Company Management	

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

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

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

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

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

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

**(c) Board meetings**

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

### (d) Independent professional advice and access to information

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

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

### (e) Conflicts of interest of directors

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

### (f) Share trading

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

## 2. BOARD COMMITTEES

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

### (a) Remuneration Committee

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

The members of the Remuneration Committee during the year were:

Mr B.S. Patterson (Chairman)

Mr R.P. Campbell

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

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

### (b) Audit Committee

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

The members of the Audit Committee are:

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

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

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

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

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

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

### (c) Risk Management Committee

The members of the Risk Management Committee are:

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

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

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

### (c) Risk Management Committee (continued)

- Providing a forum for communication between the board, management and external risk management advisors.
- Providing a conduit to the board for external advice on operational risk management.

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

The Committee meets at least twice per year.

### (d) Nominations Committee

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

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

Members of the Nominations Committee are:

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

The Committee meets on an as required basis.

## 3. IDENTIFYING AND MANAGING BUSINESS RISKS

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

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

### (a) Responsibilities

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

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

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

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

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

### (b) Risk management systems and processes

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

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

### (c) Regulatory compliance

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

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

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

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

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

### (d) Managing Director and Finance Director sign-off

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

## 4. ETHICAL STANDARDS

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

### 5. CONTINUOUS DISCLOSURE

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

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

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

### 6. THE ROLE OF SHAREHOLDERS

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

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

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

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

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

### 7. EXTERNAL AUDITORS

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

### 8. PERFORMANCE EVALUATION OF THE BOARD, ITS COMMITTEES AND DIRECTORS, AND KEY EXECUTIVE OFFICERS

#### (a) The board and its committees

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

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

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

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

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

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

**(b) The Managing Director and Finance Director**

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

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

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

**(c) Key executives**

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

## CONCISE FINANCIAL REPORT – 30 JUNE 2006

Sonic Healthcare Limited ABN 24 004 196 909

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The concise financial report is an extract from the full financial report for the year ended 30 June 2006. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report. This 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 auditors report can be accessed via the internet on our website: [www.sonichealthcare.com.au](http://www.sonichealthcare.com.au). Alternatively, members can call +61 2 9855 5444 and request a copy of the full financial report and auditors report, which will be sent free of charge.

## CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2006

	2006 \$'000	2005 \$'000
Revenue from operations	1,645,184	1,374,841
Other income	11,183	6,064
<b>Total revenue</b>	<b>1,656,367</b>	<b>1,380,905</b>
Labour and related costs	(745,392)	(613,873)
Consumables used	(247,158)	(213,085)
Operating lease rental expense	(80,127)	(67,486)
Depreciation and amortisation of physical assets	(54,274)	(48,184)
Transportation	(44,300)	(37,028)
Borrowing costs expense	(42,925)	(43,411)
Repairs and maintenance	(38,343)	(33,152)
Utilities	(37,821)	(32,820)
Amortisation of intangibles	(1,823)	(1,708)
Other expenses from ordinary activities	(100,429)	(80,351)
<b>Profit from ordinary activities before income tax expense</b>	<b>263,775</b>	<b>209,807</b>
Income tax expense	(77,960)	(62,633)
<b>Profit from ordinary activities after income tax expense</b>	<b>185,815</b>	<b>147,174</b>
Net (profit) attributable to minority interests	(13,786)	(11,821)
<b>Profit attributable to members of Sonic Healthcare Limited</b>	<b>172,029</b>	<b>135,353</b>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share (Note 5)	59.8	49.8
Diluted earnings per share (Note 5)	58.6	48.9

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

## CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	2006 \$'000	2005 \$'000
<b>Current assets</b>		
Cash and cash equivalents	68,156	31,914
Other financial assets	3,357	-
Receivables	188,386	146,110
Inventories	26,926	23,813
Other	16,174	10,253
<b>Total current assets</b>	<b>302,999</b>	<b>212,090</b>
<b>Non-current assets</b>		
Receivables	4,452	4,017
Other financial assets	8,068	10,682
Property, plant and equipment	306,800	260,062
Intangible assets	1,690,239	1,271,648
Deferred tax assets	31,611	37,173
Other	1,051	1,211
<b>Total non-current assets</b>	<b>2,042,221</b>	<b>1,584,793</b>
<b>Total assets</b>	<b>2,345,220</b>	<b>1,796,883</b>
<b>Current liabilities</b>		
Payables	122,319	102,282
Interest bearing liabilities	28,403	40,035
Current tax liabilities	3,338	6,629
Provisions	70,545	61,266
Other	6,873	5,028
<b>Total current liabilities</b>	<b>231,478</b>	<b>215,240</b>
<b>Non-current liabilities</b>		
Payables	-	35
Interest bearing liabilities	782,253	616,610
Deferred tax liabilities	7,052	633
Provisions	18,592	19,100
Other	3,500	-
<b>Total non-current liabilities</b>	<b>811,397</b>	<b>636,378</b>
<b>Total liabilities</b>	<b>1,042,875</b>	<b>851,618</b>
<b>Net assets</b>	<b>1,302,345</b>	<b>945,265</b>
<b>Equity</b>		
Parent entity interest		
Contributed equity	1,181,978	909,912
Reserves	9,542	6,663
Accumulated profit	93,202	30,065
Total parent entity interest	1,284,722	946,640
Minority interests	17,623	(1,375)
<b>Total equity</b>	<b>1,302,345</b>	<b>945,265</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2006

	2006 \$'000	2005 \$'000
Total equity at the beginning of the year	945,265	849,783
Adjustment on initial adoption of AASB 132 and AASB 139:		
Retained profits	(1,353)	-
Reserves	516	-
Exchange differences on translation of foreign operations	(3,567)	(3,080)
Cash flow hedges (net of tax)	1,118	-
Net income recognised directly in equity	(3,286)	(3,080)
Profit for the year	185,815	147,174
Total recognised income and expense for the year	182,529	144,094
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	271,455	38,733
Dividends paid	(107,539)	(89,881)
Minority interest on acquisition of subsidiary	7,119	(1,331)
Distribution to minority interests in subsidiaries	(1,995)	(102)
Equity remuneration expense	5,511	3,969
Total equity at the end of the year	1,302,345	945,265
Total recognised income and expense for the year is attributable to:		
Members of Sonic Healthcare Limited	168,655	131,796
Minority interests	13,874	12,298
	182,529	144,094

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

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2006

	2006 \$'000	2005 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	1,703,951	1,442,355
Payments to suppliers and employees (inclusive of goods and services tax)	(1,341,994)	(1,131,942)
	361,957	310,413
Interest received	2,490	1,921
Borrowing costs	(45,936)	(40,072)
Income taxes paid	(71,303)	(58,196)
<b>Net cash inflow from operating activities</b>	<b>247,208</b>	<b>214,066</b>
<b>Cash flows from investing activities</b>		
Payment for purchase of controlled entities, net of cash acquired	(419,373)	(120,881)
Payments for property, plant and equipment, and intangibles	(97,968)	(58,200)
Proceeds from sale of non-current assets	9,497	1,945
Payments for investments	(1,162)	(2,208)
Repayment of loans by other entities	2,237	2,940
Loans to other entities	(1,328)	(431)
<b>Net cash (outflow) from investing activities</b>	<b>(508,097)</b>	<b>(176,835)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issues of shares and other equity securities	270,514	38,504
Proceeds from borrowings	988,721	195,759
Repayment of borrowings	(857,133)	(166,258)
Dividends paid to company's shareholders	(107,539)	(89,881)
Dividends paid to minority interests in subsidiaries	(1,995)	(102)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>292,568</b>	<b>(21,978)</b>
<b>Net increase in cash and cash equivalents</b>	<b>31,679</b>	<b>15,253</b>
Cash and cash equivalents at the beginning of the financial year	31,914	17,343
Effects of exchange rate changes on cash and cash equivalents	4,563	(682)
<b>Cash and cash equivalents at the end of the financial year</b>	<b>68,156</b>	<b>31,914</b>

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

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This concise financial report relates to the consolidated entity consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the year ended 30 June 2006. The accounting policies adopted have been consistently applied to all years presented except as described in Note 1.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 June 2006

### NOTE 1 ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The full financial report on which this concise financial report is based is the first annual Sonic Healthcare Limited financial report to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing the full financial report.

Financial statements of Sonic Healthcare Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Sonic Healthcare Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are given in Note 44 of the full financial report. A summary of this information is provided below.

	30.6.2005 \$'000	1.7.2004 \$'000
<hr/>		
(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS		
Total equity under AGAAP	882,633	847,787
De-recognition of restructure provisions	-	4,287
Adjustments to goodwill and identifiable intangibles	65,738	(1,185)
Adjustments to deferred tax balances	(3,106)	(1,106)
		<hr/>
Total equity under AIFRS	945,265	849,783
<hr/>		
		Year ended 30.6.2005 \$'000
(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS		
Profit after tax as previously reported under AGAAP		77,464
De-recognition of restructure provisions		(5,522)
Adjustments to goodwill and identifiable intangible amortisation		67,792
Adjustments to deferred tax balances		(535)
Share based payment expense		(3,969)
Movement in minority interest share of profit		123
		<hr/>
Profit after tax under AIFRS		135,353
<hr/>		
(iii) Adjustments on transition to AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> and AASB 139 <i>Financial Instruments: Recognition and Measurement</i> .		1.7.2005 \$'000
Total equity under AIFRS		945,265
Financial assets at fair value through the profit and loss account		(1,353)
Derivative financial instruments		516
		<hr/>
Revised equity under AIFRS		944,428
		<hr/>

### NOTE 2 PRESENTATION CURRENCY

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

### NOTE 3 SEGMENT INFORMATION

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#### Business segments

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

(i) Pathology

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

(ii) Radiology

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

(iii) Other

Includes the corporate office function and other minor operations. Following its acquisition on 26 August 2004 this segment also includes the consolidated results of Independent Practitioner Network Limited (IPN).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 June 2006

### NOTE 3 SEGMENT INFORMATION (CONTINUED)

#### Primary Reporting – Business Segments

2006	Pathology \$'000	Radiology \$'000	Other \$'000	Eliminations \$'000	Consolidated \$'000
<b>Revenue</b>					
External sales	1,243,553	313,011	86,130	-	1,642,694
Inter segment sales	2	614	3,002	(3,618)	-
Other revenue	-	617	10,566	-	11,183
Total segment revenue	1,243,555	314,242	99,698	(3,618)	1,653,877
Interest income					2,490
Total revenue					1,656,367
<b>Result</b>					
Segment result before interest and tax	259,062	52,047	(6,899)	-	304,210
Unallocated net interest expense					(40,435)
Profit before tax					263,775
Income tax expense					(77,960)
Profit after income tax expense					185,815
Segment assets	1,667,117	536,182	1,273,906	(1,131,985)	2,345,220
Segment liabilities	286,775	251,043	8,727	(270,209)	276,336
Unallocated liabilities					766,539
Total liabilities					1,042,875
<b>2005</b>					
<b>Revenue</b>					
External sales	1,007,487	294,604	70,829	-	1,372,920
Inter segment sales	353	344	2,098	(2,795)	-
Other revenue	217	186	5,661	-	6,064
Total segment revenue	1,008,057	295,134	78,588	(2,795)	1,378,984
Interest income					1,921
Total revenue					1,380,905
<b>Result</b>					
Segment result before interest and tax	209,987	51,752	(10,442)	-	251,297
Unallocated net interest expense					(41,490)
Profit before tax					209,807
Income tax expense					(62,633)
Profit after income tax expense					147,174
Segment assets	1,285,021	524,146	1,013,569	(1,025,853)	1,796,883
Segment liabilities	148,928	246,632	14,813	(153,374)	256,999
Unallocated liabilities					594,619
Total liabilities					851,618

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 June 2006

NOTE 4 DIVIDENDS	2006 \$'000	2005 \$'000
Ordinary Shares		
Final dividend for the year ended 30 June 2005 of 23 cents (2004: 20 cents) per fully paid share paid on 19 September 2005 (2004: 20 September 2004), fully franked based on tax paid at 30%	63,367	54,216
Interim dividend for the year ended 30 June 2006 of 15 cents (2005: 13 cents) per fully paid share paid on 20 March 2006 (2005: 17 March 2005), fully franked based on tax paid at 30%	44,172	35,665
Total dividends paid	107,539	89,881
The Company's Dividend Reinvestment Plan (DRP) remained suspended for these dividends.		
Dividends not recognised at year end		
In addition to the above dividends, since year end the directors have declared the payment of a final dividend of 26 cents (2005: 23 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the final dividend paid on 19 September 2006 out of 2006 profits, but not recognised as a liability at year end is	76,784	63,367

### Franked dividends

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 June 2006

<b>NOTE 5 EARNINGS PER SHARE</b>	2006 Cents	2005 Cents
Basic earnings per share	59.8	49.8
Diluted earnings per share	58.6	48.9
	2006 Shares	2005 Shares
Weighted average number of ordinary shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	287,910,303	271,932,711
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	293,420,332	276,973,703
Options over ordinary shares are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.		
	2006 \$'000	2005 \$'000
Reconciliations of earnings used in calculating earnings per share		
Net profit	185,815	147,174
Net (profit) attributable to minority interests	(13,786)	(11,821)
Earnings used in calculating basic and diluted earnings per share	172,029	135,353

### NOTE 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 Options:

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

The above options are exercisable as follows before the expiry date:

- 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

## (ii) Executive Director Options:

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

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

The above options are exercisable as follows before the expiry date:

- 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

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

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

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

175,000 of the 1,000,000 total options are yet to be issued.

## (iv) Schottdorf Options:

On 1 July 2004 3,000,000 options over unissued ordinary Sonic shares were granted to Dr and Mrs Schottdorf (1,500,000 each). Each option is convertible into one ordinary share as set out below on or before 31 August 2009 at an exercise price of \$6.75 per option:

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

None of these options have been exercised as at the date of this report.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 June 2006

### NOTE 6 SHARE OPTIONS (CONTINUED)

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

IPN (a controlled entity) has an Employee Share Option Scheme in place under which IPN, at the discretion of its Board of Directors, may grant options over unissued ordinary shares of IPN to directors (subject to shareholder approval), executives and certain members of IPN's staff. At the date of this report the following options are on issue:

Number of options	Weighted average exercise price of shares	Grant date	Expiry date	Vesting date
760,000	\$0.0785	23 November 2002	30 November 2007	25% per year from grant date
500,000	\$0.0785	23 November 2002	30 March 2007	25% per year from grant date
500,000	\$0.0785	23 November 2002	31 December 2006	25% per year from grant date
380,000	\$0.1320	22 August 2002	21 August 2007	10% on 1 <sup>st</sup> and 2 <sup>nd</sup> anniversary, 80% on third anniversary
<u>2,140,000</u>				

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

(b) Shares issued on the exercise of options

(i) Sonic Healthcare Limited Employee Option Plan Options:

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

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

(ii) Executive Director Options:

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

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

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

Number of options	Amounts paid (per share)
155,000	\$4.66
20,000	\$6.01
40,000	\$7.57
<u>215,000</u>	

No amounts are unpaid on any of these shares.

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**NOTE 7 EVENTS OCCURRING AFTER REPORTING DATE**

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

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

## DIRECTORS' DECLARATION

For the year ended 30 June 2006

The directors declare that in their opinion, the concise financial report of the consolidated entity for the year ended 30 June 2006 as set out on pages 36 to 49 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 2006. 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 consolidated entity as the full financial report, which is available on request.

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



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Dr C.S. Goldschmidt

Director



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C.D. Wilks

Director

Sydney  
29 September 2006



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## MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED CONCISE FINANCIAL REPORT

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

## AUDIT OPINION

In our opinion, the concise financial report of Sonic Healthcare Limited for the year ended 30 June 2006 complies with Australian Accounting Standard AASB 1039: *Concise Financial Reports*.

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

## SCOPE

### The financial report and directors' responsibility

The concise financial report comprises the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity, notes to the financial statements, and the directors' declaration for Sonic Healthcare Limited (the company) for the year ended 30 June 2006.

The directors of the company are responsible for the preparation and presentation of the financial report in accordance with Australian Accounting Standard AASB 1039: *Concise Financial Reports*.

### Audit approach

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

Liability limited by a scheme approved under Professional Standards Legislation.



We also performed an independent audit of the full financial report of the company for the financial year ended 30 June 2006. Our audit report on the full financial report was signed on 29 September 2006 and was not subject to any qualification.

In conducting our audit of the concise financial report, we performed procedures to assess whether in all material respects the concise financial report is presented fairly in accordance with Australian Accounting Standard AASB 1039: *Concise Financial Reports*.

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

- testing that the information included in the concise financial report is consistent with the information in the full financial report, and
- examining, on a test basis, information to provide evidence supporting the amounts, and other disclosures in the concise financial report which were not directly derived from the full financial report.

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

## INDEPENDENCE

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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'B K Hunter', written in a cursive style.

B K Hunter  
Partner  
PricewaterhouseCoopers

Sydney  
29 September 2006

## SHAREHOLDERS' INFORMATION

### 1. INFORMATION RELATING TO SHAREHOLDERS

(a) Distribution schedule as at 18 September 2006	No. of holders of ordinary shares
1 – 1,000	9,972
1,001 – 5,000	9,540
5,001 – 10,000	932
10,001 – 100,000	613
100,001 and over	121
	21,178
Voting rights – on a show of hands	1 / member
– on a poll	1 / share
Percentage of total holding held by the twenty largest holders	77.03%
Number of holders holding less than a marketable parcel	128

### (b) Substantial holders as at 18 September 2006

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

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

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

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

## SHAREHOLDERS' INFORMATION (CONTINUED)

### 2. UNQUOTED EQUITY SECURITIES AS AT 18 SEPTEMBER 2006

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

### 3. SECURITIES SUBJECT TO VOLUNTARY ESCROW AS AT 18 SEPTEMBER 2006

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

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





