



**SONIC
HEALTHCARE**

"We take it personally"

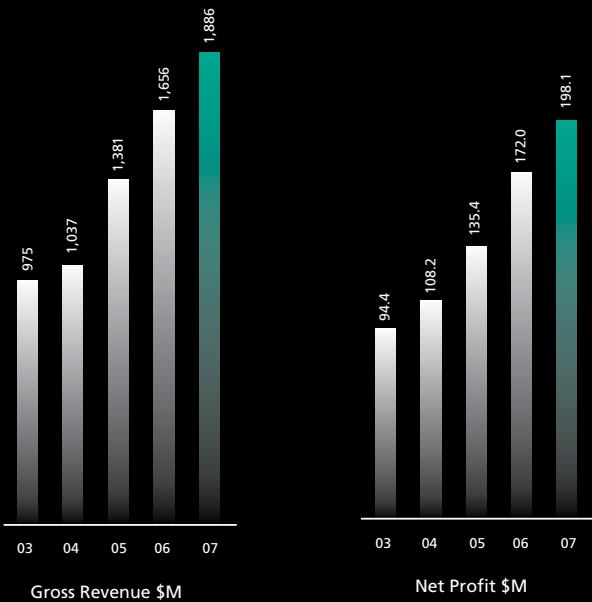


Annual Report 2007

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This is the 20th anniversary of our listing on the Australian Stock Exchange.

The year 2007 represents an important milestone in the history of Sonic Healthcare – this is the 20th anniversary of our listing on the Australian Stock Exchange. In the light of Sonic's humble beginnings back in 1987, it is more than gratifying to acknowledge the pre-eminent position that Sonic Healthcare commands in 2007. In its first year of operation, Sonic's revenues were around A\$13 million per annum – in the current financial year, revenues will well exceed the A\$2 billion mark. Twenty years ago, Sonic's market capitalisation was less than A\$10 million – today, it is more than A\$5 billion.

In addition to the enormous shareholder value created over the past two decades, Sonic is in the very fortunate position of being able to look ahead with realistic optimism towards a period of accelerated growth over the next decade of its corporate life. Sonic Healthcare is the leader in the Australian laboratory market and has established a solid infrastructure in all parts of the country, which will provide the framework for ongoing growth into the future. More importantly, Sonic has now reached critical mass in the laboratory markets of Europe and the United States, where annualised revenues are more than A\$500 million in each continent.

Sonic Healthcare now operates in six countries – Australia, New Zealand, the USA, Germany, the UK and Switzerland – and can justifiably claim to be the only truly international diagnostics company in the world today. Sonic is the largest laboratory player in Australia, New Zealand and Europe – and the third largest in the USA.

In the US laboratory market, following the partnership with Texas-based CPL in 2005, Sonic has completed a number of other key acquisitions - the AEL group of laboratories, operating mainly in Tennessee, Sunrise Medical Laboratories in New York, and several other smaller laboratory

\$1,886M
GROUP REVENUE

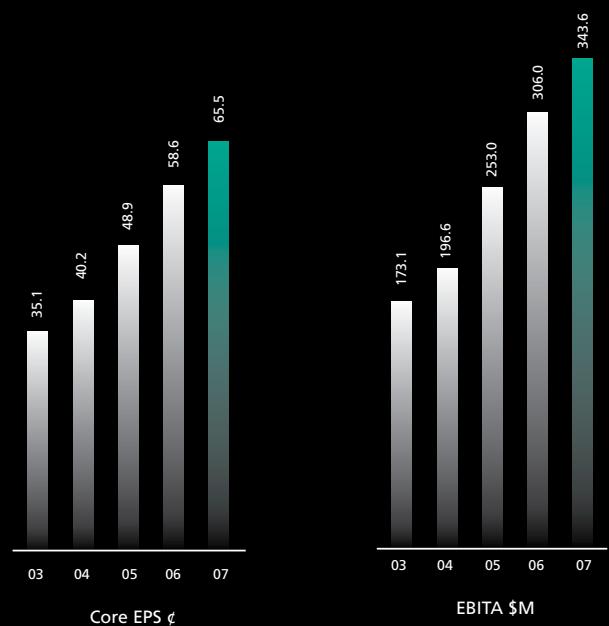
Bioscientia, together with the Schottdorf Group, give Sonic a significant presence in the German laboratory market

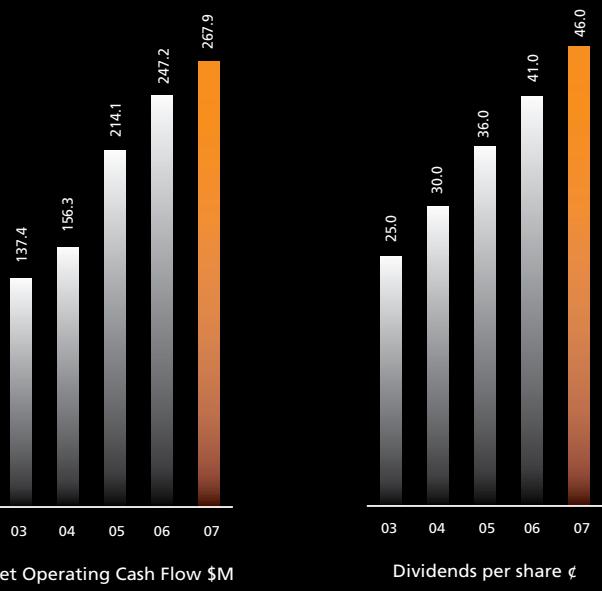
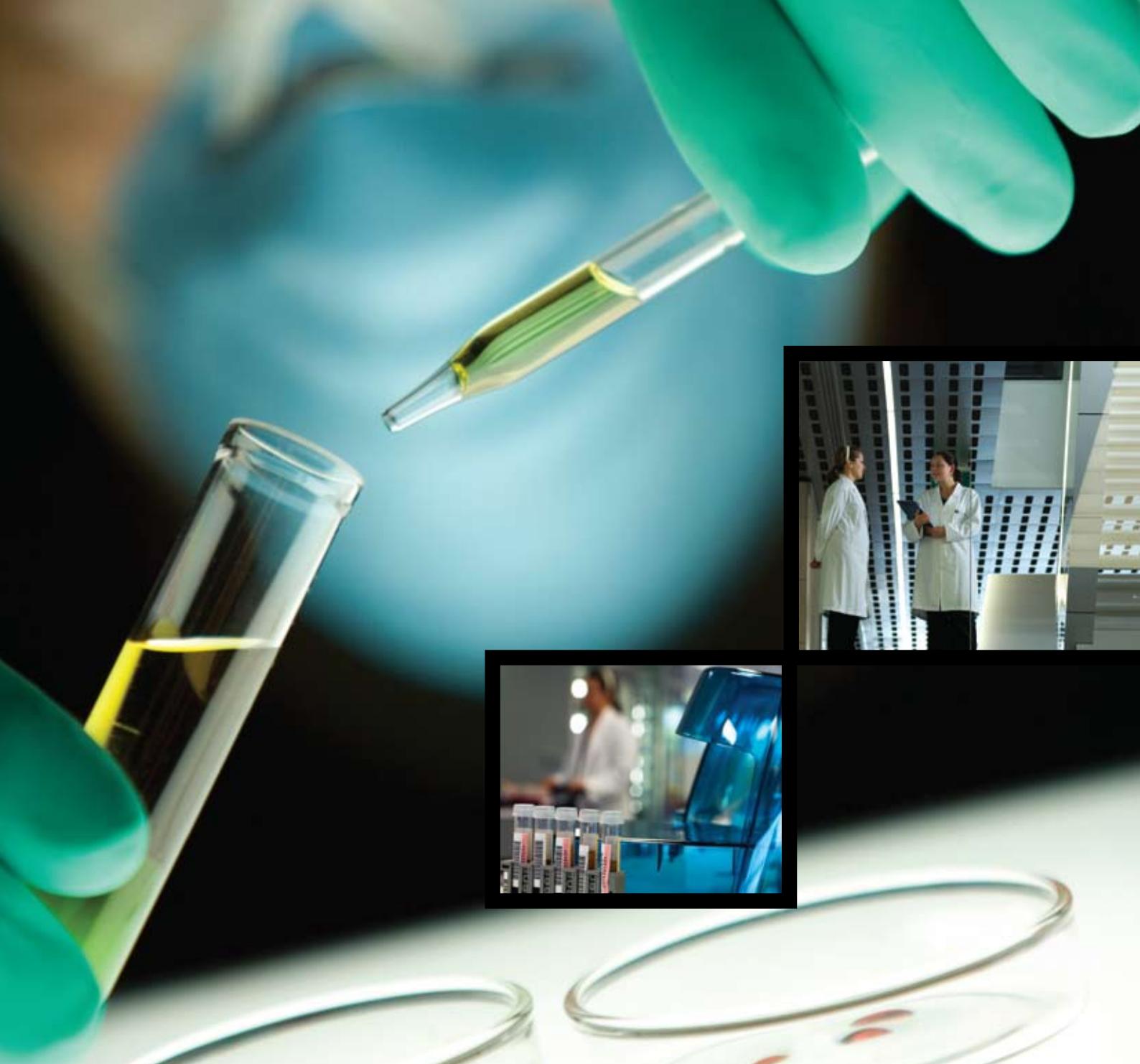
\$344M
EBITA

groups, predominantly located in the south-east of the USA. A separate holding company (Sonic Healthcare USA, Inc.) and corporate office have been established in Austin, Texas, to manage Sonic's expanding US operations. In addition, we have created a divisional hub-and-spoke structure in order to coordinate operational activities and to extract synergies.

In Europe, Sonic has recently entered the Swiss laboratory market via the acquisition of the Medica Laboratory Group. The company's presence in Germany has been dramatically boosted following the recent acquisition of the Bioscientia Healthcare Group, one of Europe's largest and most highly regarded laboratory groups. Bioscientia, together with the Schottdorf Group, give Sonic a significant presence in the German laboratory market and we will seek to grow further in this important region. Sonic's UK subsidiary, TDL, continues to perform strongly and has recently won a further outsource contract to manage a major hospital laboratory network.

Our success in Europe and the USA is largely a result of the attraction of Sonic Healthcare's established culture and operating model. Our partners in these locations share our commitment to medical leadership, personalised service, federated structure, the Sonic Core Values, and the aspiration to strive for staff satisfaction as a primary corporate goal. These features provide differentiation from competitors and will hopefully continue to attract like-minded partners to join the 'Sonic family'.





Our success in Europe and the USA is largely a result of the attraction of Sonic Healthcare's established culture and operating model.

\$268M

NET OPERATING CASH FLOW

Sonic's DML laboratory in New Zealand achieved a major victory in the judicial review of the decision to transfer the entire Auckland community laboratory contract to a newcomer in that market. DML has been awarded an interim contract, pending an appeal of the review and a possible new tender process. DML management and staff are to be congratulated on their enormous efforts to prepare for – and then win – the judicial review. Such a demonstration of loyalty and commitment to both DML and to Sonic, is unprecedented.

Sonic Healthcare's radiology division delivered somewhat disappointing financial results for the year, due mainly to unavoidable labour cost pressures. With the assistance of

Sonic's radiology managers and radiologists, a range of measures to counter this trend has been instituted and an improving trend over the next few years is expected.

Sonic's majority-owned primary care company, Independent Practitioner Network (IPN) continues to perform with distinction. IPN's positive transformation is a tribute to the management team and doctors of IPN, under the inspired leadership of CEO, Dr Malcolm Parmenter.

Sonic's outstanding performance to date is directly attributable to the loyal and committed efforts of its people...

It is indeed a privilege for me to present this 20-year anniversary annual report – especially at such an exciting time in Sonic's history. Given our very strong positions in Australia, Europe and the USA, Sonic's growth prospects are arguably as bright as they have ever been before.

Sonic's outstanding performance to date is directly attributable to the loyal and committed efforts of its people and I wish to take this opportunity to offer my sincere thanks to all for their outstanding achievements to date. Moreover, it would not be out of place for me to wish all Sonic Healthcare staff, customers and shareholders a very happy 20th anniversary and to thank all for their support of this great company.



Dr Colin Goldschmidt
CEO and Managing Director

Sonic Healthcare Annual Report

2007

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DIRECTORS' REPORT

Your directors present their report on the Group consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the year ended 30 June 2007.

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	
Mr L.J. Panaccio	
Dr H.F. Scotton	

PRINCIPAL ACTIVITIES

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

DIVIDENDS

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

	2007 \$'000	2006 \$'000
Interim dividend paid	50,270	44,172
Final dividend paid	95,248	76,784
Total dividend for the year	145,518	120,956

On 22 August 2007, the board declared a final dividend in respect of the year ended 30 June 2007 of 29 cents per ordinary share, 100% franked (at 30%) which was paid on 20 September 2007 with a record date of 5 September 2007. An interim dividend of 17 cents per ordinary share 100% franked (at 30%) was paid on 28 March 2007.

A final dividend of 26 cents per ordinary share was paid on 19 September 2006 in respect of the year ended 30 June 2006, 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 2006 was 15 cents per ordinary share, paid on 20 March 2006.

The company's dividend reinvestment plan (DRP) was suspended in respect of the 2006 and 2007 interim and final dividends and remains so until further notice.

DIRECTORS' REPORT (CONTINUED)

REVIEW OF OPERATIONS

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

	2007 \$'000	2006 \$'000	Movement %
Total revenue	1,886,081	1,656,367	13.9%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	405,667	360,307	12.6%
Depreciation and lease amortisation	(62,105)	(54,274)	14.4%
Earnings before interest, tax and intangibles amortisation (EBITA)	343,562	306,033	12.3%
Amortisation of intangibles	(2,633)	(1,823)	44.4%
Net interest expense	(50,473)	(40,435)	24.8%
Income tax attributable to operating profit	(80,402)	(77,960)	3.1%
Net (profit) attributable to minority interests	(11,982)	(13,786)	(13.1)%
Net profit attributable to shareholders of Sonic Healthcare Limited	198,072	172,029	15.1%

(a) Revenue

Revenue growth for the year was augmented by a full 12 months contribution from the acquisition of Clinical Pathology Laboratories, Inc. ("CPL", acquired on 1 October 2005), the acquisition of American Esoteric Laboratories, Inc. ("AEL") on 8 January 2007, the acquisition of the Medica Laboratory Group ("Medica") on 30 May 2007, and other small acquisitions. Revenue growth for the year for Sonic's Australian pathology operations was strong at 8.6%. Organic revenue growth in Sonic's US operations was well above market at almost 14%. Partially offsetting this was a reduction of revenue in New Zealand, associated with the formation of a joint venture (Aotea Pathology) to service the Wellington region. Sonic's Valley Diagnostic Laboratories practice ("VDL") was contributed into the JV, which Sonic does not consolidate. Radiology revenue growth has been impacted by the disposal of Sonic's Hong Kong radiology business during the year. Growth was also negatively impacted by foreign exchange rate movements, which reduced reported revenue by ~\$16M compared with the prior year.

DIRECTORS' REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

(b) Profit

The net profit (after minority interests) of the Group for the year was \$198,072,000 (2006: \$172,029,000), after deducting income tax expense of \$80,402,000 (2006: \$77,960,000). Diluted earnings per share increased 11.8% from 58.6 cents to 65.5 cents.

Operating margins:

	2007	2006	Movement
EBITDA as a % of Revenue	21.5%	21.8%	(30) bps*
EBITA as a % of Revenue	18.2%	18.5%	(30) bps

* bps = basis points of margin

Operating margins have been diluted by the acquisition of businesses during the current and prior year which have lower margins than the average of Sonic's other businesses, and by cost pressures within Sonic's radiology businesses. Radiology margins in the second half of the 2007 year showed improvement over the first half. Margin expansion in Sonic's Australian, UK and US pathology practices was particularly pleasing.

The results for the year were within the revenue and EPS growth guidance ranges provided by Sonic in August 2006. 2007 was Sonic's twelfth successive year of double-digit core earnings per share growth.

Net interest expense increased 24.8% on the prior year due to increased debt as a result of acquisitions in the current and previous year. Appropriate interest rate hedging arrangements are in place.

The effective tax rate (27.7%) has decreased from the prior year (29.6%) as a result of Sonic's offshore expansion. Sonic's subsidiary, Independent Practitioner Network Limited ("IPN") has recognised in the current year a tax asset of \$6,220,000 in relation to tax losses of prior years and booked a corresponding credit to tax expense in its standalone accounts. However as the losses relate to periods prior to Sonic gaining control of IPN, Sonic is required to treat the credit as a reduction of goodwill on consolidation, rather than as an increase in profit.

(c) Operational developments

As advised in Sonic's announcement dated 20 March 2007 and in a media release dated 29 March 2007, Sonic was successful in its legal challenge against a decision to award a new community laboratory services contract in Auckland, New Zealand to a competitor. The competitor has filed an appeal, which is due to be heard in May 2008. Sonic was awarded a new contract as sole provider of community pathology services in Auckland for a minimum of 18 months from 1 July 2007. Sonic is confident of its ability to work with the Auckland regional District Health Boards to deliver excellent service to the people of Auckland, so as to ensure the new contract is renewed or extended.

Construction of Sonic's new headquarters and the new Douglass Hanly Moir Pathology laboratory in Macquarie Park, Sydney was largely completed in the year. This state-of-the-art facility will be operational in late 2007.

A US Head Office structure has been established to drive the growth and efficiency of Sonic's US business. The US team is headed by Dr Robert Connor as CEO with Mr David Schultz as President and COO.

At the date of this report Sonic has achieved prospective annualised revenues in the US in excess of A\$500M and has become the largest laboratory company in Europe with annualised revenues in Europe of more than A\$500M. Total Group revenues are expected to be well over A\$2 Billion in the 2008 financial year.

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

- the acquisition of AEL in January 2007, Sonic's second major transaction in the US laboratory market.
- the acquisition of the minority interests in CPL, to facilitate synergies with AEL, given their geographical overlap.
- the acquisitions of Cognoscenti Health Institute (Orlando, Florida) and Mullins Pathology (Augusta, Georgia) opening new regions for further growth in the south-east of the USA.
- the acquisition of the Medica Laboratory Group (Switzerland) in May 2007.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

- on 31 July 2007 Sonic completed the acquisition of 100% of Sunrise Medical Laboratories, Inc. for a purchase price of ~US\$148M plus up to US\$20M under an earn-out arrangement which is based on above market revenue growth and maintenance of EBITDA margin in the year following settlement. The initial accounting for the acquisition has been determined only provisionally at the date of this report, given the recent settlement date. Sonic is still in the process of reviewing the acquisition balance sheet and identifying assets and liabilities not previously recorded, so as to determine the fair values of identifiable assets, liabilities, and contingent liabilities. Based on the provisional accounting the indicative fair value of net tangible assets acquired is ~US\$7M, with a provisional goodwill value of ~US\$161M.
- as described in Sonic's announcement to the ASX dated 2 August 2007, Sonic has reached agreement to acquire all of the outstanding equity held by minority interests in its German laboratory business for ~€80M. On 15 August 2007, Sonic moved to 67.9% ownership, and is expected to reach 100% ownership once a reorganisation of the legal structure of the business, which requires certain third party approvals, is completed.
- on 13 August 2007, Sonic issued 1,500,000 options over unissued ordinary shares and announced its intention to issue a further 1,000,000 options with an exercise price of \$14.16.
- on 22 August 2007, Sonic's directors declared a final dividend for 2007 of 29 cents per ordinary share which was paid on 20 September 2007. Sonic's dividend reinvestment plan remained suspended for this dividend and until further notice.
- on 30 August 2007, Sonic issued 28,169,015 fully paid ordinary shares at \$14.20 per share to investors as a result of an underwritten placement undertaken on 23 August 2007.
- on 14 September 2007, Sonic completed the transaction to acquire 100% of the Bioscientia Healthcare Group (based in Ingelheim, Germany) for a purchase price based on an enterprise value of ~€190M, including 116,674 Sonic ordinary shares. Given this acquisition only recently settled, the process of determining the fair value of identifiable assets, liabilities and contingent liabilities, and the amount of goodwill arising from the acquisition has only just commenced.

DIRECTORS' REPORT (CONTINUED)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Sonic's main focus during 2008 and in future financial years will be to continue to grow shareholder value through both acquisitions and organic growth, and by extracting efficiencies from its existing businesses, particularly in our three major markets of Australia, Europe and the USA.

Sonic continues to progress negotiations with a number of acquisition targets in the US and Europe and expects further significant growth in these large fragmented laboratory markets over the coming years, with strong potential for synergies now that major "beach heads" are in place.

On 23 August 2007 Sonic provided guidance to the market in relation to forecast results for the 2008 financial year as follows:

Revenue growth	~ 20-25%
EPS growth	At least 12%

The guidance is subject to assumptions regarding the timing of settlement of announced acquisitions and in relation to foreign exchange and interest rate movements.

As flagged at the time of the underwritten placement in late August 2007, Sonic is considering the possibility of implementing a Shareholder Purchase Plan to enable a larger number of Sonic shareholders to participate in the capital raising process.

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

DIRECTORS' REPORT (CONTINUED)

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 ("IPN") (since August 2005) and a member of the IPN Nominations Committee, 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 investment bank and has held positions on the boards of a number of public companies. Mr Wilks has been a director of Sonic since 1989. Mr Wilks is a member of the Risk Management Committee. Mr Wilks is currently a non-executive director of IPN (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), Admerex Limited (since January 2007) and also of QRxPharma Limited (since April 2007), and was formerly a non-executive director of SciGen Ltd from 1999 to February 2005.

DIRECTORS' REPORT (CONTINUED)

INFORMATION ON DIRECTORS (CONTINUED)



Dr Philip Dubois

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

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



Colin Jackson

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

Mr Jackson is a senior Executive Director of Sonic Healthcare. He plays an active role at Sonic corporate level and, as Sonic Commercial Director, heads up Sonic's procurement department. As Treasurer of the Australian Association of Pathology Practices, he plays an active role representing Sonic at national industry level. Mr Jackson was the Chief Executive Officer of Diagnostic Services Pty Limited (Sonic's Tasmanian practice) for 11 years to 2006. 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 IPN in August 2004, and was a member of the IPN Audit Committee from August 2004 until June 2006. He is currently Chairman of the IPN Nominations Committee and Remuneration Committee.



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.

DIRECTORS' REPORT (CONTINUED)

(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).

(c) Directors' interests in shares and options as at 20 September 2007

Director's name	Class of shares	Number of shares	Interest	Number of options
B.S. Patterson	Ordinary	3,816,646	Beneficially	-
Dr C.S. Goldschmidt	Ordinary	80,000	Personally	4,000,000
	Ordinary	600,000	Beneficially	-
C.D. Wilks	Ordinary	118,000	Personally	2,160,000
	Ordinary	473,000	Beneficially	-
R.P. Campbell	Ordinary	-	-	-
Dr P.J. Dubois	Ordinary	25,000	Beneficially	-
C.J. Jackson	Ordinary	490,590	Personally	-
L.J. Panaccio	Ordinary	-	-	-
Dr H.F. Scotton	Ordinary	115,189	Personally	-
	Ordinary	65,445	Beneficially	-

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 2007, 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
B.S. Patterson	11	11	2	2	1	1	-	-	1	1	1
Dr C.S. Goldschmidt	11	11	-	-	-	-	1	1	1	1	1
C.D. Wilks	11	11	-	-	-	-	1	1	-	-	-
R.P. Campbell	11	11	2	2	1	1	-	-	1	1	1
Dr P.J. Dubois	11	11	-	-	-	-	1	1	-	-	-
C.J. Jackson	11	11	-	-	-	-	-	-	-	-	-
L.J. Panaccio	10	11	2	2	-	-	-	-	-	-	-
Dr H.F. Scotton	11	11	-	-	-	-	-	-	-	-	-

DIRECTORS' REPORT (CONTINUED)

INSURANCE OF OFFICERS

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

NON-AUDIT SERVICES

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

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

	2007 \$	2006 \$
PricewaterhouseCoopers – Australian firm		
Audit or review of financial reports of the company or any entity in the Group	687,350	514,148
Accounting and advisory services	45,700	100,630
Total audit and accounting/advisory services	<u>733,050</u>	<u>614,778</u>
Total remuneration	<u>733,050</u>	<u>614,778</u>
Related practices of PricewaterhouseCoopers Australian firm (including overseas PricewaterhouseCoopers firms)		
Audit or review of the financial reports of the company or any entity in the Group	475,524	726,924
Accounting and advisory services	-	150,656
Total audit and accounting/advisory services	<u>475,524</u>	<u>877,580</u>
Taxation compliance services	34,534	20,199
Total remuneration	<u>510,058</u>	<u>897,779</u>

DIRECTORS' REPORT (CONTINUED)

The Board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001*. In the opinion of the directors none of the services provided undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 28.

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 2007 in accordance with section 300A of the Corporations Act.

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

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

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

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

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

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

Remuneration of non-executive directors is determined by the board within the maximum amount approved by the shareholders. At a General Meeting on 31 July 2001 shareholders approved a maximum amount of \$800,000 be available as remuneration for the services of the non-executive directors. Following a review of 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 Group does not contract to provide retirement benefits to directors or executives.

PERFORMANCE OF THE GROUP

Sonic Healthcare Limited's total shareholder return over the five year period to June 2007 was 245% (2006: 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:

	2003	2004	2005	2006	2007	Compound Average Annual Growth Rate*
Core earnings per share (cps)	35.1	40.2	48.9	58.6	65.5	16.9%
Net profit attributable to members ('\$000)**	92,434	108,212	135,353	172,029	198,072	21.0%

* 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.

DIRECTORS' REPORT (CONTINUED)

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

	2007*	2006
	\$	\$
Short term employee benefits	8,102,697	7,338,846
Long term employee benefits	16,919	39,906
Post employment benefits	957,349	769,412
Share based payments	6,425,314	5,210,123
	15,502,279	13,358,287

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

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 Group are set out below.

(a) Non-executive directors of Sonic Healthcare Limited

Name	2007 Directors' fee \$	2006 Directors' fee \$
B.S. Patterson (Chairman)	110,000	55,000
R.P. Campbell	110,000	55,000
L.J. Panaccio	90,000	53,333

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

(b) Executive directors of Sonic Healthcare Limited

12 months to 30 June 2007

Name	Salary & fees \$	Other benefits* \$	Cash bonus \$	Superannuation \$	Long service leave accrual \$
Dr C.S. Goldschmidt <i>Managing Director</i>	595,917	133,397	655,000	20,686	23,324
C.D. Wilks <i>Finance Director</i>	447,315	-	353,700	12,685	-
Dr P.J. Dubois <i>Director</i>	441,195	9,605	50,000	50,000	-
C.J. Jackson <i>Director</i>	366,764	2,987	60,000	11,817	(6,405)
Dr H.F. Scotton <i>Director</i>	319,784	-	-	109,242	-

*Other benefits include fringe benefit tax.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

12 months to 30 June 2006

Name	Salary & fees \$	Other benefits* \$	Cash bonus \$	Superannuation \$	Long service leave accrual \$
Dr C.S. Goldschmidt <i>Managing Director</i>	559,442	170,419	586,000	20,139	9,538
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	30,368
Dr H.F. Scotton <i>Director</i>	304,418	-	-	105,072	-

* Other benefits include fringe benefits tax.

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 2007 were \$203,961 and \$3,946,493 respectively (2006: \$210,561 and \$3,172,978). 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 2007 were \$109,629 and \$2,131,106 respectively (2006: \$113,176 and \$1,713,408). Of the options issuable under the Executive Incentive Plan, the maximum total value of the options yet to vest for Dr C.S. Goldschmidt is \$12,809,935, and for C.D. Wilks \$6,917,365. These maximum values represent the fair value of the options, determined at grant date, which are yet to be expensed. Of the total options issuable under the Executive Incentive Plan, 10% had vested at 30 June 2007. No options have been forfeited to date under the Executive Incentive Plan.

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 86% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2007 (2006: 84%), and 85% of C.D. Wilks' remuneration for the 12 months to 30 June 2007 (2006: 82%). Cash bonuses are performance related components of Dr P.J. Dubois' and C.J. Jackson's remuneration. These components make up 9% of Dr P.J. Dubois' remuneration for the 12 months to 30 June 2007 (2006: 13%), and 14% of C.J. Jackson's remuneration for the 12 months to 30 June 2007 (2006: Nil).

(c) Other executives of the Group

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

DIRECTORS' REPORT (CONTINUED)

12 months to 30 June 2007

Name	Salary & fees \$	Other benefits \$	Cash bonus \$	Superannuation \$
D. Byrne*				
CEO	494,140	67,508	555,590	144,163
<i>The Doctors Laboratory</i>				
Dr R. Prudo*				
<i>Executive Chairman</i>	278,832	80,213	282,891	468,987
<i>The Doctors Laboratory</i>				
Dr B. Schottdorf**				
<i>Executive Chairman</i>	961,973	28,540	-	-
<i>Schottdorf Group</i>				
G. Schottdorf**				
CEO	843,573	28,542	-	-
<i>Schottdorf Group</i>				
Dr M.W. Parmenter				
<i>Managing Director</i>	486,871	-	375,000	13,129
<i>Independent Practitioner Network Limited</i>				

* 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.

In addition to the remuneration disclosed above, the calculated value of options over unissued ordinary IPN shares granted on 7 December 2006 to Dr M.W. Parmenter for the 12 month period to 30 June 2007 was \$34,125. The fair value of the options at the time of grant have been determined and have been allocated equally over the service periods up to the vesting dates.

The relative proportions of conditional entitlements (including options) awarded to total remuneration for the 12 months to 30 June 2007 were; D. Byrne 44% (2006: 35%), Dr R. Prudo 25% (2006: 19%), Dr B. Schottdorf 0% (2006: 0%), G. Schottdorf 0% (2006: 0%), M.W. Parmenter 45% (2006: 17%), and in the prior year D. Schultz 47%.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

12 months to 30 June 2006

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

* D. Schultz is remunerated in US dollars. The remuneration shown is for the period from 1 October 2005, whilst he was employed by Clinical Pathology Laboratories, Inc.

(d) Service agreements

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

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

Dr C.S. Goldschmidt

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

Short term incentives:

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

Long term incentive:

- Issue of 1,000,000 options per annum exercisable at \$7.50 (Sonic's share price at the time (February 2004) the revised arrangements were agreed between the Remuneration Committee and the Executive Directors) if core earnings per share increase at least 10% (compounded) each year over a base set for the 2004 financial year of \$0.42. 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.

DIRECTORS' REPORT (CONTINUED)

C.D. Wilks

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

Short term incentives:

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

Long term incentive:

- Issue of 540,000 options per annum exercisable at \$7.50 (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 increase at least 10% (compounded) each year over a base set for the 2004 financial year of \$0.42. 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 2006 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 2007 financial year.

The maximum number of shares and options issuable in future years under the Executive Incentive Plan is 30,750 shares and 1,540,000 options.

Options over unissued ordinary shares in Sonic Healthcare Limited accounted for 71% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2007. Options issued to Dr C.S. Goldschmidt during the 12 months to 30 June 2007 had an aggregate fair value of \$3,940,000 (2006: \$3,890,000).

Options over unissued ordinary shares in Sonic Healthcare Limited accounted for 70% of C.D. Wilks' remuneration for the 12 months to 30 June 2007. Options issued to C.D. Wilks during the 12 months to 30 June 2007 had an aggregate fair value of \$2,127,600 (2006: \$2,100,600). All of the options issued under the Executive Director Option plan in April 2000 had been exercised prior to 30 June 2006, of which 200,000 options were exercised during the 2006 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 2006 financial year and the value of options issued in prior years exercised in the 2006 financial year was \$4,144,600.

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 a pricing model consistent with the Black Scholes methodology that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected 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.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

(d) Service agreements (continued)

The assessed fair value at grant date of IPN options granted to Dr M.W. Parmenter is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a binomial approximation option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Service agreements for other executives are detailed below.

D. Byrne

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

- Base salary of £218,000 per annum, plus superannuation and other benefits to be reviewed annually.
- Cash bonus arrangement based on the satisfaction of performance conditions relating to the earnings of TDL.
- Issue of £50,000 of fully paid ordinary Sonic shares following the award of a revenue contract or completion of an acquisition by TDL deemed to be of strategic significance.
- Twelve month notice period by either party.

Dr R. Prudo

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

- Base salary of £240,000 per annum, plus superannuation and other benefits to be reviewed annually.
- Cash bonus arrangement based on the satisfaction of performance conditions relating to the earnings of TDL.
- Issue of £50,000 of fully paid ordinary Sonic shares following the award of a revenue contract or completion of an acquisition by TDL deemed to be of strategic significance.
- Twelve month notice period by either party.

Dr B. Schottdorf

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

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

G. Schottdorf

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

- Base salary of €508,000.
- Cash bonus arrangement (capped at €330,000) based on the satisfaction of performance conditions relating to the earnings of the Schottdorf Group.
- Twelve month notice period by either party.

DIRECTORS' REPORT (CONTINUED)

Dr M.W. Parmenter

Following Dr M.W. Parmenter's appointment as Managing Director of IPN (9 January 2006), a rolling service agreement was established with the following key terms:

- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of \$500,000 to be reviewed annually by the Remuneration Committee of IPN.
- Notice period of 3 months to be provided if employee terminates and notice period of 6 months to be provided if employer terminates.
- In the event that the position is made redundant as a result of Sonic acquiring 100% of the issued share capital of IPN, the employee is entitled to one month's salary for each completed year of service.

D. Schultz

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

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

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



Dr C.S. Goldschmidt
Director



C.D. Wilks
Director

Sydney
28 September 2007

AUDITORS' INDEPENDENCE DECLARATION



PricewaterhouseCoopers
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As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2007, 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'.

B K Hunter
Partner
PricewaterhouseCoopers

Sydney
28 September 2007

Liability limited by a scheme approved under Professional Standards Legislation

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

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

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

- **Commit to Service Excellence**

To willingly serve all those with whom we deal with unsurpassed excellence.

- **Treat each other with Respect & Honesty**

To grow a workplace where trust, team spirit and equity are an integral part of everything we do.

- **Demonstrate Responsibility & Accountability**

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

- **Be Enthusiastic about Continuous Improvement**

To never be complacent, to recognise limitations and opportunities for ourselves and processes and to learn through these.

- **Maintain Confidentiality**

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

A description of the company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place throughout the year. Any issues of current non-compliance with the Recommendations are specifically noted and explained.

1. BOARD OF DIRECTORS

(a) Role of the board

The Board of directors is accountable to shareholders for the performance of the company and the Group and is responsible for the corporate governance practices of the Group.

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

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

The board's overall responsibilities include:

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

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

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(b) Composition of the board

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

Name	Age	Term of office (Years)	Position	Expertise	Committees
Mr Barry Patterson	66	14	Chairman Non-Executive, independent Director	Company Management	Chairman of Remuneration and Nominations Committees, member of Audit Committee
Dr Colin Goldschmidt	53	14	Managing Director	Healthcare Industry and Company Management	Chairman of Risk Management Committee, member of Nominations Committee
Mr Chris Wilks	49	17	Finance Director	Finance, Accounting, Banking, Secretarial and Company Management	Member of Risk Management Committee
Mr Peter Campbell	62	14	Non-Executive, independent Director	Finance and Accounting, Computing and Company Management	Chairman of Audit Committee, member of Remuneration and Nominations Committees
Dr Philip Dubois	61	6	Executive Director	Radiology Industry and Company Management	Member of Risk Management Committee
Mr Colin Jackson	59	7	Executive Director	Finance, Pathology Industry and Company Management	
Mr Lou Panaccio	50	2	Non-Executive, independent Director	Finance, Pathology Industry and Company Management	Member of Audit Committee
Dr Hugh Scotton	65	6	Executive Director	Radiology Industry and Company Management	

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(b) Composition of the board (continued)

The composition of Sonic's board is consistent with the principle of medical management and leadership which has been a core strategy of Sonic'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 establishment 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(e) Conflicts of interest of directors

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

(f) Share trading

Under Sonic's Share Trading Policy all Sonic employees are prohibited from buying or selling Sonic 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 are provided in the Directors' report.

(b) Audit Committee

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(b) Audit Committee (continued)

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 and more frequently if necessary, and reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved. The external auditors have a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the board.

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

(c) Risk Management Committee

The members of the Risk Management Committee are:

Dr C.S. Goldschmidt (Chairman)

Mr C.D. Wilks

Dr P.J. Dubois

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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.
- 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 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(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 remain compliant with set performance criteria determined by government and industry bodies.

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

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

Sonic's established procedures, focus on best practice, 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 available to all shareholders on the company's website and is distributed to those shareholders who elect to receive it. The board ensures that the annual report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of likely future developments, in addition to the other disclosures required by law;
- 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 \$1 to Landcare Australia for each shareholder email address recorded.

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

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

7. EXTERNAL AUDITORS

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 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.

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The concise financial report is an extract from the full financial report for the year ended 30 June 2007. 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 auditor's report can be accessed via the internet on our website: www.sonichealthcare.com.au. Alternatively, members can call +61 2 9855 5444 and request a copy of the full financial report and auditor's report, which will be sent free of charge.

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2007

	Notes	2007 \$'000	2006 \$'000
Revenue from operations	3	1,877,682	1,645,184
Other income		8,399	11,183
Total revenue		1,886,081	1,656,367
Labour and related costs		(846,022)	(745,392)
Consumables used		(286,927)	(247,158)
Operating lease rental expense		(84,287)	(80,127)
Depreciation and amortisation of physical assets		(62,105)	(54,274)
Borrowing costs expense		(54,302)	(42,925)
Transportation		(51,420)	(44,300)
Utilities		(42,345)	(37,821)
Repairs and maintenance		(42,113)	(38,343)
Amortisation of intangibles		(2,633)	(1,823)
Other expenses from ordinary activities		(123,471)	(100,429)
Profit from ordinary activities before income tax expense		290,456	263,775
Income tax expense		(80,402)	(77,960)
Profit from ordinary activities after income tax expense		210,054	185,815
Net (profit) attributable to minority interests		(11,982)	(13,786)
Profit attributable to members of Sonic Healthcare Limited		198,072	172,029
Earnings per share for profit attributable to the ordinary equity holders of the company:		Cents	Cents
Basic earnings per share	5	66.6	59.8
Diluted earnings per share	5	65.5	58.6

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

CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	2007 \$'000	2006 \$'000
Current assets		
Cash assets and cash equivalents	35,960	68,156
Other financial assets	4,759	3,357
Receivables	247,601	197,553
Inventories	32,429	26,926
Other	20,650	16,174
Total current assets	341,399	312,166
Non-current assets		
Receivables	4,245	4,452
Other financial assets	6,931	8,068
Property, plant and equipment	371,226	306,800
Investment properties	-	-
Intangible assets	2,149,437	1,690,239
Deferred tax assets	24,932	31,611
Other	2,292	1,051
Total non-current assets	2,559,063	2,042,221
Total assets	2,900,462	2,354,387
Current liabilities		
Payables	158,356	122,319
Interest bearing liabilities	455,689	28,403
Current tax liabilities	4,888	12,505
Provisions	78,639	70,545
Other financial liabilities	542	-
Other	7,468	6,873
Total current liabilities	705,582	240,645
Non-current liabilities		
Payables	-	-
Interest bearing liabilities	719,567	782,253
Deferred tax liabilities	11,076	7,052
Provisions	19,413	18,592
Other	6,379	3,500
Total non-current liabilities	756,435	811,397
Total liabilities	1,462,017	1,052,042
Net assets	1,438,445	1,302,345
Equity		
Parent Company interest		
Contributed equity	1,242,859	1,181,978
Reserves	12,397	9,542
Accumulated profit	164,220	93,202
Total Parent Company interest	1,419,476	1,284,722
Minority interests	18,969	17,623
Total equity	1,438,445	1,302,345

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2007

	2007 \$'000	2006 \$'000
Total equity at the beginning of the year	1,302,345	945,265
Adjustment on initial adoption of AASB 132 and AASB 139:		
Retained profits	-	(1,353)
Reserves	-	516
Exchange differences on translation of foreign operations	(14,141)	(3,567)
Cash flow hedges (net of tax)	1,007	1,118
Net income recognised directly in equity	(13,134)	(3,286)
Profit for the year	210,054	185,815
Total recognised income and expense for the year	196,920	182,529
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	3,949	271,455
Dividends paid	(127,054)	(107,539)
Share options	7,564	-
Equity remuneration expense	7,089	5,511
Payments made by subsidiary entities to the Parent Company in respect of shares issued under the Sonic Healthcare Limited Employee Option Plan	-	-
Minority interest on acquisition of subsidiary	-	7,119
Equity issued in subsidiaries to minorities	4,460	-
Value of shares issued as part consideration for acquisition of minority interests	56,360	-
Acquisition of minority interests in controlled entities	(13,407)	-
Fair value adjustments to minority interests at acquisition	2,002	-
Distribution to minority interests in subsidiaries	(1,783)	(1,995)
Total equity at the end of the year	1,438,445	1,302,345
Total recognised income and expense for the year is attributable to:		
Members of Sonic Healthcare Limited	186,951	168,655
Minority interests	9,969	13,874
	196,920	182,529

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2007

	2007 \$'000	2006 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	1,919,997	1,703,951
Payments to suppliers and employees (inclusive of goods and services tax)	(1,536,825)	(1,341,994)
	383,172	361,957
Dividends received from controlled entities	-	-
Interest received	3,829	2,490
Other revenue from controlled entities	-	-
Borrowing costs	(53,632)	(45,936)
Income taxes paid	(65,434)	(71,303)
Reimbursements received from tax consolidated entities	-	-
Net cash inflow from operating activities	267,935	247,208
Cash flows from investing activities		
Payment for purchase of controlled entities, net of cash acquired	(486,101)	(419,373)
Payments for property, plant and equipment, and intangibles	(129,206)	(97,968)
Proceeds from sale of non-current assets	6,281	9,497
Payments for investments	(2,186)	(1,162)
Loans to controlled entities	-	-
Payments from restructuring and surplus leased space provisions	(5,386)	-
Repayment of loans by other entities	4,796	2,237
Repayment of loans by controlled entities	-	-
Loans to other entities	(3,620)	(1,328)
Net cash (outflow) from investing activities	(615,422)	(508,097)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	4,119	270,514
Proceeds from borrowings	733,808	988,721
Loans from controlled entities	-	-
Repayment of borrowings	(283,954)	(857,133)
Dividends paid to company's shareholders	(127,054)	(107,539)
Dividends paid to minority interests in subsidiaries	(2,604)	(1,995)
Net cash inflow from financing activities	324,315	292,568
Net (decrease)/increase in cash and cash equivalents		
Cash and cash equivalents at the beginning of the financial year	(23,172)	31,679
Effects of exchange rate changes on cash and cash equivalents	68,156	31,914
	(9,024)	4,563
Cash and cash equivalents at the end of the financial year	35,960	68,156

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This concise financial report relates to the Group consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the year ended 30 June 2007. The accounting policies adopted have been consistently applied to all years presented.

NOTE 1 PRESENTATION CURRENCY

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

NOTE 2 SEGMENT INFORMATION**Business segments**

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

(i) Pathology

Pathology services provided in Australia, New Zealand, the United Kingdom, Germany, the United States of America and, following the acquisition of the Medica Laboratory Group on 30 May 2007, Switzerland.

(ii) Radiology

Radiology and diagnostic imaging services provided across Australia, New Zealand and in Hong Kong (prior to its disposal during the year).

(iii) Other

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

Primary Reporting – Business Segments

2007	Pathology \$'000	Radiology \$'000	Other \$'000	Eliminations \$'000	Consolidated Group \$'000
Revenue					
External sales	1,460,989	326,257	86,607	-	1,873,853
Inter segment sales	182	366	3,444	(3,992)	-
Other income	266	59	8,074	-	8,399
Total segment revenue	1,461,437	326,682	98,125	(3,992)	1,882,252
Interest income					3,829
Total segment revenue					1,886,081
Result					
Segment result before interest and tax	302,141	45,177	(6,389)	-	340,929
Unallocated net interest expense					(50,473)
Profit before tax					290,456
Income tax expense					(80,402)
Profit after income tax expense					210,054
Segment assets	2,229,348	530,436	1,319,118	(1,178,440)	2,900,462
Segment liabilities	333,618	231,452	43,445	(321,754)	286,761
Unallocated liabilities					1,175,256
Total liabilities					1,462,017

NOTE 2 SEGMENT INFORMATION (CONTINUED)

Primary Reporting – Business Segments (continued)

2006	Pathology \$'000	Radiology \$'000	Other \$'000	Eliminations \$'000	Consolidated Group \$'000
Revenue					
External sales	1,243,553	313,011	86,130	-	1,642,694
Inter segment sales	2	614	3,002	(3,618)	-
Other income	-	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 segment revenue					1,656,367
Result					
Segment result before interest and tax	259,062	52,047	(6,899)	-	304,210
Unallocated net interest expense					(40,435)
Profit before tax					263,775
Income tax expense					(77,960)
Profit after income tax expense					185,815
Segment assets	1,671,607	536,391	1,016,710	(870,321)	2,354,387
Segment liabilities	282,025	216,574	8,528	(265,741)	241,386
Unallocated liabilities					810,656
Total liabilities					1,052,042

NOTE 3 REVENUE

	2007 \$'000	2006 \$'000
Services revenue		
Medical services revenue	1,846,843	1,626,795
Other revenue		
Interest received or due and receivable	3,829	2,490
Rental income	11,339	10,506
Other revenue	15,671	5,393
	30,839	18,389
Revenue from operations	1,877,682	1,645,184

NOTE 4 DIVIDENDS	2007 \$'000	2006 \$'000
Dividends paid on ordinary shares		
Final dividend for the year ended 30 June 2006 of 26 cents (2005: 23 cents) per fully paid share paid on 19 September 2006 (2005: 19 September 2005), fully franked based on tax paid at 30%	76,784	63,367
Interim dividend for the year ended 30 June 2007 of 17 cents (2006: 15 cents) per fully paid share paid on 28 March 2007 (2006: 20 March 2006), fully franked based on tax paid at 30%	50,270	44,172
Total dividends paid	127,054	107,539
The Company's Dividend Reinvestment Plan (DRP) remained suspended for these dividends.		
<i>Dividends not recognised at year end</i>		
In addition to the above dividends, since year end the directors have declared the payment of a final dividend of 29 cents (2006: 26 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the final dividend paid on 20 September 2007 out of 2007 profits, but not recognised as a liability at year end is	95,248	76,784

Franked dividends

The 2007 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 2008.

	2007 \$'000	2006 \$'000
Franking credits available at the year end for financial subsequent years based on a tax rate of 30%	73,285	83,137

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

The impact on the franking account of the dividend declared by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$37,308,000 (2006: \$32,907,000).

NOTE 5 EARNINGS PER SHARE	2007 Cents	2006 Cents
Basic earnings per share	66.6	59.8
Diluted earnings per share	65.5	58.6

	2007 Shares	2006 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	297,247,195	287,910,303
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	302,285,149	293,420,332

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.

The issue of 28,169,015 fully paid ordinary shares at \$14.20 per share to investors as a result of an underwritten placement undertaken by the Parent Company on 23 August 2007 have not been included in the determination of diluted earnings per share.

	2007 \$'000	2006 \$'000
Reconciliations of earnings used in calculating earnings per share		
Net profit	210,054	185,815
Net (profit) attributable to minority interests	(11,982)	(13,786)
Earnings used in calculating basic and diluted earnings per share	198,072	172,029

NOTE 6 SHARE OPTIONS**(a) Shares under option**

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

(i) Sonic Healthcare Limited Employee Option Plan

Grant date	Expiry date	Issue price of shares	Number of options
15/04/03	15/02/08	\$6.30	309,500
23/09/04	23/07/09	\$9.51	10,000
23/09/04	23/07/09	\$9.56	277,500
15/11/06	15/09/11	\$13.10	1,200,000
13/08/07	13/06/12	\$13.00	500,000 <hr/> 2,297,000

The above options granted are able to be exercised subject to the following vesting periods:

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

(ii) Queensland X-Ray (QXR) options

Pursuant to Sonic's agreement with the vendors of QXR, Sonic is to issue a total of 1,000,000 options to staff of QXR. The vesting and other conditions for these options are the same as those for the Sonic Healthcare Limited Employee Option Plan. To date 825,000 options have been issued in the following tranches:

Grant date	Expiry date	Issue price of shares	Number of options
07/04/03	07/02/08	\$6.01	50,000
19/02/04	19/12/08	\$7.57	93,500
24/07/06	24/05/11	\$12.69	40,000 <hr/> 183,500

(iii) Executive Directors' Options

All of the options issued to Dr C.S. Goldschmidt and C.D. Wilks on 20 April 2000, with an exercise price of \$5.32 and an expiry date of 20 April 2010, had been exercised prior to or during the year ended 30 June 2006. The weighted average share price at the date of exercise of the options exercised during the 2006 financial year was \$15.54.

NOTE 6 SHARE OPTIONS (CONTINUED)*(iv) Executive Incentive Plan*

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

Grant date	Expiry date	Issue price of shares	Number of options
26/11/04	26/11/09	\$7.50	1,540,000
22/08/05	22/08/10	\$7.50	1,540,000
22/08/06	22/08/11	\$7.50	1,540,000
24/08/07	24/08/12	\$7.50	<u>1,540,000</u>
			<u>6,160,000</u>

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

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

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

(v) Independent Practitioner Network Limited Employee Share Option Scheme

An employee share option scheme has been established where Independent Practitioner Network Limited (a member of the Group) may, at the discretion of its Board of Directors, grant options over the ordinary shares in Independent Practitioner Network Limited to directors, executives and certain members of IPN's staff. For the grants on the 7 December and 20 December 2006 the options vest one third after two years, one third after three years and the balance after four years with the expiry being one year after each vesting date. Vesting is subject to EPS growth targets being met of 10% compounded annually.

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

Grant date	Expiry date	Issue price of shares	Number of options
07/12/06	06/12/09	Nil	349,965
07/12/06	19/12/10	Nil	349,965
07/12/06	06/12/11	Nil	350,070
20/12/06	19/12/09	Nil	811,881
20/12/06	19/12/10	Nil	811,874
20/12/06	19/12/11	Nil	<u>811,874</u>
			<u>3,485,629</u>

In addition, 1,000,000 options were issued on 3 October 2006 to the vendors of the Redcliffe Medical Centre business. The options vest one third after two years, one third after three years and one third after four years from the date of acquisition, providing the vendor Doctors continue to practice from the Medical Centre business acquired. The options have an exercise price of \$0.1441 calculated as the volume weighted average price of shares on the 30 days immediately preceding the grant date. The options expire on 2 October 2011 and none are exercisable at the date of this report.

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

(vi) Schottdorf Group

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

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

All of the 3,000,000 options remain unexercised as at the date of this report.

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

(vii) CPL

2,000,000 options over unissued ordinary Sonic shares were granted on 15 November 2006. Each option is convertible into one ordinary share as set out below at an exercise price of \$13.10:

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

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

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

(viii) Medica Laboratory Group

1,000,000 options over unissued ordinary Sonic shares were granted on 13 August 2007 as part of the Medica acquisition consideration. Each option is convertible into one ordinary share after 30 May 2012 and on or before 30 September 2012 at an exercise price of \$13.00 or, where the closing market share price for Sonic's shares on 30 May 2012 is less than \$15.00, \$2.00 less than the closing price on that day. Sonic notes that when granting of these options was notified to the ASX on 13 August 2007, the alternate exercise price was inadvertently omitted from the announcement.

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

NOTE 6 SHARE OPTIONS (CONTINUED)**(b) Shares issued on the exercise of options up to the date of this report***(i) Sonic Healthcare Limited Employee Option Plan Options:*

A total of 519,625 ordinary shares of Sonic were issued during the year ended 30 June 2007 on the exercise of options granted under the Sonic Healthcare Limited Employee Option Plan and a further 70,000 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)
374,125	\$4.66
123,000	\$6.30
92,500	\$9.56
589,625	

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

A total of 225,000 ordinary shares of Sonic were issued during the year ended 30 June 2007 on the exercise of QXR options and a further 21,500 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)
165,000	\$4.66
10,000	\$6.01
71,500	\$7.57
246,500	

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

A total of 1,760,000 ordinary shares of IPN were issued during the year ended 30 June 2007 on the exercise of options granted under the Independent Practitioner Network Limited Employee Share Option Scheme and a further 380,000 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)
1,760,000	\$0.0785
380,000	\$0.1255
2,140,000	

No amounts are unpaid on any of these shares.

NOTE 7 EVENTS OCCURRING AFTER REPORTING DATE

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

- On 31 July 2007 Sonic completed the acquisition of 100% of Sunrise Medical Laboratories, Inc. for a purchase price of ~US\$148M plus up to US\$20M under an earn-out arrangement which is based on above market revenue growth and maintenance of EBITDA margin in the year following settlement. The initial accounting for the acquisition has been determined only provisionally at the date of this report, given the recent settlement date. Sonic is still in the process of reviewing the acquisition balance sheet and identifying assets and liabilities not previously recorded, so as to determine the fair values of identifiable assets, liabilities, and contingent liabilities. Based on the provisional accounting the indicative fair value of net tangible assets acquired is ~US\$7M, with a provisional goodwill value of ~US\$161M.
- As described in Sonic's announcement to the market dated 2 August 2007, Sonic has reached agreement to acquire all of the outstanding equity held by minority interests in its German laboratory business for ~€80M. On 15 August 2007, Sonic moved to 67.9% ownership, and is expected to reach 100% ownership once a reorganisation of the legal structure of the business, which requires certain third party approvals, is completed.
- On 13 August 2007, Sonic issued 1,500,000 options over unissued ordinary shares and announced its intention to issue a further 1,000,000 options with an exercise price of \$14.16.
- On 22 August 2007, Sonic's directors declared a final dividend for 2007 of 29 cents per ordinary share which was paid on 20 September 2007. Sonic's dividend reinvestment plan remained suspended for this dividend and until further notice.
- On 30 August 2007, Sonic issued 28,169,015 fully paid ordinary shares at \$14.20 per share to investors as a result of an underwritten placement undertaken on 23 August 2007.
- On 14 September 2007, Sonic completed the transaction to acquire 100% of the Bioscientia Healthcare Group (based in Ingelheim, Germany) for a purchase price based on an enterprise value of ~€190M, including 116,674 Sonic ordinary shares. Given this acquisition only recently settled, the process of determining the fair value of identifiable assets, liabilities and contingent liabilities, and the amount of goodwill arising from the acquisition has only just commenced.

DIRECTORS' DECLARATION

For the year ended 30 June 2007

The directors declare that in their opinion, the concise financial report of the Group for the year ended 30 June 2007 as set out on pages 39 to 53 complies with Accounting Standard AASB 1039: *Concise Financial Reports*.

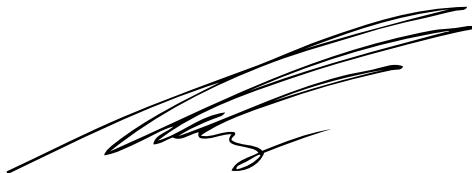
The concise financial report is an extract from the full financial report for the year ended 30 June 2007. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

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.



Dr C.S. Goldschmidt
Managing Director



C.D. Wilks
Director

Sydney
28 September 2007

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SONIC HEALTHCARE LIMITED



PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia

www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

REPORT ON THE CONCISE FINANCIAL REPORT

The accompanying concise financial report of Sonic Healthcare Limited comprises the balance sheet as at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended and related notes, derived from the audited financial report of Sonic Healthcare Limited for the year ended 30 June 2007. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

Directors' Responsibility for the Concise Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Sonic Healthcare Limited for the year ended 30 June 2007. Our audit report on the financial report for the year was signed on 28 September 2007 and was not subject to any modification. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

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

Liability limited by a scheme approved under Professional Standards Legislation

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SONIC HEALTHCARE LIMITED



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

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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

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

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 2007 included on the Sonic Healthcare Limited's web site. The company's directors are responsible for the integrity of the Sonic Healthcare Limited's web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the concise financial report identified above. 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 is presented on this web site.

Independence

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

Auditor's opinion

In our opinion, the concise financial report of Sonic Healthcare Limited for the year ended 30 June 2007 complies with Australian Accounting Standard AASB 1039: *Concise Financial Reports*.

PwC
PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read "B K Hunter".

B K Hunter

Partner

PricewaterhouseCoopers

Sydney
28 September 2007

SHAREHOLDERS' INFORMATION

1. INFORMATION RELATING TO SHAREHOLDERS

(a) Distribution schedule as at 20 September 2007

	No. of holders ordinary shares
1 – 1,000	10,186
1,001 – 5,000	9,545
5,001 – 10,000	959
10,001 – 100,000	684
100,001 and over	134
	<u>21,508</u>
Voting rights – on a show of hands	1/member
– on a poll	1/share
Percentage of total holding held by the twenty largest holders	79.12%
Number of holders holding less than a marketable parcel	150

(b) Substantial shareholders as at 20 September 2007

The company has received substantial shareholding notices to 20 September 2007 in respect of the following holdings:

	No. of securities	Percentage held
UBS Nominees Pty Limited and its related bodies corporate	24,757,908	7.54%
Commonwealth Bank of Australia and its subsidiaries	18,901,631	5.75%
Lazard Asset Management Pacific Co	18,768,374	5.71%
Jardvan Pty Limited	18,458,704	5.62%
National Australia Bank Limited Group	18,066,449	5.50%
The Capital Group Companies, Inc.	16,507,996	5.02%

(c) Names of the twenty largest holders of equity securities as at 20 September 2007

	No. of securities	Percentage held
HSBC Custody Nominees (Australia) Limited	54,863,447	16.70%
J P Morgan Nominees Australia Limited	50,388,754	15.34%
National Nominees Limited	48,451,835	14.75%
Citicorp Nominees Pty Limited	28,523,274	8.68%
Jardvan Pty Limited	18,458,704	5.62%
ANZ Nominees Limited	13,550,647	4.12%
Cogent Nominees Pty Limited	12,152,447	3.70%
Tasman Asset Management Limited	4,380,697	1.33%
Queensland Investment Corporation	3,945,106	1.20%
AMP Life Limited	3,833,334	1.17%
Polly Pty Limited	3,816,646	1.16%
Suncorp Custodian Services Pty Ltd	3,397,951	1.03%
PSS Board	3,158,462	0.96%
Invia Custodian Pty Limited	1,811,046	0.55%
Robert Connor Family Ltd	1,597,088	0.49%
RBC Dexia Investor Services Australia Nominees Pty Limited	1,587,527	0.48%
UBS Nominees Pty Ltd	1,582,641	0.48%
Quintal Pty Ltd	1,500,357	0.46%
Bond Street Custodians Limited	1,499,221	0.46%
UBS Private Clients Australia Nominees Pty Ltd	1,435,685	0.44%
	<u>259,934,869</u>	<u>79.12%</u>

SHAREHOLDERS' INFORMATION (CONTINUED)

2. UNQUOTED EQUITY SECURITIES AS AT 20 SEPTEMBER 2007

	No. on issue	No. of holders
Options over unissued ordinary shares	14,640,500	89

3. SECURITIES SUBJECT TO VOLUNTARY ESCROW

	No. on issue	Date escrow period ends
As at the date of this report the following securities were subject to voluntary escrow:		
Ordinary shares	4,171,732	28 January, 2008

The above securities were issued as part consideration for the acquisition of the minority interests in CPL.

4. SHARE REGISTRY

Computershare Investor Services Pty Limited

Registered address: Level 5, 115 Grenfell Street, Adelaide, SA 5000

Postal address: GPO Box 1903, Adelaide, SA 5001

Enquiries within Australia: 1300 556 161

Enquiries outside Australia: +61 3 9415 4000

Investor enquiries facsimile: +61 8 8236 2305

Email: web.queries@computershare.com.au

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

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

Change of address should be notified to the Share Registry by telephone or in writing without delay. Shareholders who are broker sponsored on the CHESS sub-register must notify their sponsoring broker of a change of address.

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

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

SHAREHOLDERS' INFORMATION (CONTINUED)

Supporting the environment through eTree

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

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

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

5. ANNUAL GENERAL MEETING

The Annual General Meeting will be held at The Heritage Ballroom, The Westin Sydney, 1 Martin Place, Sydney at 10.00am on Friday 30th November 2007.

