

THIS DOCUMENT IS IMPORTANT

If you do not understand it or are in any doubt about how to act, you should consult your stockbroker, solicitor, accountant or other professional adviser immediately.



SONIC HEALTHCARE LIMITED

ACN 004 196 909

NOTICE OF ANNUAL GENERAL MEETING 2017

AND

EXPLANATORY MEMORANDUM

The Annual General Meeting of shareholders will be held in the Fort Macquarie Room, InterContinental Sydney Hotel, 117 Macquarie Street, Sydney NSW on 22 November 2017, commencing at 10.00am (Sydney time).

If you are unable to attend the meeting, you are encouraged to appoint a proxy to attend and vote on your behalf. Proxies must be appointed in accordance with the instructions set out in the proxy form enclosed with this booklet. Proxy appointments and any authority documents must be received by no later than 10.00am (Sydney time) on 20 November 2017.

A copy of Sonic's concise annual report for the financial year ended 30 June 2017 is accessible on Sonic's website at the following address: www.sonichealthcare.com/annual-reports. As permitted by the *Corporations Act 2001 (Cth) (Corporations Act)*, a physical copy of the concise annual report has been sent only to shareholders who have elected to receive a physical copy.

Notice of Annual General Meeting 2017

Notice is given that the 2017 Annual General Meeting of Sonic Healthcare Limited (**Sonic** or the **Company**) will be held in the Fort Macquarie Room, InterContinental Sydney Hotel, 117 Macquarie Street, Sydney NSW on Wednesday, 22 November 2017, commencing at 10.00am (Sydney time).

AGENDA

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider:

- (a) the financial report of the Company;
- (b) the directors' report; and
- (c) the auditor's report,

for the financial year ended 30 June 2017.

Election of Directors

To consider and, if thought fit, pass each of the following resolutions as an ordinary resolution:

1. **THAT** Professor Mark Compton, who retires in accordance with Article 71 of the Company's Constitution and, being eligible, offers himself for re-election, is re-elected as a director of the Company.
2. **THAT** Mr Chris Wilks, who retires in accordance with Article 71 of the Company's Constitution and, being eligible, offers himself for re-election, is re-elected as a director of the Company.
3. **THAT** Mr Lou Panaccio, who retires in accordance with Article 71 of the Company's Constitution and, being eligible, offers himself for re-election, is re-elected as a director of the Company.
4. **THAT** Mr Neville Mitchell, who was appointed as a director during the year and who retires in accordance with Article 69 of the Company's Constitution and, being eligible, offers himself for election, is elected as a director of the Company.

Remuneration Report

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

5. **THAT** *the remuneration report for the financial year ended 30 June 2017 is adopted.*

Note that the vote on this resolution is advisory only and does not bind the Company or its directors.

Please refer to the instructions in the Additional Information – Proxies section on page 5 for details of how to appoint a proxy for this resolution.

VOTING EXCLUSION STATEMENT:

Sonic will disregard any votes cast on Resolution 5 by or on behalf of a member of the key management personnel (being each director of Sonic) or their closely related parties (including as proxy), unless the vote is cast by that person as proxy for a person entitled to vote in accordance with the direction on the Proxy Form, or where there is no specified voting direction, the vote is cast by the Chairman of the meeting as proxy, having been expressly authorised to vote on this resolution, even though it is connected with the remuneration of the directors. A “closely related party” is defined in the Corporations Act and includes a spouse, dependant and certain other close family members, as well as any companies controlled by the directors.

Increase in Available Pool for Non-Executive Directors’ Fees

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

6. **THAT**, *for the purposes of ASX Listing Rule 10.17 and Article 72 of the Company’s Constitution, the maximum total annual amount of fees available for the Company to pay non-executive directors as a whole be increased by \$500,000 to give the Company flexibility to pay total non-executive directors’ fees of up to \$2,000,000.*

VOTING EXCLUSION STATEMENT:

Sonic will disregard any votes cast on Resolution 6 by any director of the Company and any of their associates. However, the Company need not disregard a vote if it is cast by such persons as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form.

In addition, the Company will disregard votes cast by a director (or any of their closely related parties) as proxy, where the appointment does not specify the way the proxy is to vote, unless the proxy is the Chairman of the meeting and has been expressly authorised to vote on behalf of someone entitled to vote on this resolution, even though it is connected with the remuneration of the directors.

Approval of the issue of securities under the Sonic Healthcare Limited Employee Option Plan and Sonic Healthcare Limited Performance Rights Plan as an exception to ASX Listing Rule 7.1

To consider, and if thought fit, pass each of the following resolutions as an ordinary resolution:

7. **THAT**, for the purposes of seeking approval as an exception to ASX Listing Rule 7.1 and all other purposes, the issue of options, and shares following the valid exercise of such options, under and in accordance with the terms of the Sonic Healthcare Limited Employee Option Plan be approved.
8. **THAT**, for the purposes of seeking approval as an exception to ASX Listing Rule 7.1 and all other purposes, the issue of performance rights, and shares following the valid exercise of such performance rights, under and in accordance with the terms of the Sonic Healthcare Limited Performance Rights Plan be approved.

VOTING EXCLUSION STATEMENT:

Sonic will disregard any votes cast on Resolutions 7 and 8 by any director of the Company and any of their associates. However, the Company need not disregard a vote if it is cast by such persons as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form.

In addition, the Company will disregard votes cast by a director (or any of their closely related parties) as proxy, where the appointment does not specify the way the proxy is to vote, unless the proxy is the Chairman of the meeting and has been expressly authorised to vote on behalf of someone entitled to vote on this resolution, even though it is connected with the remuneration of the directors.

Executive Director Remuneration – Approval of long term incentives

To consider, and if thought fit, pass each of the following resolutions as an ordinary resolution:

9. **THAT**, for the purposes of ASX Listing Rules 10.14 and 7.1 and all other purposes, the grant of long term incentives up to a maximum value of \$2,629,971 to Dr Colin Goldschmidt, Managing Director and Chief Executive Officer, under the Sonic Healthcare Limited Employee Option Plan and the Sonic Healthcare Limited Performance Rights Plan and the subsequent allotment of shares in respect of those incentives on the terms summarised in the Explanatory Notes, be approved.
10. **THAT**, for the purposes of ASX Listing Rules 10.14 and 7.1 and all other purposes, the grant of long term incentives up to a maximum value of \$1,168,399 to Mr Chris Wilks, Finance Director and Chief Financial Officer, under the Sonic Healthcare Limited Employee Option Plan and the Sonic Healthcare Limited Performance Rights Plan and the subsequent allotment of shares in respect of those incentives on the terms summarised in the Explanatory Notes, be approved.

VOTING EXCLUSION STATEMENT:

Sonic will disregard any votes cast in respect of Resolutions 9 and 10 by any director of Sonic (including Dr Goldschmidt and Mr Wilks), and any of their associates. However, the Company need not disregard a vote, if it is cast by such persons as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form.

In addition, the Company will disregard votes cast by a director (or any of their closely related parties) as proxy, where the appointment does not specify the way the proxy is to vote, unless the proxy is the Chairman of the meeting and has been expressly authorised to vote on behalf of someone entitled to vote on this resolution, even though it is connected with the remuneration of the directors.

Please refer to the instructions in the Additional Information – Proxies section below for details of how to appoint a proxy for these resolutions.

ADDITIONAL INFORMATION:

This Notice is accompanied by an Explanatory Memorandum which provides an explanation of the business of the meeting, including the proposed resolutions.

Voting Entitlements

1. For the purposes of the 2017 Annual General Meeting, the shares of the Company that are on issue as at 7.00pm (Sydney time) on 20 November 2017 will be taken to be held by those persons recorded on the register of shareholders at that time. Accordingly, you will be entitled to vote at the meeting if, and only if, you are a registered shareholder of the Company at 7.00pm (Sydney time) on 20 November 2017. Transfers registered after that time will be disregarded in determining shareholders entitled to attend and vote at the meeting.

Custodian Voting

2. For Intermediary Online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting intentions.

Proxies

3. A shareholder has a right to appoint a proxy, who need not be a shareholder of the Company.
4. If a shareholder is entitled to cast two or more votes, the shareholder may appoint two proxies. Where a proxy has two or more appointments that specify different ways to vote on a resolution, the proxy must not vote on a show of hands in relation to that resolution.

5. Where more than one proxy is appointed and the appointment does not specify the proportion or number of the shareholder's votes each proxy may exercise, each proxy may exercise half of the shareholder's voting rights (disregarding fractions).
6. You may return your proxy form to Sonic's share registry by faxing, posting or delivering it to the relevant address below, or to the registered office of Sonic.

By fax: 1800 783 447 (within Australia) +61 3 9473 2555 (outside Australia)

By mail: Sonic Healthcare Limited
C/o Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

7. To be effective for the scheduled meeting, your proxy form must be received no later than 48 hours before commencement of the Annual General Meeting (i.e. by 10.00am (Sydney time) on 20 November 2017). A proxy form accompanies this Notice.
8. Alternatively, you may appoint a proxy using an electronic facility available at the website www.investorvote.com.au. At the website, shareholders will be able to view an electronic version of the proxy form, which will accept proxy appointments and register them accordingly. A shareholder who wishes to use this facility must register their proxy appointment by no later than 10.00am (Sydney time) on 20 November 2017.

9. **DIRECTED PROXY VOTES**

If you specifically direct the proxy how to vote on a proposed resolution, the proxy may only vote on that item in the way that you have directed. If you appoint someone other than the Chairman of the meeting as your proxy and give them voting instructions, the Chairman of the meeting must cast those proxy votes on your behalf on a poll if your nominated proxy does not do so.

10. **UNDIRECTED PROXY VOTES**

You are encouraged to consider how you wish to direct your proxy to vote. Other than directors of Sonic or their closely related parties voting as a proxy on Resolutions 5, 6, 7, 8, 9 and 10, if a proxy is not directed how to vote on an item of business, the proxy may vote, or abstain from voting, as they think fit. Should any resolution, other than those specified in this Notice, be proposed at the meeting, a proxy may vote on that resolution as they think fit.

If you wish to appoint a director of Sonic (other than the Chairman) or their closely related party as your proxy, you must specify how they should vote on Resolutions 5, 6, 7, 8, 9 and 10 by completing the "For", "Against" or "Abstain" boxes on the proxy form. If you do not do that, your proxy will not be able to exercise your vote on your behalf for that resolution.

If you appoint the Chairman (or the Chairman is appointed by default) as your proxy in relation to Resolutions 5, 6, 7, 8, 9 and 10 but do not complete any of the boxes “For”, “Against” or “Abstain” opposite that resolution on the proxy form, you expressly authorise the Chairman to exercise your proxy in relation to Resolutions 5, 6, 7, 8, 9 and 10 even though the item is connected directly or indirectly with the remuneration of directors. If you wish to appoint the Chairman as proxy with a direction to vote against, or to abstain from voting on Resolutions 5, 6, 7, 8, 9 and 10, you must specify this by completing the “Against” or “Abstain” boxes on the proxy form.

The Chairman intends to vote undirected proxies in favour of all items of business.

By ORDER of the Board of Directors

A handwritten signature in black ink, appearing to read 'Paul Alexander', with a long, sweeping horizontal stroke extending to the right.

Paul Alexander
Company Secretary

Dated: 23 October 2017

EXPLANATORY MEMORANDUM

ORDINARY BUSINESS

Financial Statements and Reports

The financial report of the Company and the reports of the directors and auditors for the financial year ended 30 June 2017 will be laid before the Annual General Meeting, as required by the Corporations Act. Shareholders can access a copy of the reports (which form part of Sonic's 2017 Annual Report) and a copy of the concise annual report on the Company's website at www.sonichealthcare.com. As permitted by the Corporations Act, a physical copy of the concise annual report has been sent only to shareholders who have elected to receive a physical copy.

During this item of business, shareholders will be provided with a reasonable opportunity to ask questions about, and make comments on, the reports and the management, business and performance of the Company.

Shareholders will also be given a reasonable opportunity to ask a representative of the Company's auditor, PricewaterhouseCoopers, questions relevant to the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements or the independence of the auditor in relation to the conduct of the audit. Shareholders may also submit a written question to PricewaterhouseCoopers if the question is relevant to the content of the auditor's report for the financial year ended 30 June 2017 or the conduct of the audit of the financial report for that year. Questions for the auditor must be received by the Company by no later than Wednesday, 15 November 2017. At the meeting, PricewaterhouseCoopers will be given the opportunity to answer, or table written answers to, relevant questions.

Resolutions 1, 2, 3 and 4 – Election of Directors

Under Article 71 of the Constitution of the Company and in accordance with the ASX Listing Rules, no director, other than the Managing Director, may hold office for a continuous period in excess of 3 years or past the third Annual General Meeting following the director's appointment, whichever is the longer, without submitting for re-election. Professor Mark Compton, Mr Chris Wilks and Mr Lou Panaccio are required to retire as directors at the end of the 2017 Annual General Meeting but, being eligible, offer themselves for re-election. The Board (excluding the relevant directors) recommends the re-election of Professor Mark Compton, Mr Chris Wilks and Mr Lou Panaccio.

Sonic's Board Charter requires that Non-executive Directors who have already served for four consecutive three-year terms must then offer themselves for re-election at each Annual General Meeting. In accordance with Sonic's Board Charter, the re-election of Mr Lou Panaccio at the 2017 Annual General Meeting will be for a one year period until the Company's 2018 Annual General Meeting.

Under Article 69 of the Constitution of the Company and in accordance with the ASX Listing Rules, the Directors may appoint any person as a director. That person shall hold office until the end of the next following Annual General Meeting and shall be eligible for election at that meeting without needing to give any prior notice. Mr Neville Mitchell, who was appointed during the year, is required to retire as a director at the end of the 2017 Annual General Meeting but, being eligible, offers himself for election. The Board (excluding Mr Neville Mitchell) recommends his election.

Biographical details of the relevant directors are set out on pages 9 to 10.

Professor Mark Compton, AM

Chairman

B.Sc., M.B.A., F.A.I.C.D., F.C.H.S.M, F.A.I.M.

Non-executive, independent Director, appointed October 2014 (Chairman from 19 November 2015)

Prof. Compton has extensive senior executive experience in healthcare services. He is currently Adjunct Professor in Management (Healthcare Leadership) at Macquarie University (Macquarie Graduate School of Management), non-executive Director of Macquarie University Hospital and Macquarie University Clinical Associates Ltd, Chairman and Chancellor of St John Ambulance Australia (having served as a volunteer for over 40 years) and a non-executive Director of St Luke's Care. His previous experience includes Chief Executive Officer of St Luke's Care, Immune Systems Therapeutics Limited, the Royal Flying Doctor Service of Australia, and Chief Executive Officer and Managing Director of the formerly ASX listed companies SciGen Limited and Alpha Healthcare Limited. He has also held a number of non-executive director roles including for formerly ASX-listed Independent Practitioner Network Limited (2004 to 2008), and as Chairman of The Woolcock Institute of Medical Research. He is a member of the Audit Committee and the Remuneration and Nomination Committee. He resides in Sydney, NSW and currently holds (personally) 453 and (beneficially) 5,282 Sonic shares. In recommending his re-election, the Board recognised that he brings to the position broad experience and expertise in healthcare services. The Board considers him to be an independent director.

Mr Chris Wilks

Finance Director and Chief Financial Officer

B.Comm. (Univ Melb), F.A.I.C.D.

Executive Director, appointed December 1989

Mr Wilks became Finance Director and Chief Financial Officer of Sonic Healthcare in 1993. He has a background in chartered accounting and investment banking and was previously a partner in a private investment bank. Mr Wilks has held directorships in a number of public companies and is currently a non-executive Director of Silex Systems Limited (since 1988), a listed company divested by Sonic in 1996. Mr Wilks resides in Sydney, NSW and currently holds (personally) 588,479 and (beneficially) 88,122 Sonic shares. In recommending Mr Wilks' re-election, the Board has acknowledged the role he performs within Sonic is broader than the usual Chief Financial Officer role and Mr Wilks' strategic input, experience and reputation in the market are considered extremely valuable to Sonic.

Mr Lou Panaccio

B.Ec., C.A., M.A.I.C.D.

Non-executive, independent Director, appointed June 2005

Mr Panaccio is a chartered accountant with extensive executive management experience in business and healthcare services. Mr Panaccio is currently on the boards of ASX listed companies Genera Biosystems Limited (non-executive Chairman from July 2011, non-executive Director from November 2010), and Avita Medical Limited (non-executive Chairman from July 2014). He is also non-executive Director of Unison Housing Limited and Rhythm Biosciences Limited. Mr Panaccio was executive Chairman of Health Networks Australia and was the Chief Executive Officer and executive Director of Melbourne Pathology (acquired by Sonic in 1999) for ten years to 2001. Mr Panaccio is Chair of the Audit Committee, a member of the Remuneration and Nomination Committee, and a member of the Risk Management Committee. Mr Panaccio resides in Melbourne, Victoria and currently holds (beneficially) 5,185 Sonic shares. In recommending Mr Panaccio's re-election, the Board has considered his performance and recognised that he has more than 30 years of executive leadership experience in healthcare services. The Board considers Mr Panaccio to be an independent director.

Mr Neville Mitchell

B.Comm, C.A.

Non-executive, independent Director, appointed September 2017

Mr Mitchell is a qualified Chartered Accountant with 27 years of experience (until March 2017) as Chief Financial Officer and Company Secretary of ASX-listed Cochlear Limited, a world leading medical device developer, manufacturer and seller, with annual revenue of A\$1.24 billion. Cochlear has direct operations in more than 20 countries, with over 3,000 employees. Mr Mitchell was a key member of Cochlear's executive team responsible for the setting and execution of the company's growth strategy from its listing in 1995, when annual revenue was ~A\$70 million. Mr Mitchell currently holds non-executive director roles with ASX-listed healthcare companies Sirtex Medical Limited (from April 2017) and Osprey Medical Inc. (from July 2012). He is also a member of the Australian Board of Taxation and the NSW Government's Medical Device Fund. He has previously performed roles with a number of industry and government committees, including the Group of 100 (Australia's peak body for senior finance executives), and Chairman, Standing Committee (Accounting and Auditing), for the Australian Securities and Investments Commission (ASIC). Mr Mitchell is a member of the Audit Committee and the Risk Management Committee. Mr Mitchell resides in Sydney, NSW and currently holds (beneficially) 5,000 Sonic shares. In recommending his election, the Board recognised that he brings to the position a wealth of international healthcare and finance experience to Sonic's Board. The Board considers him to be an independent director.

Resolution 5 – Remuneration Report

Sonic's 2017 Annual Report contains a remuneration report (forming part of the directors' report), which sets out the Board's remuneration policy and reports the remuneration arrangements in place for directors and specified executives for the financial year ended 30 June 2017.

A resolution for adoption of the remuneration report will be put to the vote at the Annual General Meeting, as required by section 250R of the Corporations Act. In accordance with the Corporations Act, the vote on Resolution 5 will be advisory only and will not bind the directors or the Company.

Shareholders will be provided with a reasonable opportunity to ask questions about and make comments on the remuneration report at the Annual General Meeting.

Under the Corporations Act, a 25% or higher "no" vote on the remuneration report resolution at an Annual General Meeting triggers a reporting obligation on a listed company to explain in its next annual report how shareholders' concerns are being addressed. If a 25% or higher "no" vote on the subsequent remuneration report occurs at the next Annual General Meeting, a resolution must be put to shareholders (a "spill resolution") that another general meeting be convened to consider the election of certain directors (the "spill meeting"). If the spill resolution is carried by an ordinary majority, the spill meeting must be held within 90 days and all directors that were directors when the 25% "no" vote was passed will cease to hold office immediately before the spill meeting (except for the Managing Director) and the general meeting will vote on whether those directors should be re-elected.

The Board recommends that shareholders vote in favour of Resolution 5.

Resolution 6 – Increase in Available Pool for Non-Executive Directors' Fees

Under ASX Listing Rule 10.17 and Article 72 of the Company's Constitution, the maximum combined annual amount of remuneration payable to all Non-Executive Directors (**NEDs**) is fixed by shareholders in general meeting. At present, the fee pool is set at \$1,500,000 (of which \$955,000 was paid in the 2017 financial year), which was approved by shareholders at the 2015 Annual General Meeting. The fee pool includes all Board and Board Committee fees paid to NEDs, as well as superannuation contributions made on behalf of NEDs.

It is proposed that the maximum combined annual amount of remuneration payable to all NEDs be increased by \$500,000 to \$2,000,000. The passage of this resolution will provide the Board with the flexibility to appoint further NEDs to the Board, in order to bring new attributes to the Board, to increase the diversity of membership on the Board, or to increase individual NED fees in the future, should any of these be considered appropriate. Equity based remuneration and bonuses are not payable to NEDs.

The composition of the Sonic Board continues to evolve, as part of a process aimed at maintaining a broad range of skills, experience and expertise complementary to the Company's business activities. With the appointment of Mr Neville Mitchell, Sonic's Board now includes five independent directors (including the Chairman). It is essential that the Company remains able in the future to attract and retain NEDs with the appropriate experience, expertise, skills and diversity to oversee the Company's business and strategic direction.

The Board is continuing to review its composition to ensure that collectively the NEDs provide the skill-set appropriate to the increasing scope, complexity and global nature of the Company's business, including relevant industry and other professional experience. The time commitment of directors and the demands being placed upon them to conscientiously and adequately perform their duties on behalf of shareholders is significantly increasing with the complexity of both regulatory requirements and the medical diagnostic services business itself, as well as Sonic's continued international growth.

Shareholders should also note that, if the proposed resolution is approved, the maximum amount is not expected to be paid to NEDs each financial year. The Company will continue to set the actual level of remuneration of its NEDs within the maximum combined annual amount of remuneration payable to all NEDs after having regard to independent external advice, market practice, Board performance and other appropriate factors.

Sonic's NED fees were last reviewed from 1 July 2015 and based on benchmarking data have been well below the median for ASX Top 100 companies. Fees have therefore been reviewed with effect from 1 July 2017 as follows; to be more in line with comparable companies:

	From 1 July 2015	From 1 July 2017
Chairman*	\$380,000	\$425,000
NED base fee	\$150,000	\$185,000
Audit Committee Chair	\$30,000	\$40,000
Audit Committee member	\$15,000	\$20,000
Remuneration and Nomination Committee Chair	\$25,000	\$35,000
Remuneration and Nomination Committee member	\$10,000	\$18,000
Risk Management Committee Chair	\$25,000	\$30,000
Risk Management Committee member	\$10,000	\$15,000

* Chairman's fee is inclusive of all committee participations.

Based on the composition of the Board and its Committees post the 2017 Annual General Meeting, the total annual fees payable from 1 July 2017 will amount to \$1,376,000, still within the existing maximum amount.

The Board (other than the NEDs, given their interest), recommend that shareholders vote in favour of Resolution 6.

Resolutions 7 and 8 - Approval of the issue of securities under the Sonic Healthcare Limited Employee Option Plan and Sonic Healthcare Limited Performance Rights Plan as an exception to ASX Listing Rule 7.1

The issue of securities under the Sonic Healthcare Limited Employee Option Plan (the **Option Plan**) was last approved by shareholders for the purposes of an exception to ASX Listing Rule 7.1 at the 2014 Annual General Meeting held on 20 November 2014. Since the date of that approval, a total of 8,344,166 options have been issued under the Option Plan, (including 706,108 options approved by shareholders at the 2014 Annual General Meeting) of which 60,000 have been exercised and 345,000 have vested. 877,706 of these options have lapsed as performance conditions for vesting were not achieved and 7,061,460 have not yet vested.

The issue of securities under the Sonic Healthcare Limited Performance Rights Plan (the **Performance Rights Plan**) was last approved by shareholders for the purposes of an exception to ASX Listing Rule 7.1 at the 2014 Annual General Meeting held on 20 November 2014. Since the date of that approval, a total of 284,225 performance rights have been issued under the Performance Rights Plan (including 100,085 performance rights approved by shareholders at the 2014 Annual General Meeting) of which 4,309 vested. 64,640 of these performance rights have lapsed as performance conditions for vesting were not achieved and 215,276 have not yet vested.

Shareholder approval is accordingly being sought under Resolutions 7 and 8 for the purposes of ASX Exception 9 in ASX Listing Rule 7.2 as an exception to Listing Rule 7.1. Exception 9 provides that if shareholders approve the issue of securities under an employee incentive scheme (such as the Option Plan and Performance Rights Plan) as an exception to Listing Rule 7.1, then Listing Rule 7.1 will not apply to any issue under that scheme for the 3 years following the date of approval. Accordingly, if Resolutions 7 and 8 are passed, the number of securities (shares or options) issued under the Option Plan and Performance Rights Plan by the Company for the 3 years following the date of this Annual General Meeting will not count towards the annual 15% limit on the number of equity securities that Sonic may issue without shareholder approval. The Company believes it to be an appropriate corporate governance practice to seek approval of the issue of securities under the Option Plan and Performance Rights Plan as an exception to Listing Rule 7.1.

Summary of the terms of the Option Plan

In accordance with the requirements of Exception 9 to ASX Listing Rule 7.1, the terms of the Option Plan are summarised below. A complete copy of these terms is available to shareholders free of charge on request.

1. Participants

The Company may offer options under the Option Plan as it sees fit to the following persons:

- a full-time or part-time employee of the Company, any associated body corporate of the Company, and any other entity the results of which form part of the consolidated financial results of the Company for financial reporting purposes (the **Group**);
- an executive director of the Group who has been such an executive director for a continuous period of one year; and
- any other person (excluding non-executive directors) that provides services to a member of the Group and who the Board declares to be an employee for the purposes of the Option Plan.

2. *Exercise price*

Unless determined otherwise by the Board, the exercise price of an option issued under the Option Plan will be determined by adding 5 cents to the weighted average sale price per share for Sonic shares sold on the ASX in the five business days preceding the date of issue of the option.

3. *Exercise of options*

Unless determined otherwise by the Board, the options will vest and become exercisable as follows:

- up to 50% of the options held may be exercised after 30 months from the date of issue;
- up to 75% of the options held may be exercised after 42 months from the date of issue;
- up to 100% of the options held may be exercised after 54 months from the date of issue; and
- options may not be exercised at any time after 58 months from the date of issue of the options, or if the options have lapsed.

If an option holder ceases to be an employee or executive director by reason of dismissal, resignation or expiry of contract (other than as a result of the person reaching retirement age or suffering an illness or incapacity), the options held by that person will lapse unless the Company determines otherwise. If an option holder ceases to be an employee or executive director by reason of retirement (as defined in the Option Plan), the options held by that person will remain capable of exercise in accordance with the time periods described above unless the Company determines otherwise.

Options may be exercised after the option holder gives the Company notice together with payment of the exercise price. If the option holder is not employed by an Australian based entity, shares will be issued to the option holder within 21 days of the Company's receipt of the exercise notice. If the option holder is employed by an Australian based entity, shares will either be issued to, acquired by or allocated to the trustee of the Sonic Healthcare Employee Share Trust (the **Trust**) within 21 days of the Company's receipt of the exercise notice. Shares held in the Trust are held on behalf of the Participant unless withdrawn from the Trust in accordance with the Option Plan.

At the Board's discretion an offer letter may specify additional vesting conditions and/or an exercise price and vesting period different to those specified under the terms of the Option Plan.

4. *Consideration*

Any monetary consideration payable for an issue of options must not exceed the lesser of 1 cent and 1% of the exercise price of the option.

5. *Maximum number of shares*

The number of shares that would be issued were each option under the Option Plan exercised must not at any time exceed 5% of the total number of shares in the Company on issue disregarding issues of options or issues of shares on the exercise of options following an offer or invitation to a person situated outside Australia or by an excluded offer or invitation.

Shares issued on the exercise of an option will rank equally in all respects with other issued ordinary shares in the Company and the Company must apply for the quotation of such shares.

6. *Takeover bid*

If a takeover bid or other publicly announced proposal is made in respect of shares in the Company which the Board reasonably believes is likely to lead to a change of control (as defined in the Option Plan), any unexercised options may become exercisable (for a period of time) at the Board's discretion, having regard to pro-rata performance (including based on time of continued employment) and the circumstances around the potential change of control. After such period, unexercised options will continue in force subject to the terms of the Option Plan.

7. *Adjustment*

In the event of a pro-rata bonus or cash issue, the number of shares underlying the options on issue and/or the exercise price of the options may be adjusted in accordance with the ASX Listing Rules and the terms of the Option Plan. Adjustments will also be made if certain changes to the capital structure of Sonic occur, including consolidations, sub-divisions, reductions or returns.

8. *Rights to new issues*

Options do not confer on the relevant holder any rights to participate in new issues of securities by the Company or any other body corporate, except any rights arising in respect of a reorganisation of the Company's issued capital.

9. *Alteration of the Option Plan*

Subject to the requirements of the ASX Listing Rules, the Board may at any time vary the terms of the Option Plan, provided that the interests of the Participants are not, in the opinion of the Board, materially prejudiced.

Summary of the terms of the Performance Rights Plan

In accordance with the requirements of Exception 9 to ASX Listing Rule 7.1, the terms of the Performance Rights Plan are summarised below. A complete copy of these terms is available to shareholders free of charge on request.

1. *Participants*

All directors and full-time or part-time employees are eligible participants under the Performance Rights Plan. The Board may, in its sole and absolute discretion, determine that an eligible participant may participate in the Performance Rights Plan and make an invitation to that participant.

2. *Exercise Price*

A performance right has a nil exercise price.

3. *Exercise of Performance Rights*

Upon an invitation being made, the Board will determine the vesting conditions (if any) attaching to the performance rights. At the Board's discretion as set out in the invitation letter, a vested performance right will be exercisable by a participant by delivery to the Company of a signed exercise notice, or will be automatically exercised within the period specified by the Board in the invitation letter. Upon exercise of performance rights, the Board will instruct the trustee of the Trust to acquire, subscribe for and/or allocate shares to the participant, and the trustee will hold those shares on trust for the participant. Each performance right that is exercised entitles the participant to one share.

The performance rights will lapse on the earlier of:

- the cessation of employment of a participant (unless the Board exercises discretion where the participant is a good leaver);
- any vesting conditions not being satisfied (or the Board determining that they cannot be met prior to the expiry date); and
- the expiry date.

4. *Consideration*

No consideration is payable in respect of performance rights.

5. *Maximum Performance Rights Allocation*

The number of performance rights granted under the Performance Rights Plan must not exceed (assuming all outstanding performance rights were exercised) a maximum of 10% of the total number of shares in the Company on issue at the time of the grant of the performance rights. Shares issued for the purposes of the Performance Rights Plan will rank equally in all respects with other issued ordinary shares in the Company and the Company must apply for the quotation of such shares.

6. *Capital Reconstructions*

If the capital of the Company is reconstructed the performance rights and/or plan shares (as the case may be) will be treated in accordance with the ASX Listing Rules.

7. *Amendment of the Performance Rights Plan*

Subject to the requirements of the ASX Listing Rules and the Company's Constitution, the Board may at any time vary the terms of the Performance Rights Plan, provided that the interests of the Participants are not, in the opinion of the Board, materially prejudiced.

The Board recommends that shareholders vote in favour of Resolutions 7 and 8.

Resolutions 9 and 10 - Approval of long term incentives for Dr Colin Goldschmidt, Managing Director and Chief Executive Officer, and Mr Chris Wilks, Finance Director and Chief Financial Officer

Background

Properly designed equity incentives are an important component of senior executive remuneration. The existing equity-based long term incentive (*LTI*) arrangements for Dr Goldschmidt and Mr Wilks provide performance incentives through to the 2019 financial year (having been approved by shareholders at the 2015 and 2016 Annual General Meetings). In 2014, the Remuneration and Nomination Committee conducted a comprehensive review of the remuneration arrangements for Dr Goldschmidt and Mr Wilks. Following the review, it was proposed (conditional on approval by shareholders) that Dr Goldschmidt and Mr Wilks receive annual grants of equity-based remuneration, subject to performance conditions with measurement periods of three years.

Annual grants have a number of benefits versus the less frequent, larger grants used in the past, including allowing the Company to determine the appropriate performance hurdles each year for the grant being made, adjust the mix between type of instruments for changes in circumstances (e.g. tax law), and / or select different measures to take into account changes in the Company's strategy or context. It also provides the opportunity for shareholders to vote on the proposed grants each year, taking into account recent Company performance.

The Remuneration and Nomination Committee has designed the current proposed grant of options and performance rights to these key executives to ensure their remuneration is in line with market and appropriate to retain their services, after taking into consideration their other remuneration components. Dr Goldschmidt and Mr Wilks have been in their current roles since 1993. Their knowledge, experience, and the reputation they have in the market are considered extremely valuable to the Company. Under their leadership Sonic Healthcare has been one of the best performing stocks on the ASX for the period from January 1993 to August 2017, with a return of over 34,000% (Total Shareholder Return, assuming reinvestment of dividends).

Total target remuneration for Dr Goldschmidt and Mr Wilks is split between fixed remuneration (~32%), short term incentives (~34%) and long term incentives (~34%). This mix is in line with market norms. Dr Goldschmidt and Mr Wilks have agreed that their target remuneration values stay the same for the 2018 financial year as they were for 2017.

Short term and long term incentive amounts are targets, subject to challenging performance hurdles and may not ever be received by the executives. In the past 3 years, the executives have received, on average, 74% of their target short term incentives and only 40% of available LTI options and performance rights vested.

Following a recommendation by the Remuneration and Nomination Committee, the Board has approved the proposed LTI grants.

The Remuneration and Nomination Committee has negotiated these arrangements with Dr Goldschmidt and Mr Wilks, subject to shareholders' approval. Should shareholders not approve the issue of the options and performance rights, the Remuneration and Nomination Committee will need to negotiate alternative arrangements.

Approval under ASX Listing Rule 10.14

Shareholder approval of the issue of the securities proposed under Resolutions 9 and 10 is required under ASX Listing Rule 10.14, which prohibits the Company from permitting any director of the Company to acquire newly issued securities under an employee incentive scheme, such as the Option Plan and the Performance Rights Plan, without the approval of shareholders.

Resolutions 9 and 10 seek shareholders' approval to the grant of LTIs to provide performance incentives through to the 2020 financial year with a value of:

- Dr Goldschmidt – a maximum of \$2,629,971; and
- Mr Wilks – a maximum of \$1,168,399,

on the terms set out in this notice. 50% of this value will be issued as options over ordinary shares in Sonic under the Option Plan, and the remaining 50% will be issued as performance rights over ordinary shares in Sonic under the Performance Rights Plan. No consideration will be payable for the options or performance rights (however, an exercise price will be payable for the exercise of any options).

The proposed LTI options and performance rights will vest three years from grant date, if challenging performance conditions (detailed below) are met for the period of three years to 30 June 2020. They will expire 5 years from grant date. Options can only vest when the market price of Sonic shares is higher than the exercise price.

If shareholder approval is obtained under Resolutions 9 and 10, it is intended that the options and performance rights will be granted to Dr Goldschmidt or Mr Wilks on the date of the 2017 Annual General Meeting or shortly after that date (but not later than 3 years after the Annual General Meeting or any adjournment of it).

No loans have or will be made in respect of the Directors' proposed acquisition of options or performance rights under Resolutions 9 and 10.

Details of any securities issued under the Option Plan or the Performance Rights Plan will be published in each annual report of the Company relating to the period in which securities have been issued, including that approval for the issue of such securities was obtained under ASX Listing Rule 10.14.

Any other directors, or associates of such directors, of the Company who become entitled to participate in the Option Plan or the Performance Rights Plan after Resolutions 9 and 10 are approved, who are not named in this Notice, will not participate until approval is obtained under Listing Rule 10.14.

Performance conditions

Vesting of the options and performance rights is subject to three challenging performance conditions that are designed to align the interests of the executive Directors with those of shareholders.

Each performance condition will be applied separately to the options and performance rights as follows:

- 50% of the options and 50% of the performance rights are subject to the first performance condition (**PC1**);
- 25% of the options and 25% of the performance rights are subject to the second performance condition (**PC2**); and
- 25% of the options and 25% of the performance rights are subject to the third performance condition (**PC3**).

The performance conditions are as follows:

(a) PC1 – Total Shareholder Return (**TSR**)

Under PC1, Sonic's performance will be ranked by percentile according to its TSR relative to the TSR of the companies comprising the S&P ASX 100 Accumulation Index (excluding Banks and Resource companies). Relative TSR has been chosen as a performance hurdle as it provides a direct link between executive remuneration and shareholder return relative to the Company's peers. A relative measure is important, as it removes from the assessment broad market share price movements which are out of the control of the executives. The executive Directors will not derive any value from the LTI subject to PC1 unless Sonic's performance exceeds the median of the benchmark group.

The percentage of options and performance rights subject to PC1 that vest will be as follows:

TSR Ranking achieved	Percentage of Options and Rights that vest
Below the 51st percentile	Nil options and rights to which PC1 applies
51st percentile	50% of options and rights to which PC1 applies
Greater than 51st and less than 75th percentile	Pro rata between 50% and 100% of options and rights to which PC1 applies
75th percentile and above	100% of options and rights to which PC1 applies

(b) PC2 – Earnings Per Share (**EPS**) Growth

This hurdle will be measured by comparing the Company's aggregate EPS over 3 years against an aggregate EPS target. EPS is calculated as Net Profit after Tax divided by the fully diluted weighted average number of ordinary shares on issue during a year, and for the purposes of the performance condition, will be calculated on a "constant currency" basis, using the same exchange rates to convert the 2018, 2019 and 2020 financial year foreign earnings into AUD as applied in the 2017 financial year, being the average rates for that year. Growth in EPS has been chosen as a hurdle as it is a direct measure of Company performance and maintains a strong correlation with long term shareholder return. Using a constant currency measure of EPS removes volatility from exchange rate movements that are out of the control or influence of the executives. The percentage of options and performance rights subject to PC2 that vest will be as follows:

Aggregate EPS for FY2018 to FY2020	Percentage of Options and Rights that vest
Less than 331 cents	Nil options and rights to which PC2 applies
331 cents	40% of options and rights to which PC2 applies
Greater than 331 cents and less than 372 cents	Pro rata between 40% and 100% of options and rights to which PC2 applies
372 cents or greater	100% of options and rights to which PC2 applies

331 cents per share equates to compound annual growth of 4% and 372 cents per share equates to compound annual growth of 10%, in each case over the FY2017 EPS of 102.1 cents per share.

(c) PC3 – Return on Invested Capital (**ROIC**)

ROIC is calculated as Earnings before Interest and Tax, less related tax and minority interests, divided by average capital employed. It is expressed as a percentage. Sonic's ROIC for 2017 was 8.1%. ROIC has been chosen as a performance hurdle as the Board believes that a primary focus in coming years should be improvement in the return from the substantial investments the Company has made into its businesses.

The Board will set a ROIC target at the beginning of each measurement year, taking into account market conditions and company-specific factors at the time. The ROIC target for the first year (FY2018) will be 8.3% (a 2.5% increase over FY2017). After completion of the three year measurement period, the average of the actual ROIC over the three years will be compared to the average of the three ROIC targets (**Target Average ROIC**).

Measurement of the average actual ROIC will exclude any significant uncontrollable or one off events, and the initial impact of business development initiatives, as approved by the Board.

The percentage of options and performance rights subject to PC3 that vest will be as follows:

Average ROIC for FY2018 to FY2020	Percentage of Options and Rights that vest
Less than Target Average ROIC	Nil options and rights to which PC3 applies
Equal to Target Average ROIC	40% of options and rights to which PC3 applies
Greater than Target Average ROIC and less than 110% of Target Average ROIC	Pro rata between 40% and 100% of options and rights to which PC3 applies
110% of Target Average ROIC or greater	100% of options and rights to which PC3 applies

If necessary to avoid an anomalous result (for example, as a result of a significant change to an accounting standard), the Board may make adjustments in measuring performance under PC2 and PC3 to ensure the intent of the incentive plan is maintained.

Options and performance rights for which the performance conditions are not satisfied will be forfeited immediately after the performance measurement is finalised. There will be no retesting.

Following vesting of options and/or performance rights, ordinary shares in Sonic may be provided either by way of an issue of new shares or the purchase of existing shares on market by the trustee of the Trust in accordance with the relevant Plan rules. Options and performance rights are not eligible for dividends.

Should Dr Goldschmidt or Mr Wilks cease employment before their options and/or performance rights vest, such unvested awards will generally lapse. However, where the Board determines that the executive director is a "good leaver" the Board has the discretion to enable the executive director to retain the portion of the options and performance rights which vest (subject to the performance conditions) within two years of cessation of employment.

To be judged a “good leaver” the executive director would need to provide sufficient notice, assist with succession planning and transition and make themselves reasonably available to assist and answer queries of their replacement for a period post employment. The Board views this arrangement to be in the best interests of the Company and its shareholders, as the executive directors will be incentivised to minimise disruption/loss of value associated with their departure.

For the proposed LTIs, if a takeover bid or other public proposal is made for voting shares in the Company which the Board reasonably believes is likely to lead to a change of control, unvested options and performance rights may vest at the Board’s discretion, having regard to pro rata performance and the circumstances leading to the potential change of control.

Valuation

The number of options to be issued to each executive will be calculated based on a Black Scholes methodology valuation at the date of issue (proposed to be the date of the 2017 Annual General Meeting or shortly after), and the exercise price of the options will be determined using the Volume Weighted 5 day Average Market Price (**5 day VWAP**) for Sonic shares preceding the date of issue. The valuations will not allow for any discount relating to the performance conditions.

For example, using a date of issue of 21 September 2017, the number of options and performance rights would be calculated as follows:

Notional valuation date	21 September 2017
Sonic 5 day VWAP share price	\$21.27
Exercise price of options	\$21.27
Share price volatility	21.4%
Estimated dividend yield	3.64%
Maximum life of the options (grant date to expiry assuming vesting)	5 years
Risk free rate (based on Australian Government bonds)	2.42%
Average value of options	\$2.928
Percentage of maximum value of LTI to be issued as options	50%
Options that would be issued to Dr Goldschmidt using these assumptions	449,107
Options that would be issued to Mr Wilks using these assumptions	199,522

The number of performance rights to be issued to each executive will be calculated at the date of issue by dividing 50% of the maximum value of LTI by the 5 day VWAP for Sonic shares preceding the date of grant. For example, based on a 5 day VWAP of A\$21.27, Dr Goldschmidt would be issued 61,823 performance rights (50% of \$2,629,971, divided by \$21.27) and Mr Wilks would be issued 27,466 performance rights (50% of \$1,168,399, divided by \$21.27).

The options and performance rights will not be listed on the ASX. Upon exercise, the shares issued or acquired will be held on trust by the trustee of the Trust until withdrawn in accordance with the terms of the applicable Plan.

Issues of securities since the last approval by shareholders

1. *Options*

At the 2016 Annual General Meeting, shareholders approved the issue of LTIs resulting in the issue of options for nil consideration under the Option Plan as follows:

- Dr Goldschmidt – 464,659 options (exercise price: \$21.62) issued on 17 November 2016; and
- Mr Wilks – 206,430 options (exercise price: \$21.62) issued on 17 November 2016.

These options will vest three years from grant date, if challenging performance conditions are met for the period of three years to 30 June 2019. They will expire five years from grant date.

2. *Performance Rights*

At the 2016 Annual General Meeting, shareholders approved the issue of LTIs resulting in the issue of performance rights for nil consideration under the Performance Rights Plan as follows:

- Dr Goldschmidt – 60,822 performance rights (nil exercise price) issued on 17 November 2016; and
- Mr Wilks – 27,021 performance rights (nil exercise price) issued on 17 November 2016.

These performance rights will vest three years from grant date, if challenging performance conditions are met for the period of three years to 30 June 2019. They will expire five years from grant date.

There have been no other securities issued to directors or their associates under the Option Plan or Performance Rights Plan since the last approval by shareholders.

The Board (other than Dr Goldschmidt or Mr Wilks, given their interest) recommend that shareholders vote in favour of Resolutions 9 and 10.

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