

**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 2015**

**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 19 November 2015, 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 17 November 2015.

**A copy of Sonic's concise annual report for the financial year ended 30 June 2015 is accessible on Sonic's website at the following address: [www.sonichealthcare.com/annualreports.aspx](http://www.sonichealthcare.com/annualreports.aspx). 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 2015***

Notice is given that the 2015 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 Thursday, 19 November 2015, 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 2015.

#### **Election of Independent, Non-executive Director**

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

1. ***THAT Ms Kate Spargo, who retires in accordance with Article 71 of the Company's Constitution and, being eligible, offers herself for re-election, is re-elected as a director of the Company.***

## Remuneration Report

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

2. **THAT** the remuneration report for the financial year ended 30 June 2015 is adopted.

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

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

### VOTING EXCLUSION STATEMENT:

Sonic will disregard any votes cast on Resolution 2 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.

## SPECIAL BUSINESS

### Increase in Available Pool for Non-Executive Directors' Fees

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

3. **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 \$1,500,000.

### VOTING EXCLUSION STATEMENT:

Sonic will disregard any votes cast on Resolution 3 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:

4. **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 \$2,553,370 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.
  
5. **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 \$1,017,640 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 4 and 5 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 shareholder 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 2015 Annual General Meeting, the shares of the Company that are on issue as at 7.00pm on 17 November 2015 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 17 November 2015. 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](http://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 17 November 2015). 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](http://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 17 November 2015.

## **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 2, 3, 4 and 5, 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 2, 3, 4 and 5 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 2, 3, 4 and 5, 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 2, 3, 4 and 5 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 2, 3, 4 and 5, 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



Paul Alexander  
Company Secretary

Dated: 20 October 2015

## EXPLANATORY MEMORANDUM

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### **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 2015 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 2015 Annual Report) and a copy of the concise annual report on the Company's website at [www.sonichealthcare.com](http://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 2015 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 Thursday, 12 November 2015. At the meeting, PricewaterhouseCoopers will be given the opportunity to answer, or table written answers to, relevant questions.

#### **Resolution 1 – Election of Independent, Non-executive Director**

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. Mr Colin Jackson has advised his intention to retire as a director at the end of the 2015 Annual General Meeting and not offer himself for re-election.

Since no other director would otherwise be required to submit for re-election and the ASX Listing Rules require a listed entity to hold an election of directors each year, in accordance with Article 71 of the Constitution of the Company, Ms Kate Spargo has agreed to retire as a director at the end of the 2015 Annual General Meeting however, being eligible, offers herself for re-election.

The Board (excluding Ms Kate Spargo) recommends the re-election of Ms Kate Spargo.

Brief biographical details of Ms Kate Spargo are set out on page 8.

**Kate Spargo**

*L.L.B. (Hons), B.A., F.A.I.C.D.*

*Non-executive, independent Director, appointed July 2010*

Ms Spargo has gained broad business experience as both a legal advisor, having worked in private practice and government, and as a director. Ms Spargo has been a director of both listed and unlisted companies over the last twenty years and her current directorships include the ASX listed companies Fletcher Building Limited (from March 2012), Chairman of UGL Limited (director from October 2010, appointed Chairman October 2014) and Adairs Limited (director from May 2015). She is also a director of SMEC Limited, an engineering company with operations in around 40 countries, ColInvest Limited and Suncorp Portfolio Services Limited. Ms Spargo is Chair of the Remuneration and Nomination Committee and is a member of the Audit Committee. Ms Spargo resides in Melbourne, Victoria and currently holds (personally) 3,000 and (beneficially) 6,000 Sonic shares. In recommending Ms Spargo's re-election, the Board recognised that she brings to the position a diverse range of leadership experience and skills. The Board considers Ms Spargo to be an independent director.



## **Resolution 2 – Remuneration Report**

Sonic's 2015 Annual Report contains a remuneration report (which forms 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 2015.

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 2 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 2.

## **SPECIAL BUSINESS**

### **Resolution 3 – 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, that amount is set at \$1,000,000 (of which \$885,084 was paid in 2015), which was approved by shareholders at the 2010 Annual General Meeting.

It is proposed that the maximum combined annual amount of remuneration payable to all NEDs be increased by \$500,000 to \$1,500,000. 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. Options are not issued and bonuses are not payable to NEDs.

Since 2010, the composition of the Board has continued to evolve, as part of a process aimed at achieving a broad range of skills, experience and expertise complementary to the Company's medical diagnostic activities. This is reflected in the appointment to the Board since 2010 of three new NEDs. 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 medical diagnostic 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 2013 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 2015 as follows; to be more in line with comparable companies:

	<b>From 1 July 2013</b>	<b>From 1 July 2015</b>
Chairman*	\$290,000	\$380,000
NED base fee	\$140,000	\$150,000
Audit Committee Chair	\$18,000	\$30,000
Audit Committee member	\$10,000	\$15,000
Remuneration and Nomination Committee Chair	\$10,000	\$25,000
Remuneration and Nomination Committee member	\$5,000	\$10,000
Risk Management Committee Chair	\$10,000	\$25,000
Risk Management Committee member	\$5,000	\$10,000

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

Based on the composition of the Board and its Committees post the 2015 Annual General Meeting, the total annual fees payable will amount to \$955,000, still within the existing maximum amount.

The Board (other than the NEDs, given their interest), recommend that shareholders vote in favour of Resolution 3.

## **Resolutions 4 and 5 – 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 2017 financial year (having been approved by shareholders at the 2011 and 2014 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 expectations and appropriate to retain their services, after taking into consideration their other remuneration components. Independent external input in 2014 has been considered by the Remuneration and Nomination Committee in formulating this proposal, including benchmarking executive remuneration against a core comparator group of companies. Following recommendation by the Remuneration and Nomination Committee, the Board has approved the proposal. For more details, please refer to the 2015 Remuneration Report.

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 4 and 5 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 4 and 5 seek shareholders' approval to the grant of LTIs to provide performance incentives through to the 2018 financial year with a value of:

- Dr Goldschmidt – a maximum of \$2,553,370; and
- Mr Wilks – a maximum of \$1,017,640,

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 2018. 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 4 and 5, it is intended that the options and performance rights will be granted to Dr Goldschmidt or Mr Wilks on the date of the 2015 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 4 and 5.

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 4 and 5 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 two 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**); and
- 50% of the options and 50% of the performance rights are subject to the second performance condition (**PC2**).

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 – Compound Annual Growth Rate (**CAGR**) in Earnings Per Share (**EPS**)

EPS is calculated as Net Profit after Tax divided by the fully diluted weighted average number of ordinary shares on issue during a 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.

The percentage of options and performance rights subject to PC2 that vest will be as follows:

<b>CAGR in EPS</b>	<b>Percentage of Options and Rights that vest</b>
Less than 4% p.a.	Nil options and rights to which PC2 applies
4% p.a.	40% of options and rights to which PC2 applies
Greater than 4% and less than 10% p.a.	Pro rata between 40% and 100% of options and rights to which PC2 applies
10% p.a. or greater	100% of options and rights to which PC2 applies

Whilst the general intention is to use statutory reported numbers for transparency in measuring performance under PC2, given the three year period into the future involved, should the statutory numbers cause an anomalous result, adjustments to the statutory numbers may be made by the Board 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 Sonic Healthcare Employee Share Trust (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 2015 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 valuation will not allow for any discount relating to the performance conditions.

For example, using a date of issue of 25 September 2015, the number of options and performance rights would be calculated as follows:

Notional valuation date	25 September 2015
Sonic 5 day VWAP share price	\$19.12
Exercise price of options	\$19.12
Share price volatility	21.2%
Estimated dividend yield	4.32%
Maximum life of the options (grant date to expiry assuming vesting)	5 years
Risk free rate (based on Australian Government bonds)	2.12%
Average value of options	\$2.239
Percentage of maximum value of LTI to be issued as options	50%
Options that would be issued to Dr Goldschmidt using these assumptions	570,203
Options that would be issued to Mr Wilks using these assumptions	227,253

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\$19.12, Dr Goldschmidt would be issued 66,772 performance rights (50% of \$2,553,370, divided by \$19.12) and Mr Wilks would be issued 26,611 performance rights (50% of \$1,017,640, divided by \$19.12).

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 2014 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 – 504,887 options (exercise price: \$17.32) issued on 27 November 2014; and
- Mr Wilks – 201,221 options (exercise price: \$17.32) issued on 27 November 2014.

These options will vest three years from grant date, if performance conditions are met for the period of three years to 30 June 2017. They will expire five years from grant date.

### *2. Performance Rights*

At the 2014 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 – 71,564 performance rights (nil exercise price) issued on 27 November 2014; and
- Mr Wilks – 28,521 performance rights (nil exercise price) issued on 27 November 2014.

These performance rights will vest three years from grant date, if performance conditions are met for the period of three years to 30 June 2017. 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 4 and 5.