

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 2011

AND

EXPLANATORY MEMORANDUM

The Annual General Meeting of shareholders will be held in Grand Ballroom 2, Shangri-La Hotel at 176 Cumberland Street, The Rocks, Sydney NSW on 18 November 2011, 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 16 November 2011.

A copy of Sonic's concise annual report for the financial year ended 30 June 2011 is accessible on Sonic's website at the following address: www.sonichealthcare.com/annualreports.aspx. As permitted by the *Corporations Act 2001* (Cth), 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 2011

Notice is given that the 2011 Annual General Meeting of Sonic Healthcare Limited (**Sonic** or the **Company**) will be held in Grand Ballroom 2, Shangri-La Hotel, 176 Cumberland Street, The Rocks, Sydney NSW on Friday, 18 November 2011, 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 2011.

Re-election of Directors

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

1. **THAT** *Mr Peter Campbell, 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 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.*
3. **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.*

Remuneration Report

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

4. **THAT** *the remuneration report for the financial year ended 30 June 2011 is adopted.*

Note that the vote on this resolution is advisory only and does not bind the Company or its directors. Following the introduction of the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011 (Cth), 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 on page 4 for details of how to appoint a proxy for this resolution.

SPECIAL BUSINESS

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

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

5. **THAT**, for the purposes of ASX Listing Rule 7.2 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.

Executive Director Remuneration – Approval of long term incentives

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

6. **THAT**, for the purposes of ASX Listing Rules 10.14 and 7.1 and all other purposes, the grant of long term incentives for the next 5 years up to a maximum value of \$9,000,000 (\$1,800,000 per annum) 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.
7. **THAT**, for the purposes of ASX Listing Rules 10.14 and 7.1 and all other purposes, the grant of long term incentives for the next 5 years up to a maximum value of \$4,500,000 (\$900,000 per annum) 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 shall disregard any votes cast in respect of Resolutions 5, 6 and 7 by:

- Dr Colin Goldschmidt;
 - Mr Chris Wilks; and
 - any other director of Sonic (except a director who is ineligible to participate in any Sonic employee incentive scheme*),
- and any of their associates.

* All of Sonic's non-executive directors are ineligible to participate in the Option Plan.

However, the Company will not disregard a vote if:

- (a) it is cast by a person as proxy for a shareholder who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the Chairman of the meeting as proxy for a shareholder who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

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 2011 Annual General Meeting, the shares of the Company that are on issue as at 7.00pm on 16 November 2011 will be taken to be held by the persons who held them 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 16 November 2011. 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 |
| 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 16 November 2011). 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 16 November 2011.
9. Under amendments to the *Corporations Act 2001* (Cth) (**Corporations Act**) which took effect on 1 August 2011, there will be some changes to the way in which proxy votes are processed:

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 new legislation provides that the Chairman of the meeting must cast those proxy votes on your behalf if your nominated proxy does not do so.

UNDIRECTED PROXY VOTES

You are encouraged to consider how you wish to direct your proxy to vote. Other than members of Sonic's key management personnel (being Sonic's directors) or their closely related parties voting as a proxy on Resolutions 4, 5, 6 and 7, 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 member of Sonic's key management personnel (other than the Chairman) or their closely related party as your proxy, you must specify how they should vote on Resolutions 4, 5, 6 and 7 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 those resolutions. If you appoint the Chairman as your proxy (or the Chairman is appointed by default), but do not direct him how to vote the Chairman will be able to exercise your vote on your behalf on Resolutions 5, 6 and 7 as he sees fit (in which case the Chairman will vote in favour of each of those items). If you appoint the Chairman (or the Chairman is appointed by default) as your proxy in relation to Resolution 4, but do not complete any of the boxes "For", "Against" or "Abstain" opposite that resolution on the proxy form, you will be directing the Chairman to vote in favour of Resolution 4. If you wish to appoint the Chairman as proxy with a direction to vote against, or to abstain from voting on Resolution 4, you must specify this by completing the "Against" or "Abstain" boxes on the proxy form.

By ORDER of the Board of Directors



Paul Alexander
Company Secretary

Dated: 19 October 2011

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 2011 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 2011 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 2011 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 Friday, 11 November 2011. At the meeting, PricewaterhouseCoopers will be given the opportunity to answer, or table written answers to, relevant questions.

Resolutions 1, 2 and 3 – Re-election of Directors

Under Article 71 of the Constitution of the Company and in accordance with the Listing Rules of ASX Limited, 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 Peter Campbell, Mr Lou Panaccio and Mr Chris Wilks are required to retire as directors at the end of the 2011 Annual General Meeting but, being eligible, offer themselves for re-election.

Brief biographical details of Mr Peter Campbell, Mr Lou Panaccio and Mr Chris Wilks are set out on page 7.

Mr Peter Campbell

Chairman

F.C.A., F.T.I.A., F.A.I.C.D.

Non-executive, independent Director, appointed January 1993 (Chairman from 27 October 2010)

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 Chairman of the Remuneration and Nomination Committee and he is a member of the Audit Committee. Mr Campbell is currently a Non-executive Director of Silex Systems Limited (since 1996) and also of QRxPharma Limited (since April 2007). He was formerly a Non-executive Director of Admerex Limited (from January 2007 to October 2008).

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 strong management experience in business and healthcare services. He is currently Executive Chairman of Health Networks Australia, Executive Chairman (from July 2011) of Genera Biosystems Limited (Director from November 2010) and a Non-executive Chairman of the Inner Eastern Community Health Service in Victoria. Mr Panaccio was the Chief Executive Officer and an Executive Director of Melbourne Pathology for ten years to 2001. Mr Panaccio is Chairman of the Audit Committee, and a member of the Remuneration and Nomination Committee.

Mr Chris Wilks

Finance Director and Chief Financial Officer

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

Executive Director, appointed December 1989

Mr Wilks has a background in chartered accounting and investment banking. He was previously a partner in a private investment bank and has held directorships for a number of public companies. Mr Wilks is a member of the Risk Management Committee. He is also a Director of Silex Systems Limited (since 1988), and was formerly a Non-executive Director of Independent Practitioner Network Limited (2005-2008).

Resolution 4 – Remuneration Report

Sonic's 2011 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 2011.

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 4 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.

Following the introduction of the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011* (Cth), 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.

SPECIAL BUSINESS

Resolution 5 - Approval of the issue of securities under the Sonic Healthcare Limited Employee Option Plan as an exception to ASX Listing Rule 7.1

The Sonic Healthcare Limited Employee Option Plan (the *Option Plan*) was last approved by shareholders for the purposes of ASX Listing Rule 7.2 at the 2008 Annual General Meeting held on 20 November 2008. Since the date of that approval, a total of 5,825,000 options have been issued, (including 2,625,000 options approved by shareholders at the 2008 Annual General Meeting for issue to executive directors) under the Option Plan of which none have been exercised. 1,556,625 of these options have since been cancelled as performance conditions were not achieved.

Shareholder approval is accordingly being sought under Resolution 5 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) 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 Resolution 5 is passed, the number of securities (shares or options) issued under the Option Plan by the Company for the 3 years following the date of this Annual General Meeting, (including those options issued to Dr Goldschmidt and Mr Wilks under Resolutions 6 and 7), will not count towards the annual 15% limit on the number of equity securities that Sonic may issue without shareholder approval. As the last approval of the Option Plan given by shareholders was 3 years ago, the Company believes it to

be an appropriate corporate governance initiative to seek approval of the issue of securities under the Option Plan to re-start the application of Exception 9 to the Option Plan.

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 the Board 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 a director for a continuous period of one year; and
- any other person 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.

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*

All unexercised options will become exercisable within 30 days (or such longer period as the Board determines) of a takeover bid being made in respect of shares in the Company. 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 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 and cancellations.

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.

Resolutions 6 and 7 - 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

The previous long term incentive (*LTI*) arrangements for Dr Goldschmidt and Mr Wilks applied for the 3 financial years up to and including 2011 (having been approved by shareholders at the 2008 Annual General Meeting). Properly designed equity incentives are an important component of senior executive remuneration. The Remuneration and Nomination Committee has therefore designed the proposed grant of options and performance rights to these key executives as the long term incentive component of their remuneration for the 2012, 2013, 2014, 2015 and 2016 financial years, 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 advice 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 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 seek to negotiate non equity long term incentives of an equivalent value for Dr Goldschmidt and Mr Wilks.

Shareholder approval is being sought for the grant by the company of LTIs for the next 5 years in the form of options and performance rights of a maximum value as at the date of grant of \$9,000,000 (\$1,800,000 per annum) to Dr Colin Goldschmidt and \$4,500,000 (\$900,000 per annum) to Mr Chris Wilks, and the subsequent issue of ordinary shares in the Company following vesting and exercise of the LTIs. The specific terms and conditions of these LTIs are set out in this Explanatory Memorandum.

Approval under ASX Listing Rule 10.14

Shareholder approval of the issue of the securities proposed under Resolutions 6 and 7 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 Sonic Healthcare Limited Performance Rights Plan (*Performance Rights Plan*), without the approval of shareholders.

Resolutions 6 and 7 seek shareholders' approval to the grant of LTIs with respect to the next 5 financial years from 1 July 2011 of:

- Dr Goldschmidt – a maximum of \$9,000,000 (\$1,800,000 per annum); and
- Mr Wilks – a maximum of \$4,500,000 (\$900,000 per annum),

on the terms set out in this notice. 60% of this value will be issued as options over ordinary shares in Sonic under the Option Plan, and the remaining 40% will be issued as performance rights to 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 will vest as follows (subject to satisfaction of challenging performance conditions described below):

| % of LTI | Earliest vesting date* (years from grant date) | Performance conditions measurement period | Expiry date (years from grant date) |
|-----------|---|--|--|
| Up to 30% | 3 | 3 years to 30 June 2014 | 5 |
| Up to 30% | 4 | 4 years to 30 June 2015 | 6 |
| Up to 40% | 5 | 5 years to 30 June 2016 | 7 |

* Options can only vest when the market price of Sonic shares is higher than the exercise price.

If shareholder approval is obtained under Resolutions 6 and 7, it is intended that the LTIs will be granted to Dr Goldschmidt or Mr Wilks on the date of the 2011 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 consideration is payable on the grant of the LTIs.

No loans have or will be made in respect of the directors' proposed acquisition of options or performance rights under Resolutions 6 and 7.

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 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 6 and 7 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 half of 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**).

Even if the performance conditions are satisfied, the options can only vest where the market price of Sonic shares is higher than the exercise price.

The performance conditions are as follows:

(a) PC1 – Compound Average Growth Rate (**CAGR**) in Return on Invested Capital (**ROIC**)

ROIC is calculated as Earnings before Interest and Tax, less related tax and minority interests, divided by capital employed. CAGR in ROIC refers to the annual growth in ROIC.

CAGR in ROIC has been chosen as a performance hurdle following the input of several of the Company's larger shareholders and potential shareholders who, along with the Board, believe that the Company's primary focus in coming years should be improvement in the return from the substantial investments the Company has made in its offshore markets.

The percentage of LTI subject to PC1 that vest will be based on a sliding scale as follows:

| CAGR in ROIC | % of LTI vesting |
|--------------------------------------|-------------------------------|
| Less than 3.0% | Nil |
| 3.0% | 30% |
| Greater than 3.0% and less than 9.0% | Pro rata between 30% and 100% |
| 9.0% or greater | 100% |

(b) PC2 – Total Shareholder Return (**TSR**)

Under PC2, Sonic's performance will be ranked by percentile according to its TSR relative to the TSR of the companies comprising the ASX 100 Accumulation Index (excluding banks and resource companies). The executive directors will not derive any value from the LTI subject to PC2 unless Sonic's performance is at least at the median of the benchmark group.

The percentage of LTI subject to PC2 that vest will be based on a sliding scale as follows:

| TSR Target | % of LTI vesting |
|---------------------------|--|
| Below the 50th percentile | Nil |
| 50th percentile | 50% |
| 50th to 75th percentile | Progressive scale of an additional 2% for each percentile increase |
| 75th percentile and above | 100% |

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.

If Dr Goldschmidt or Mr Wilks cease employment before their options and/or performance rights vest, such unvested awards will generally lapse. However, where the executive director is a "good leaver" the Board has the discretion to enable the executive director to retain the portion of the LTI which vests (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.

Specific terms of the grant

The proposed LTI entitlements of Dr Goldschmidt and Mr Wilks for the five years from 1 July 2011 are:

- Dr Goldschmidt – a maximum of \$9,000,000 (\$1,800,000 per annum); and
- Mr Wilks – a maximum of \$4,500,000 (\$900,000 per annum).

60% of this value will be issued as options over ordinary shares in Sonic under the Option Plan, and the remaining 40% will be issued as performance rights to ordinary shares in Sonic under the Performance Rights Plan.

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 2011 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 26 September 2011, the number of options would be calculated as follows:

| | | | |
|--|-------------------|---------|-----------|
| Notional valuation date | 26 September 2011 | | |
| Sonic 5 day VWAP share price | | | \$11.37 |
| Exercise price of options | | | \$11.37 |
| Share price volatility | | | 29.2% |
| Estimated dividend yield | | | 5.51% |
| Maximum life of the options (grant date to expiry assuming vesting) | 5 years | 6 years | 7 years |
| Risk free rate (based on Australian Government bonds) | 3.63% | 3.77% | 3.83% |
| Average value of options | \$1.916 | \$1.983 | \$2.015 |
| Options that would be issued to Dr Goldschmidt using these assumptions | 845,511 | 816,944 | 1,071,960 |
| Options that would be issued to Mr Wilks using these assumptions | 422,755 | 408,472 | 535,980 |

The number of performance rights to be issued to each executive will be calculated at the date of issue by dividing 40% 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\$11.37, Dr Goldschmidt would be issued 316,622 performance rights (40% of \$9,000,000, divided by \$11.37) and Mr Wilks would be issued 158,311 performance rights (40% of \$4,500,000, divided by \$11.37).

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.

Overview of the Option Plan and the Performance Rights Plan

Refer to the Explanatory Notes for Resolution 5 for an overview of the key terms of the Option Plan.

Summary of the terms of the Performance Rights Plan

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. Each performance right that is exercised entitles the participant to one share. No consideration is payable in respect of performance rights.

Upon an invitation being made, the Board will determine the vesting conditions (if any) attaching to the performance rights. 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.

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.

The number of performance rights granted must not exceed a maximum of 10% of the total number of shares in the Company on issue.

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.

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.

Issues of securities since the last approval by shareholders

At the 2008 Annual General Meeting, shareholders approved the issue of the options for nil consideration under the Option Plan as follows:

- Dr Goldschmidt – 1,750,000 options (exercise price: \$12.98) issued on 21 November 2008; and
- Mr Wilks – 875,000 options (exercise price: \$12.98) issued on 21 November 2008.

None of these options have been exercised and 59.3% have since been forfeited as the relevant performance conditions were not met. None of the other directors of the Company or any of their associates have received any options under the Option Plan since the last approval (which was given at the 2008 Annual General Meeting). The executive directors of the Company, being Dr Colin Goldschmidt, Mr Chris Wilks, Dr Philip Dubois and Mr Colin Jackson are currently the only persons referred to in Listing Rule 10.14 (that is, the directors of the Company and their associates) who are entitled to participate in the Option Plan.

On 25 March 2009, Dr Goldschmidt and Mr Wilks were granted 30,243 and 15,122 performance rights to Sonic shares respectively under the Performance Rights Plan as part of their short term incentive remuneration for the 2009 financial year. All of these performance rights were subsequently exercised for ordinary shares in Sonic. The shares were purchased on market by the trustee of the Trust in accordance with the Performance Rights Plan so no approval was sought under Listing Rule 10.14. There have been no other securities issued to directors or their associates under the Performance Rights Plan. All directors of the Company, Dr Colin Goldschmidt, Mr Chris Wilks, Dr Philip Dubois, Mr Colin Jackson, Mr Peter Campbell, Mr Lou Panaccio, Dr Jane Wilson and Ms Kate Spargo, are eligible to participate in the Performance Rights Plan.

All of the Directors, other than Dr Goldschmidt or Mr Wilks, recommend that shareholders vote in favour of Resolutions 6 and 7.