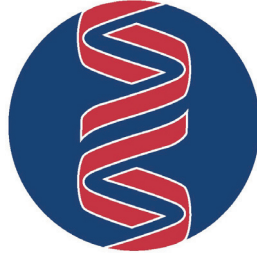


**THIS DOCUMENT IS IMPORTANT**

*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 2019**

**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 2019, 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 2019.

**A copy of Sonic's concise annual report for the financial year ended 30 June 2019 is accessible on Sonic's website at the following address: [www.sonichealthcare.com/annual-reports](http://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 2019**

Notice is given that the 2019 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 Tuesday, 19 November 2019, 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 2019.

#### **Election of Directors**

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

1. **THAT** *Dr Jane Wilson, 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.*
2. **THAT** *Dr Philip Dubois, 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:

3. **THAT** *the remuneration report for the financial year ended 30 June 2019 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 4 for details of how to appoint a proxy for this resolution.

#### **VOTING EXCLUSION STATEMENT:**

Sonic will disregard any votes cast on Resolution 3 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.

## **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 \$2,629,971 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.
  
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 \$1,168,399 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 favour of Resolutions 4 and 5 by or on behalf of any director of Sonic (including Dr Goldschmidt and Mr Wilks), or 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 directors.

Please refer to the instructions in the Additional Information – Proxies section on page 4 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 2019 Annual General Meeting, the shares of the Company that are on issue as at 7.00pm (Sydney time) on 17 November 2019 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 2019. 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 2019). 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 2019.

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 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 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 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 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 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: 18 October 2019

## 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 2019 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 2019 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 2019 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 Tuesday, 12 November 2019. At the meeting, PricewaterhouseCoopers will be given the opportunity to answer, or table written answers to, relevant questions.

#### **Resolutions 1 and 2 – 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. Dr Jane Wilson and Dr Philip Dubois are required to retire as directors at the end of the 2019 Annual General Meeting but, being eligible, offer themselves for re-election. The Board (excluding the relevant directors) recommends the re-election of Dr Jane Wilson and Dr Philip Dubois.

Biographical details of the relevant directors are set out on page 7.

**Dr Jane Wilson**

*MBBS, MBA, FAICD*

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

Dr Wilson is an independent non-executive Director with a background in finance, banking and medicine. She is a registered General Medical Practitioner. Dr Wilson is currently a Guardian of the Future Fund, non-executive Director of ASX-listed companies Transurban Group (since January 2017) and Costa Group Holdings Limited (from April 2019), and a non-executive Director of the General Sir John Monash Foundation. She is also Co-Chair of the Australian Government Advisory Board on Technology and Healthcare Competitiveness. Dr Wilson was Deputy Chancellor of the University of Queensland and has previously served on boards of ASX-listed companies, Government-owned Corporations and not-for-profit companies. Dr Wilson was awarded the 2016 Australian Institute of Company Directors Queensland Gold Medal Award for contribution to business and the wider community. She holds a Bachelor of Medicine and an Honorary Doctor of Business from the University of Queensland and an MBA from the Harvard Business School. Dr Wilson is Chairman of the Risk Management Committee and is a member of the Remuneration and Nomination Committee. Dr Wilson resides in Brisbane, Queensland and currently holds (beneficially) 3,770 Sonic shares. In recommending Dr Wilson's re-election, the Board recognised that she brings more than two decades of corporate governance and company oversight experience across a diverse range of companies and industries to the position, including extensive experience in corporate finance, innovation and the commercialisation of technologies with a focus on the healthcare sector. The Board considers Dr Wilson to be an independent director.

**Dr Philip Dubois**

*MBBS, FRCR, FRANZCR, FAICD*

*Executive Director, appointed July 2001*

Dr Dubois is CEO of Sonic's Imaging Division and Chairman of the Sonic Imaging Executive Committee. A neuroradiologist and nuclear imaging specialist, he is currently an Associate Professor of Radiology at the University of Queensland Medical School. He has served on numerous government and craft group bodies, including the councils of the Royal Australian and New Zealand College of Radiologists and the Australian Medical Association, and as Vice-President of the Australian Diagnostic Imaging Association. He is a non-executive Director of Magnetica Limited (since December 2004). Dr Dubois resides in Brisbane, Queensland and currently holds (beneficially) 8,770 Sonic shares. In recommending Dr Dubois' re-election, the Board recognised the value of his strategic input and executive leadership experience in healthcare services, and in particular, his wealth of experience in diagnostic imaging. Dr Dubois' membership on the Board has played a significant role in consolidating Sonic's imaging businesses into a cohesive group.

Dr Philip Dubois has advised that, should he be re-elected by shareholders at this year's Annual General Meeting, he will permanently retire from the Board by the end of that three year term.

The presence of Dr Wilson (a registered General Medical Practitioner) and Dr Dubois (a practicing radiologist) on the Board is evidence of, and reinforces, Sonic's commitment to its unique Medical Leadership culture and operating model, which in turn provides significant competitive advantages in the markets in which Sonic operates.

Board renewal, development and diversity continue to be important considerations for the Sonic Board. Sonic is actively recruiting for an additional independent, non-executive director, preferably a qualified medical practitioner, and hope to have the position filled soon after Sonic's 2019 Annual General Meeting.

### **Resolution 3 – Remuneration Report**

Sonic's 2019 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 2019.

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 3 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 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 2021 financial year (having been approved by shareholders at the 2017 and 2018 Annual General Meetings). Dr Goldschmidt and Mr Wilks receive annual grants of equity-based remuneration in the form of options and performance rights over shares in Sonic Healthcare Limited (conditional on approval by shareholders), subject to performance conditions with measurement periods of three years.

Annual grants allow 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. Shareholders have the opportunity 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 since their appointment.

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 2020 financial year as they were for the previous three years.

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 5 years, the executives have received, on average, 89% of their target short term incentives and, on average, only 41% 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 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 Sonic Healthcare Limited Employee Option Plan (**Option Plan**) and the Sonic Healthcare Limited Performance Rights Plan (**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 2022 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 2022. 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 and Mr Wilks on the date of the 2019 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.

Dr Goldschmidt and Mr Wilks are the only directors who have been invited by the Board to be eligible to participate in the Option Plan or the Performance Rights Plan. 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 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:

<b>TSR Ranking achieved</b>	<b>Percentage of Options and Rights that vest</b>
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 2020, 2021 and 2022 financial year foreign earnings into AUD as applied in the 2019 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:

<b>Aggregate EPS for FY2020 to FY2022</b>	<b>Percentage of Options and Rights that vest</b>
Less than 361 cents	Nil options and rights to which PC2 applies
361 cents	40% of options and rights to which PC2 applies
Greater than 361 cents and less than 405 cents	Pro rata between 40% and 100% of options and rights to which PC2 applies
405 cents or greater	100% of options and rights to which PC2 applies

361 cents per share equates to compound annual growth of 4% and 405 cents per share equates to compound annual growth of 10%, in each case over a base of 111.1 cents per share, which is the FY2019 EPS adjusted to remove the impact of the one-off after tax gain on the sale of GLP Systems. This gain (A\$49.585 million) is of a nature and size that it would be inappropriate to expect the executives to achieve the required compounded growth with it in the base. It is noted that the executives did not benefit from this gain in the assessment of their EPS performance condition for the 3 years to FY2019. The gain was also excluded from their EBITDA growth hurdle STI for FY2019, as a non-recurring amount.

(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. 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 (FY2020) will be 8.5%. 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:

<b>Average ROIC for FY2020 to FY2022</b>	<b>Percentage of Options and Rights that vest</b>
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, 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 and 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. Should the Board not exercise this discretion the unvested awards will lapse.

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 2019 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 23 September 2019, the number of options and performance rights would be calculated as follows:

Notional valuation date	23 September 2019
Sonic 5 day VWAP share price	\$28.09
Exercise price of options	\$28.09
Share price volatility	20.1%
Estimated dividend yield	3.31%
Maximum life of the options (grant date to expiry assuming vesting)	5 years
Risk free rate (based on Australian Government bonds)	0.75%
Average value of options	\$3.075
Percentage of maximum value of LTI to be issued as options	50%
Options that would be issued to Dr Goldschmidt using these assumptions	427,638
Options that would be issued to Mr Wilks using these assumptions	189,984

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\$28.09, Dr Goldschmidt would be issued 46,813 performance rights (50% of \$2,629,971, divided by \$28.09) and Mr Wilks would be issued 20,797 performance rights (50% of \$1,168,399, divided by \$28.09).

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 2018 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 – 462,372 options (exercise price: \$21.69) issued on 21 November 2018; and
- Mr Wilks – 205,415 options (exercise price: \$21.69) issued on 21 November 2018.

These options will vest three years from grant date, if challenging performance conditions are met for the period of three years to 30 June 2021. They will expire five years from grant date.

### 2. *Performance Rights*

At the 2018 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 – 60,626 performance rights (nil exercise price) issued on 21 November 2018; and
- Mr Wilks – 26,934 performance rights (nil exercise price) issued on 21 November 2018.

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 2021. 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.