

**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 2014**

**AND**

**EXPLANATORY MEMORANDUM**

The Annual General Meeting of shareholders will be held in Ballroom 2, Four Seasons Hotel, 199 George Street, Sydney NSW on 20 November 2014, 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 18 November 2014.

**A copy of Sonic's concise annual report for the financial year ended 30 June 2014 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 2014**

Notice is given that the 2014 Annual General Meeting of Sonic Healthcare Limited (**Sonic** or the **Company**) will be held in Ballroom 2, Four Seasons Hotel, 199 George Street, Sydney NSW on Thursday, 20 November 2014, 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 2014.

#### **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 for one year only.*
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.*
4. **THAT** *Professor Mark Compton, who was appointed as a director during the year and who retires in accordance with Article 69 of the Company's Constitution and, being eligible, offers himself for election, is elected as a director of the Company.*

## Remuneration Report

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

5. **THAT** the remuneration report for the financial year ended 30 June 2014 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.

Sonic will disregard any votes cast on Resolution 5 by or on behalf of a member of the key management personnel (**KMP**) (being Sonic's directors) or their closely related parties, unless the vote is cast by that person as proxy for a person entitled to vote in accordance with the Proxy Form. 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 KMP.

## **SPECIAL BUSINESS**

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

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

6. **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.
7. **THAT**, for the purposes of ASX Listing Rule 7.2 and all other purposes, the issue of performance rights, and shares following the valid exercise of such performance rights, under and in accordance with the terms of the Sonic Healthcare Limited Performance Rights Plan be approved.

## **Executive Director Remuneration – Approval of long term incentives**

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

8. ***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 \$2,479,000 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.***
  
9. ***THAT, for the purposes of ASX Listing Rules 10.14 and 7.1 and all other purposes, the grant of long term incentives up to a maximum value of \$988,000 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 6, 7, 8 and 9 by any executive director of Sonic\* (including Dr Goldschmidt and Mr Wilks), 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 2014 Annual General Meeting, the shares of the Company that are on issue as at 7.00pm on 18 November 2014 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 18 November 2014. 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 18 November 2014). 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 18 November 2014.

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 members of the KMP or their closely related parties voting as a proxy on Resolutions 5, 6, 7, 8 and 9 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 KMP (other than the Chairman) or their closely related party as your proxy, you must specify how they should vote on Resolutions 5, 6, 7, 8 and 9 by completing the "For", "Against" or "Abstain" boxes on the proxy form. If you do not do that, your proxy will not be able to exercise your vote on your behalf for that resolution. If you appoint the Chairman (or the Chairman is appointed by default) as your proxy in relation to Resolutions 5, 6, 7, 8 and 9, but do not complete any of the boxes "For", "Against" or "Abstain" opposite that resolution on the proxy form, you expressly authorise the Chairman to exercise your proxy in relation to Resolutions 5, 6, 7, 8 and 9 even though the item is connected directly or indirectly with the remuneration of KMP, including the Chairman. If you wish to appoint the Chairman as proxy with a direction to vote against, or to abstain from voting on Resolutions 5, 6, 7, 8 and 9, 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: 21 October 2014

## 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 2014 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 2014 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 2014 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, 13 November 2014. At the meeting, PricewaterhouseCoopers will be given the opportunity to answer, or table written answers to, relevant questions.

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

Under Article 71 of the Constitution of the Company and in accordance with the ASX Listing Rules, no director, other than the Managing Director, may hold office for a continuous period in excess of 3 years or past the third Annual General Meeting following the director's appointment, whichever is the longer, without submitting for re-election. Mr Peter Campbell, Mr Lou Panaccio and Mr Chris Wilks are required to retire as directors at the end of the 2014 Annual General Meeting but, being eligible, offer themselves for re-election. The Board (excluding the relevant directors) recommends the re-election of Mr Peter Campbell, Mr Lou Panaccio and Mr Chris Wilks.

The re-election of Mr Peter Campbell will be for one year as he has flagged his intention to retire from the Board by the 2015 Annual General Meeting. Prior to Mr Peter Campbell's retirement he will assist with the recruitment of an independent director, selection of a replacement Chair, and with a smooth transition to the new Chair.

Under Article 69 of the Constitution of the Company and in accordance with the ASX Listing Rules, the Directors may appoint any person as a director. That person shall hold office until the end of the next following Annual General Meeting and shall be eligible for election at that meeting without needing to give any prior notice. Professor Mark Compton, who was appointed during the year, is required to retire as a director at the end of the 2014 Annual General Meeting but, being eligible, offers himself for election. The Board (excluding Prof. Mark Compton) recommends his election.

Brief biographical details of the relevant directors are set out on pages 8 and 9.

**Mr Peter Campbell**

*Chairman*

*F.C.A., C.T.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 a member of the Remuneration and Nomination Committee. Mr Campbell was a non-executive director of Silex Systems Limited (from 1996 until September 2013, including Chairman from October 2010 until February 2012) and he was also a non-executive director of QRxPharma Limited (from April 2007 until July 2014). Mr Campbell resides in Sydney, NSW and currently holds (beneficially) 10,271 Sonic shares. In recommending Mr Campbell's re-election, the Board considered his performance, and the skills and experience which he brings to the Board. The Board believes that, notwithstanding his period of service on the Board, Mr Campbell has retained his independence of character and judgement and therefore considers him an independent director.

**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. Mr Panaccio is currently on the boards of ASX listed companies Genera Biosystems Limited (Executive Chairman from July 2011, director from November 2010) and Avita Medical Limited (Chairman from July 2014). He is also Executive Chairman of Health Networks Australia, non-executive Chairman of the Inner East Community Health Service in Victoria and a non-executive director of Yarra Community Housing Limited. 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, a member of the Remuneration and Nomination Committee, and a member of the Risk Management Committee. Mr Panaccio resides in Melbourne, Victoria. In recommending Mr Panaccio's re-election, the Board has considered his performance and recognised that he has more than 30 years of executive leadership experience in healthcare services. The Board considers Mr Panaccio to be an independent director.

**Mr Chris Wilks**

*Finance Director and Chief Financial Officer  
B.Comm. (Univ Melb), 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. He is currently a director of Silex Systems Limited (since 1988). Mr Wilks resides in Sydney, NSW and currently holds (personally) 556,125 and (beneficially) 88,122 Sonic shares. In recommending Mr Wilks' re-election, the Board has acknowledged the role he performs within Sonic is broader than the usual Chief Financial Officer role and Mr Wilks' strategic input, experience and reputation in the market are considered extremely valuable to Sonic.

**Professor Mark Compton**

*AM., B.Sc., M.B.A., F.A.I.C.D., F.A.I.M., A.F.C.H.S.M.  
Non-executive, independent Director, appointed October 2014*

Prof. Compton has extensive senior executive experience in healthcare services. He is currently Adjunct Professor in Management (Healthcare Leadership) at Macquarie Graduate School of Management, non-executive director of Macquarie University Hospital, Chairman and Chancellor of St John Ambulance Australia (having served as a volunteer for 38 years) and Chief Executive Officer of St Luke's Care. He is a member of the Audit Committee. His previous experience includes Chief Executive Officer of Immune Systems Therapeutics Limited, National Chief Executive Officer of The Royal Flying Doctor Service of Australia, and Chief Executive Officer and Managing Director of the formerly ASX listed companies SciGen Limited and Alpha Healthcare Limited. He has also held a number of non-executive director roles including for formerly ASX-listed Independent Practitioner Network Limited (2004 to 2008), and as Chairman of The Woolcock Institute of Medical Research. He resides in Sydney, NSW and currently holds (personally) 481 and (beneficially) 1,532 Sonic shares. In recommending his election, the Board recognised that he brings to the position broad experience and expertise in healthcare services. The Board considers him to be an independent director.

## **Resolution 5 – Remuneration Report**

Sonic's 2014 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 2014.

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

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

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

## ***SPECIAL BUSINESS***

### **Resolutions 6 and 7 - Approval of the issue of securities under the Sonic Healthcare Limited Employee Option Plan and Sonic Healthcare Limited Performance Rights Plan as an exception to ASX Listing Rule 7.1**

The issue of securities under the Sonic Healthcare Limited Employee Option Plan (the ***Option Plan***) was last approved by shareholders for the purposes of ASX Listing Rule 7.2 at the 2011 Annual General Meeting held on 18 November 2011. Since the date of that approval, a total of 7,948,571 options have been issued under the Option Plan, (including 4,348,571 options approved by shareholders at the 2011 Annual General Meeting) of which 300,000 have been exercised. 1,131,652 of these options have lapsed as performance conditions for vesting were not achieved and 6,516,919 have not yet vested.

Under the Sonic Healthcare Limited Performance Rights Plan (the ***Performance Rights Plan***), a total of 517,805 performance rights have been issued, (including 472,440 performance rights approved by shareholders at the 2011 Annual General Meeting) of which 45,365 have been exercised. 82,205 of these performance rights have lapsed as performance conditions for vesting were not achieved and 390,235 have not yet vested.

Shareholder approval is accordingly being sought under Resolutions 6 and 7 for the purposes of ASX Exception 9 in ASX Listing Rule 7.2 as an exception to Listing Rule 7.1. Exception 9 provides that if shareholders approve the issue of securities under an employee incentive scheme (such as the Option Plan and Performance Rights Plan) as an exception to Listing Rule 7.1, then Listing Rule 7.1 will not apply to any issue under that scheme for the 3 years following the date of approval. Accordingly, if Resolutions 6 and 7 are passed, the number of securities (shares or options) issued under the Option Plan and Performance Rights Plan by the Company for the 3 years following the date of this Annual General Meeting will not count towards the annual 15% limit on the number of equity securities that Sonic may issue without shareholder approval. The Company believes it to be an appropriate corporate governance initiative to seek approval of the issue of securities under the Option Plan and Performance Rights Plan as an exception to Listing Rule 7.1.

### **Summary of the terms of the Option Plan**

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

#### *1. Participants*

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

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

#### *2. Exercise price*

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

#### *3. Exercise of options*

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

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

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

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

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

#### *4. Consideration*

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

#### *5. Maximum number of shares*

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

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

#### *6. Takeover bid*

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

#### *7. Adjustment*

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

#### 8. *Rights to new issues*

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

#### 9. *Alteration of the Option Plan*

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

### **Summary of the terms of the Performance Rights Plan**

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

#### 1. *Participants*

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

#### 2. *Exercise Price*

A performance right has a nil exercise price.

#### 3. *Exercise of Performance Rights*

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

The performance rights will lapse on the earlier of:

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

#### 4. *Consideration*

No consideration is payable in respect of performance rights.

#### 5. *Maximum Performance Rights Allocation*

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

#### 6. *Capital Reconstructions*

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

#### 7. *Amendment of the Performance Rights Plan*

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

### **Resolutions 8 and 9 - 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 2016 financial year (having been approved by shareholders at the 2011 Annual General Meeting). The Remuneration and Nomination Committee has recently conducted a comprehensive review of the remuneration arrangements for Dr Goldschmidt and Mr Wilks such that arrangements for periods beyond 2016 could be considered. Following the review, it is 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 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 need to negotiate alternative arrangements.

#### **Approval under ASX Listing Rule 10.14**

Shareholder approval of the issue of the securities proposed under Resolutions 8 and 9 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 8 and 9 seek shareholders' approval to the grant of LTIs to provide performance incentives through to the 2017 financial year with a value of:

- Dr Goldschmidt – a maximum of \$2,479,000; and
- Mr Wilks – a maximum of \$988,000,

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 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 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 2017. 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 8 and 9, it is intended that the options and performance rights will be granted to Dr Goldschmidt or Mr Wilks on the date of the 2014 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 8 and 9.

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 8 and 9 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 Resources 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 Target</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 – Return on Invested Capital (**ROIC**)

ROIC is calculated as Earnings before Interest and Tax, less related tax and minority interests, divided by capital employed. It is expressed as a percentage. ROIC for 2014 was 9.2%, and the executives are being incentivised to grow this to 10.05% by 2017. 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 in its offshore markets.

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

<b>ROIC for 2017</b>	<b>Percentage of Options and Rights that vest</b>
Less than 9.5%	Nil options and rights to which PC2 applies
9.5%	50% of options and rights to which PC2 applies
Greater than 9.5% and less than 10.05%	Pro rata between 50% and 100% of options and rights to which PC2 applies
10.05% or greater	100% of options and rights to which PC2 applies

(c) PC3 – 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 PC3 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 PC3 applies
4% p.a.	40% of options and rights to which PC3 applies
Greater than 4% and less than 10% p.a.	Pro rata between 40% and 100% of options and rights to which PC3 applies
10% p.a. or greater	100% of options and rights to which PC3 applies

Whilst the general intention is to use statutory reported numbers for transparency in measuring performance under PC2 and PC3, 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 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 2014 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 22 September 2014, the number of options and performance rights would be calculated as follows:

Notional valuation date	22 September 2014
Sonic 5 day VWAP share price	\$16.83
Exercise price of options	\$16.83
Share price volatility	23.7%
Estimated dividend yield	4.48%
Maximum life of the options (grant date to expiry assuming vesting)	5 years
Risk free rate (based on Australian Government bonds)	3.167%
Average value of options	\$2.472
Percentage of maximum value of LTI to be issued as options	50%
Options that would be issued to Dr Goldschmidt using these assumptions	501,415
Options that would be issued to Mr Wilks using these assumptions	199,838

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\$16.83, Dr Goldschmidt would be issued 73,648 performance rights (50% of \$2,479,000, divided by \$16.83) and Mr Wilks would be issued 29,352 performance rights (50% of \$988,000, divided by \$16.83).

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 2011 Annual General Meeting, shareholders approved the issue of options for nil consideration under the Option Plan as follows:

- Dr Goldschmidt – 2,899,048 options (exercise price: \$11.43) issued on 18 November 2011; and
- Mr Wilks – 1,449,523 options (exercise price: \$11.43) issued on 18 November 2011.

None of these options have been exercised. 756,652 of these options have lapsed as performance conditions for vesting were not achieved, 584,406 will vest on 18 November 2014 and the remaining 3,007,513 will only vest if performance conditions are met.

#### *2. Performance Rights*

At the 2011 Annual General Meeting, shareholders approved the issue of performance rights for nil consideration under the Performance Rights Plan as follows:

- Dr Goldschmidt – 314,960 performance rights (nil exercise price) issued on 18 November 2011; and
- Mr Wilks – 157,480 performance rights (nil exercise price) issued on 18 November 2011.

None of these performance rights have been exercised. 82,205 of these performance rights have lapsed as performance conditions for vesting were not achieved, 59,527 will vest on 18 November 2014 and the remaining 330,708 will only vest if performance conditions are met.

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.

All of the Directors, other than Dr Goldschmidt or Mr Wilks, recommend that shareholders vote in favour of Resolutions 8 and 9.

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