

Healius Limited
Senior Executive Remuneration
Policy and Procedure

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1 POLICY

2 Purpose

This policy seeks to document Healius Limited's (the Company's) approach to setting the quantum and elements of remuneration for Senior Executive roles. This document is to be applied by the Company to all reviews and adjustments of Senior Executive remuneration.

The aim of this policy is to enable the Company to attract, retain and motivate the high calibre of Senior Executive required for it to meet its objective of achieving strong growth and sound returns for shareholders.

2.1 Overriding Intent

It is the Company's intention to observe:

- high ethical standards,
- the laws of the countries in which Senior Executives are employed, and
- good corporate governance.

The views of stakeholders will also be taken into account in seeking to remunerate Senior Executives in a fair way, including taking into account the perspectives of shareholders and the Senior Executives themselves.

2.2 To Whom Does this Policy Apply

This policy is intended to guide the setting of remuneration for Senior Executive roles. The term Senior Executive includes:

- Managing Director - accountable to the Board for the Company's performance and long term planning;
- Those roles classified as executive key management personnel (KMP) under the Corporations Act, and
- Direct Reports to the Managing Director – roles that are business unit, functional, or expertise heads.

This policy may be applied to other roles or individuals from time to time, as nominated by the Board.

2.3 Elements of Remuneration

Senior Executive remuneration will be composed of the following elements:

- **Base Package** which comprises salary, allowances, superannuation, other benefits and fringe benefits tax on benefits provided as part of remuneration;

- **Short term incentive (STI)** being variable at-risk remuneration related to Company and/or business unit and/or individual performance over a financial year; and
- **Long term incentive (LTI)** being variable at-risk remuneration based on Company performance over a measurement period of approximately three years or more.

The total of the foregoing three elements will constitute the total remuneration package (TRP). TRP will generally be considered and communicated at target levels as this is the level of remuneration that can reasonably be expected to be earned if challenging but achievable targets linked to incentives are achieved. Maximum/stretch levels of incentives should not be expected to be achieved and therefore maximum TRP is a less useful concept in planning and communicating remuneration, but will also be considered and set with reference to target levels of reward.

Other benefits and facilities such as salary continuance insurance, and expense reimbursements will not be counted as part of remuneration.

2.4 Superannuation Inclusive Remuneration

All elements of Senior Executive remuneration shall be expressed as inclusive of Company superannuation contributions. For purposes of this policy, superannuation contributions include Company contributions to superannuation plans, pension plans and other plans that provide retirement benefits for employees of the Company. This ensures that the relative remuneration levels received by Senior Executives are not affected by the extent, if any, to which the Company is obliged to make superannuation contributions for the executive.

In Australia there are minimum required rates of superannuation contributions which apply up to a prescribed level of earnings and do not apply to additional earnings. The level of superannuation contributions to comprise part of an executive's Base Package shall be determined by the Company after consultation with the executive, but shall not be less than the minimum amount of contributions nor more than the relevant concessional contributions limit.

2.5 Salary Sacrifice Benefits

The extent to which benefits are provided as part of remuneration will be agreed between each executive and the Company, subject to the total cost to the Company (ignoring administration costs) not being increased as a result of benefit selections.

2.6 Internal Relativity

In determining remuneration levels, the Board recognises that there may not be a direct or perfect correlation between the design of roles as they exist within the Company, and the design of roles available in the market for benchmarking purposes. In order to recognise internal relativities a relationship model may be used to identify different categories of roles and to make adjustments to ensure that internal remuneration relativities are

appropriate to the current circumstances of the Company. Such a model should be linked to market data based anchor points.

When changes are made to the organisation design, the role of a Senior Executive or consideration is to be given to adjusting a Senior Executive's remuneration package, the Company will review and, if necessary, adjust the assessment of internal relativities between roles.

2.7 Market Positioning of Remuneration

Remuneration policy mid-points used to set executive remuneration will reflect market practices, the scope and design of the role, and internal relativities.

Total remuneration package (TRP) quantum and structure will take into account relevant market practice in companies having characteristics similar to those of the Company. Such characteristics shall include to the extent possible: listing on the ASX, industry sector, geographic spread etc.

It is noted that it is current market practice for Senior Executive TRPs to comprise a base package, an at-risk STI and an at-risk LTI.

The Company's mid-point level for Base Packages will be set by reference to the mid-point of the P50 (50th percentile) of market practice.

TRPs at target performance will be set by reference to the P75 (75th percentile) of market practice, noting that market data is generally based on accounting disclosures which tend to produce conservative indicators of incentive remuneration practices (e.g. amortisation of LTI over the measurement period, discounting for vesting conditions or write-backs related to actual vesting, and the impact of nil STI award outcomes on large data samples). The gap between the Base Package and the TRP will be made up of an STI and an LTI.

As at-risk remuneration components, especially those having extended measurement time-frames, result in significant data volatility both from year to year and between Senior Executive roles due to variances in the composition of data points in samples, Company policy is to rely upon the independent expert opinion of its External Remuneration Consultant to give recommendations regarding the target levels of STI and LTI required to achieve P75 TRPs for various roles or levels of executives (i.e. percentages of base packages to be allocated to each at-risk component).

Generally incentives will be offered as a proportion of the Base Package and will vary by level of role i.e. the actual level of incentive will be the product of the policy for the role level, and the incumbent's Base Package. This approach ensures that Senior Executives at the same level are motivated to the same extent to focus on short and long term objectives and are encouraged to work as a team towards both types of outcomes. This should minimise potential conflicts in focus that can arise when incentive opportunities and mix differ by role alone.

Targets for both incentive components will be “challenging but achievable” (50% to 60% probability of achievement), with conditions and goals as covered in separate rules for STI and LTI plans and offers. To encourage a focus on performance and exceeding targets there will be opportunities for STI and LTI award outcomes to be greater than the P75 target levels, when scalable objectives are used. Scales will be applied to objectives wherever possible to ensure that the reward is modulated by the quantity and/or quality of outcomes and that there is sufficient motivation to continue seeking performance improvements once targets are achieved. Stretch outcomes on performance scales will generally be set such that they are unlikely to be achieved other than in the circumstance of exceptional performance (10% to 20% probability of achievement).

2.8 Determining Individual Base Packages from Policy Mid-Points

Under this structure, a market competitive Base Package mid-point is established for each role as outlined above. A +/- 20% range (80% to 120%) of the mid-point will then apply to each role. Individual competence in fulfilling the role requirements and other individual factors will be taken into account so as to determine where in the range the individual’s Base Package should be positioned.

Thus, the Base Package positioning for an executive who is newly promoted to a role may be around the low end of the range; whereas for an executive who has mastered the requirements of the role and makes contributions in excess of the role requirements, the Base Package positioning may be high in the range. Generally, it would be expected that executives should be paid Base Packages which are close to the mid-point of the range for the role once the individual is considered competent and fulfilling the role to expectations. Base Packages are not intended to exceed the policy mid-point materially except in the case of outstanding incumbents or job market exigencies.

2.9 “Red Circle” Exceptions

On occasion a Senior Executive’s Base Package may be well above or below the market based policy range for the role. This may arise when a reorganisation occurs and the individual’s role is downsized or increased to a different level within a model of internal relativities, leading to a lower or higher market competitive rate of Base Package. It may also apply when an individual is identified as having unique skills or experience or when there is a history with the incumbent that leads to an exception in the application of the remuneration policy (e.g. founders who continue to contribute to the business at a level that is beyond the scope of their role description).

If the Company wishes to retain the services of the individual due to specific skills, experience or knowledge, then the Base Package may need to be “red circled” which means that it will be managed over time as an exception to the Base Package policy range. A similar situation may arise when a high calibre individual is recruited at a high level of Base Package reflecting their individual worth in the market.

The instances of red circle exceptions will be minimised to the extent possible.

2.10 Frequency of Review of Market Competitiveness of Executive Remuneration

Unless otherwise dictated by Company circumstances or market practice, executive remuneration will be reviewed and adjusted to reflect market practice on an annual basis. This approach recognises that for the Company to remain well positioned to attract, retain and motivate its Senior Executives, it needs to ensure that executive remuneration packages remain market competitive.

2.11 Freezing or Reducing Remuneration

There may be circumstances in which an increase to executive remuneration may be considered unacceptable to shareholders or to the broader community. If any such circumstances were to arise, the Board will consider the merits of providing an increase against the likelihood of negative consequences for the company (including publicity) and determine whether a reduction or freezing of executive remuneration is appropriate. Circumstances in which such a consideration may be required include:

- Disposal of business units to reduce debt,
- Strikes against the Remuneration Reports of the Company related to remuneration quantum,
- Major whole of market downturns such as a global financial crisis,
- Significant permanent downturn in the profitability of the Company leading to a significant reduction in its market capitalisation, and
- Widespread employee terminations or Company downsizing to reduce costs.

2.12 Termination Benefits

Termination benefits other than those accrued through superannuation contributions, will not normally be provided to executives. Exceptions include payments in lieu of notice and other severance payments that arise under employment contracts.

Termination benefits, excluding specified payments such as for accrued but untaken statutory leave, are limited by the Corporations Act to one times the final three years average annual base salary (default limit) for managerial and executive officers unless shareholders approve a higher amount. In this regard it is Company policy not to seek shareholder approval for higher termination benefits.

It is also Company policy for termination of employment not to trigger or accelerate payment or vesting of incentives. Therefore incentive payouts in respect of the year of termination of employment will not be viewed as termination benefits or subject to the Corporations Act limit.

In other than Special Circumstances (death, total and permanent disablement, redundancy, retrenchment or permanent retirement with the permission of the Board), incentive award opportunities offered in the year in which the termination occurs will generally be forfeited, as will unvested LTI.

In Special Circumstances Pro-rata forfeiture of STI opportunities and LTI grants in the year of the termination will occur to recognise the proportion of the year that will not be worked. Remaining STI opportunities not forfeited on this basis will remain available for performance testing and possible payment, after the end of the financial year (as would normally occur). As such, pro-rata STI amounts are not regarded as termination payments as they will not have been triggered or accelerated by the termination. Unvested LTI grants not forfeited on this basis and held at the date of termination of employment will remain available for performance testing and possible vesting, after the end of the measurement period (as would normally occur). However the Board retains discretion in the case of a termination to trigger or accelerate payment or vesting of incentives, provided that the limitations on termination benefits as outlined in the Corporations Act are not breached.

Payment of STIs and vesting of LTI grants that are triggered or accelerated by a change of control including a takeover, are not related to any subsequent termination of employment and are therefore not termination benefits.

2.13 Clawback of Overpaid Incentives

While soever the Company has an active clawback policy, it may be applied to incentives offered to Senior Executives. This will be specified in the clawback policy and referenced in incentive offers.

3 PROCEDURES

3.1 Annual Review

The Remuneration Committee will meet prior to the commencement of each remuneration year to determine whether:

- a) an increase in executive remuneration should be considered, or
- b) a thorough market benchmarking review should be undertaken.

3.2 External Information and Advice

If b) above is determined to be required, the Remuneration Committee Chair will be charged with the responsibility to engage an external remuneration consultant (ERC) to provide the necessary information on relevant market practices and recommendations on adjustments that should be considered by the board. The engagement will need to be in accordance with the Company's policy for engaging ERCs.

3.3 Company Circumstances and Background

The Remuneration Committee Chair will engage with other directors, executives of the company and others so as to:

- a) ensure that current executive remuneration policies and practices are completely understood (the starting point for any review),
- b) determine influences that may lead to any changes to executive remuneration (e.g. Corporations Act, ASX Listing Rules, ASX Corporate Governance Council Guidelines & Recommendations, Tax Act or ASIC Class Order changes),
- c) confirm the company's current circumstances in so far as they may impact decisions to adjust executive remuneration, and
- d) ascertain the current views of proxy advisors (if relevant) and other stakeholders on remuneration for executives of the Company.

3.4 Individual Performance Review

The Board Chair will be asked to provide input to the Remuneration Committee on the performance of the Managing Director during the year and to identify any development needs.

The Managing Director will be asked to provide input to the Remuneration Committee on the performance of the Direct Reports during the year and to identify any development needs.

3.5 Guidelines for Movement of Base Packages Relative to Ranges

The Appendix attached to this procedure provides guidance on considering increases in Base Packages. Such increases are designed to migrate an executive's Base Package to the most appropriate position in the range over time, while recognising that such a position may change as the competence of the individual in fulfilling the role requirements evolves.

There are four main factors that should be considered when adjusting Base Packages and they are:

- The competence of the executive as demonstrated over a significant period of time,
- The current position of the Base Package in the range,
- The motivational and retention impact of an adjustment or lack of adjustment to the executive's Base Package, and
- The cost to the company of increases in Base Packages which may have flow on impacts to the cost of STI and LTI awards when expressed as percentages of Base Package.

The intention of this approach is to move incumbents' Base Packages towards the mid-point of the range for the role. The exception is where an incumbent is repeatedly assessed as "Above Expectations" or better, indicating that the incumbent is of a particularly high quality, in which case the Base Package will tend to move towards the top end of the policy range.

Therefore, remuneration increases in excess of increases that may be provided to all executives (such as those provided to recognise annual market movements) will generally be limited to:

- those executives who have Base Packages below the policy mid-point for their roles, and
- those executives whose competence in the role exceeds expectations and have Base Packages positioned in the range below a level deemed appropriate given their competence.

The Company may apply a matrix of market positioning and individual calibre rating to determine the extent of Base Package changes, if any. The following is a guide to assessing competence as an input to the matrix that appears in the Appendix:

Rating	Guide
Outstanding	Awarded to exceptional incumbents who have gone significantly above and beyond the requirements of the role and/or goals.
Above Expectations	Associated with incumbents that show strong capability or opportunity for advancement, and have exceeded the goals set out for them.
Meets Expectations	.Associated with incumbents that have met the expectations of the role and goals outlined to them, usually applies to the majority.
Below Expectations	Usually only awarded to incumbents who are "in development" and/or who narrowly missed threshold expectations of performance.
Unsatisfactory	Associated with incumbents who are not satisfactorily performing the expected role or achieving goals set out, and/or who may need to be "managed out".

3.6 Remuneration Profiles

A remuneration profile is the mix of the elements of remuneration intended to be delivered at target performance (being distinct from maximum or stretch levels of reward opportunities). It is expressed as percentages of Base Package and is the intended remuneration outcome when performance meets challenging but achievable performance objectives. Changes to the target levels of STI and LTI need to be reviewed each three years or when a significant change has occurred in relation to the circumstances of the Company, particularly in the case of a significant change in the market capitalisation of the Company which is often the basis of external assessments of the appropriateness of remuneration.

3.7 Recommendations for the Board

Once the Committee has received and considered the information and/or recommendations referred to in the policy, the Committee will determine the recommendations it will make to the Board in relation to Senior Executive remuneration.

4 DOCUMENT CHANGE HISTORY

Effective date 1 July 2015.

