

**Healius Limited**  
**Long Term Incentive**  
**Policy and Procedure**

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## **1 POLICY**

### **1.1 Purpose**

The purpose of the long term incentive (LTI) is to create a strong link between performance and reward by providing a variable/at risk element of Senior Executive remuneration that focuses on performance and/or service over a period generally of three or more years. It aims to align the interests of Senior Executives with those of shareholders in Healius Limited (the Company) and to aid in maintaining a stable Senior Executive team.

Senior Executives are defined as the Managing Director, other key management personnel (KMP) as defined under the Corporations Act who hold executive roles, direct reports to the Managing Director who are not KMP, if any, and others selected by the Board.

### **1.2 LTI Vehicle**

The LTI plan (the LTIP) is effected through the Performance Rights Plan (or the relevant future LTIP document than may apply). Company policy in relation to the LTI is reflected in the Rules of the LTIP and the following policy provisions.

### **1.3 Participation**

Participants in the LTIP will be Senior Executives and other key employees selected by the board to be offered participation as may occur from time to time.

Non-executive directors will not be eligible to participate in the LTIP.

### **1.4 Offer to Participate**

Each year selected Senior Executives will be offered Incentive Rights, which will be equity instruments with conditions, and will be provided with:

- a) An offer letter,
- b) An explanatory booklet, and
- c) A copy of the LTIP Rules.

### **1.5 Measurement Period**

The Measurement Period will generally be three years unless otherwise determined by the board in relation to an offer or a tranche of an offer. It is intended that the start of the Measurement Period will be the start of the financial year in which a grant is made, regardless of when the grant is made during that year. The end of the Measurement Period is then the end of the third financial year from and including the year of the grant.

## **1.6 LTI Grants of Securities**

The LTI will be effected by grants of Rights under the LTIP.

## **1.7 Performance and Service Metrics**

Performance metrics will relate to overall company performance and will be aligned with growing shareholder value. Service metrics may be used when retention is seen as a priority of the LTI in the year of the grant.

## **1.8 LTI Award Opportunities**

LTI award opportunities will be expressed as percentages of Base Package (as defined in the Senior Executive Remuneration Policy) for delivering target performance. Target performance is intended to be aligned with a challenging but achievable level of performance in relation to a performance metric.

For non-binary metrics a range of outcomes may be recognised via the use of a stretch performance outcome, and where appropriate, a threshold performance outcome.

Stretch represents an outstanding level of performance, expected to be rarely achieved, which will be aligned with a maximum award opportunity for the performance metric. Initially vesting at target performance will be set at 50% of the maximum.

Pro-rata awards will apply for performance that falls between target and stretch, or between Threshold and Target.

## **1.9 Entitlement to Vesting of Rights**

Participants who are eligible for vesting of Rights are those who:

- a) remain employees of the company up to the end of the Measurement Period, or
- b) ceased to be an employee during the Measurement Period and did not forfeit all or some of their Rights under the Rules of the LTI Plan and/or offer terms.

Only LTI grants that have not previously been forfeited will be eligible for vesting at the end of the Measurement Period.

## **1.10 Vesting of Rights**

Determination of vesting will occur following the end of a Measurement Period having regard to the extent to which performance and service conditions have been satisfied.

## **1.11 Board Discretion**

The Board recognises that with the benefit of hindsight the level of vesting as indicated in an offer (when actual performance is compared to the vesting conditions or scales) may not be appropriate and therefore it reserves the right to adjust the level of vesting to the extent allowed for under the Plan Rules. In exercising this discretion the board will have regard to the circumstances that prevailed over the Measurement Period and the experience of shareholders relative to their expectation at the beginning of the Measurement Period. This ensures that the LTI will operate as intended and will not result in vesting that is misaligned with the Company's circumstances at the time of vesting.

### **1.12 Clawback**

Clawback may be applied to grants made under the LTIP, as such policies may apply from time to time.

### **1.13 Termination of Employment**

Details as to the treatment of participants in the event of a termination of employment are dealt with in detail in the Plan Rules. Broadly, the policy is for a termination of employment to trigger a forfeiture of some or all of the unvested Rights held by an executive depending upon the circumstances of the termination. Those that are not forfeited will be held for possible vesting, based on performance relative to the vesting conditions, following the end of the Measurement Period.

However the Board retains discretion to trigger or accelerate payment or vesting of incentives in accordance with the applicable Plan Rules, provided that the limitations on termination benefits as outlined in the Corporations Act are not breached (unless shareholder approval to do so has been obtained).

### **1.14 No Hedging**

Until Rights granted to executives under the LTIP have vested and any holding lock or disposal restriction has been removed, participants are prohibited from entering into any hedging arrangement in relation to those Rights. This policy extends the application of section 206J of the Corporations Act to employees other than key management personnel.

## **2 PROCEDURE**

### **2.1 Plan Approval Review**

Each year prior to preparation of the notice of the annual general meeting, the board will consider whether there is a need for the LTIP to be approved by shareholders. The most common reasons for obtaining shareholder approval of the plan are:

- for purposes of satisfying Exception 9 in ASX Listing Rule 7.2, i.e. so that new issues do not count towards the annual 15% limit on new issues that may be made without shareholder approval (approval applies for three years),
- for the purposes of S260A of the Corporations Act in relation to providing financial assistance which is generally considered to apply when the Company makes a contribution to remuneration trust following the exercise of vested Rights, and
- if the trustee of any employee share trust or remuneration trust that forms part of the operation of the LTI plan is a related party.

### **2.2 Relief from Product Disclosure Statement Requirements etc.**

Offers of Rights under the LTI Plan will generally be made on the basis that they are subject to relief from the requirements for product disclosure statements, prospectus requirements and restrictions on advertising, hawking etc. This will generally be either due to reliance on exemptions under section 708 of the Corporations Act, or reliance upon an ASIC Class Order (CO).

Reliance upon CO 14/1000 requires that companies notify ASIC that the CO will be relied upon, within one month of the first Offer being made under a Plan. If the Board makes any changes to the Plan or Offers that may be considered to produce a new Plan, then the Board should notify ASIC again that the CO is being relied upon. The Board will need to consider prior to making any Offers in each year whether or not the Offers are being made under a new Plan and therefore whether ASIC will need to be notified, or whether ASIC has already been notified in relation to the Plan that is the basis of the Offers being considered.

### **2.3 Review Participation**

The participants in the LTIP may change from time to time and the board will need to consider in each year if there are any individuals who should be added to the current participants or any current participants that should cease to participate in future offers.

### **2.4 Review Performance Conditions, Vesting Scales and Gates**

Each year the board will consider the appropriateness of performance conditions, vesting scales, Targets and gates to the circumstances that are anticipated to prevail over the

Measurement Period and the expectations of shareholders. This is likely to require adjustment to these aspects in each year as part of offers.

## 2.5 Review LTI% and Calculate Numbers of Rights to be Offered

As part of the annual process for reviewing Senior Executive remuneration the board should either confirm or adjust the target percentage of Base Packages of Senior Executives to be provided as an LTI.

Soon after the beginning of each financial year the board should have the number of Rights to be offered to each executive calculated. The board should then decide upon the number of Rights to be offered to each executive.

The calculation to determine the number of Performance Rights to be granted should generally be as follows:

Number of Rights	=	Base Package x Target LTI% x Tranche Weighting ÷ % Vesting @ Target ÷ Right Value
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Where Right Value is calculated as:

Right Value	=	Share Price - (Annual Dividend x Years in Vesting Period)
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It should also be noted that in the case of a binary measure Target LTI % is equal to Stretch % (being the maximum) because binary objectives are either achieved or not achieved. When calculating LTI grants account may need to be taken of the fact that some measures are binary while others have vesting scales (i.e. calculated as separate tranches), and in the latter case that the target level of vesting may vary between vesting conditions and from year to year.

The Share Price should be calculated using a volume weighted average price (VWAP) calculation over a period to be determined by the Board, and which ends on the day prior to either the start of the measurement period, or the calculation date as determined by the Board. At present the policy is for the VWAP to cover the 14 days following the 24 hours after the most recent announcement of financial results.

## 2.6 Obtaining Shareholder Approval for Offers to Directors

As part of the process of preparing the notice of meeting (NOM) for a general meeting of shareholders the board needs to ensure that a resolution and explanation are drafted for inclusion in the NOM if a grant of Rights is to be made to a director (see ASX Listing Rule 10.14) regardless of whether or not the grant may result in a new issue of shares in the Company (although ASX Listing Rule 10.14 only requires such approval in the case of new issues, stakeholders expect an opportunity to vote on all grants to directors). The grant may only proceed if that approval is obtained. It should also be noted that even if the Rights are to be satisfied by on market purchase, many stakeholders expect the



opportunity to vote on the approval of the grant of rights despite the fact that it is not required by the listing rules.

## **2.7 Reasonable Remuneration**

The board needs to decide if any issue of Rights to Directors (such as the Managing Director) may not be considered reasonable remuneration in all the circumstances that are relevant to a given individual: see Section 211(1) of the Corporations Act. Otherwise if the remuneration may appear unreasonable, Shareholder approval for the issue may be required under the Act: see Sections 208(1)(a) and 217 to 227 of the Corporations Act.

## **2.8 Financial Assistance**

The board needs to decide if any financial assistance is involved in the operation of the Plan, particularly in relation to any contribution to a remuneration trust for the purposes of satisfying the exercise of Rights by Participants, could be considered financial assistance, requiring Shareholder approval: see Sections 260A(1)(c) and 260C(4) of the Corporations Act.

## **2.9 Termination Benefit Limit**

The LTI plan, if operated as intended, ought not to give rise to termination benefits in the case of executive and managerial officers that are subject to termination benefit limits under the Corporations Act.

In the case that a termination benefit does arise in relation to LTI, due to the Board exercising discretion for example, the Board will generally only provide such benefits to the extent that the limitations outlined the Corporations Act are not breached by doing so.

The Board will generally not seek shareholder approval to exceed the termination benefit limits that may be provided without shareholder approval, as defined in Section 200E of the Corporations Act. The relevant employment contracts may also need to be considered, however it should be noted that S200E is overriding except in a very limited range of circumstances.

## **2.10 Legal or Regulatory Changes**

The board should decide if there have been any changes to laws or regulations that might affect a grant of Rights under the LTIP. These may include: Corporations Act, ASIC Class Orders, taxation laws and/or their interpretation, ASX Listing Rules and Corporate Governance Principles and Recommendations released by the ASX Corporate Governance Council.

### **2.11 Issuing of Invitations/Offers to Apply for a Grant of Rights**

To simplify administration invitations to apply for Rights (Offers) should be made in large groups at times determined by the board, and preferably once per year. If none of the grants to participants will need shareholder approval, the grants should be made early in the financial year. If the participants include directors, and therefore there will be invitations/Offers that need shareholder approval, the grants should be made once shareholder approval has been obtained. This will enable disclosures to the ASX as required under ASX Listing Rules 3.10.3 and 3.19A.2A to be made in groups, thereby simplifying administration.

### **2.12 Issuing of Notices of Grant**

Once the Company has received returned signed applications for Rights from participants (accepted Offers), a Notice of Grant is to be provided to each participant to confirm the number and terms of the Rights granted. The date of issuing of the Rights would be specified in the Notice of Grant.

### **2.13 ASX Notifications**

The Company Secretary will notify the ASX of:

- a) Any grant of Rights being made under the LTI, in the form of an announcement including pertinent details, but not using any ASX Appendix form,
- b) The change in each director's interests in securities as required under ASX Listing Rule 10.19A.2A (Appendix 3Y must be used for this purpose and must be lodged no more than 5 days after the change occurs) when Rights are issued, and
- c) The change in capital as required under ASX Listing Rule 10.10.3 (Appendix 3B may be used) when shares are or are about to be issued (i.e. at vesting in the case of Rights).

### **2.14 Valuation of Rights for Accounting and Disclosure**

Rights granted under the LTI need to be valued for accounting and remuneration disclosure purposes in the Remuneration Report. This value will generally be different to the value used for purposes of calculating the number of Rights to be granted (accounting value vs remuneration value). Each financial year between the year of grant and the end of the Measurement Period an accounting expense or adjustment will need to be recorded in relation to grants of LTI. Depending on the performance conditions used this may be a fixed amount or a variable amount.

### **2.15 Tracking of Grants, Vesting and Holdings**

After the Notices of Grant have been issued the Company Secretary or the CFO should then maintain records of the grants for each participant, as well as record any vesting, forfeitures, outstanding disposal restrictions, and net holdings in each year. This information needs to be available for Auditors, for those preparing the Remuneration Report, and may be requested by participants.

### **2.16 Determine Number of Rights to Vest**

After the end of the Measurement Period the Board will obtain data relating to the metrics that determine vesting and assess the extent, if any, to which tranches will vest.

To the extent that Plan Rules provide for Board discretion, the Board will determine whether to seek independent advice on exercising discretion and the extent to which vesting should be varied. Such independent advice will evidence that an arm's length approach has been adopted and that the Board has acted responsibly should any questions be raised in relation to the application of discretion.

### **2.17 Exercise of Vested Rights and Notification to Participants**

The LTI Plan Rules specify that vested Performance Rights, Retention Rights and Deferred Rights are exercised automatically so as to simplify administration and minimise the number of transactions/events that follow vesting. However it should be noted that Deferred Rights have an automatic exercise date that is later than for other Rights (90 days following grant/vesting, rather than on the date of vesting).

Once the value of the Rights that have vested and been exercised has been determined, the Board may have discretion to determine the portion of that value that will be delivered in the form of Shares, and the portion that will be delivered in the form of cash, in relation to each participant. Such discretion must be specified as part of the Offer. The Company will notify the Participants that Rights have vested and been exercised via a Notice of Vesting, and the extent to which the exercised Rights are to be satisfied via Shares or cash. This notice should specify the number of Rights that have vested, and the date of the grant to which the vesting and notice relates. The Notice of Vesting should also indicate the extent to which exercised Rights will be satisfied in the form of cash, if applicable. Any cash payment will be paid through payroll with relevant PAYG and other deductions subtracted, which will qualify as a tax deduction for the Company.

The Notice of Vesting should address any dealing restrictions that will continue to apply post vesting, if applicable, which may include:

- (a) restrictions on dealing, in relation to application of the Company's share trading policy,
- (b) Division 3 of Part 7.10 of the Corporations Act in relation to insider trading, and

- (c) Additional restrictions on disposal that were specified as part of the Offer and/or acceptance and which are additional (a) and (b) for a specified period.

### **2.18 Contribute to EST to Obtain Tax Deduction for LTI Expense**

For each participant and in relation to each grant/tranche that results in a number of shares needing to be provided to a participant, the Board shall arrange for the amount of money required for that number of Shares to be acquired (either by purchasing shares on-market or subscription to a new issue) to be contributed to the employee share trust (EST) and recorded as an expense.

The funds will be transferred to an account exclusively controlled by the trustee/trust to establish an audit trail to evidence that a cash transaction did occur, which may be necessary to secure the tax deduction related to the operation of the LTI Plan.

### **2.19 EST Subscribes to New Share Issue**

The Board will typically arrange for a new share issue and the Company Secretary would arrange for a transaction in which the EST subscribes to the new share issue at the current share price. In this way the funds are returned to the Company as capital. The EST may also have the option to purchase shares on-market rather than subscribe to a new issue, so these alternatives may need to be discussed. Shares will be automatically transferred to the relevant participant following exercise of the Rights.

### **2.20 Application of CHES Holding Lock and Dealing/Disposal Restrictions**

Once the EST has obtained the correct number of shares in relation to a Participant they will be transferred to the Participant.

Shares that result from the exercise of vested Rights may at the Board's discretion typically be Restricted Shares, subject to disposal restrictions either due to the terms of the Offer in relation to which Rights vested and Shares were transferred, or the Company's Securities Trading Policy. Participants must comply with such restrictions as specified in the relevant Offer and trading policy, and agreed to upon acceptance of the Offer, in the nature of a contract.

The Board may determine that (in order to evidence to tax regulators, auditors and others that dealing/disposal restrictions applicable to Restricted Shares are real and are enforced) Shares transferred to participants will be subject to a CHES holding lock for part or all of the specified disposal restriction period as outlined in the Offer that was accepted in relation to the vested and exercised Rights.

## **2.21 Notification of Dealing Restrictions Ceasing to Apply**

In relation to vested Rights that have been converted into Shares and subjected to dealing restrictions (Restricted Shares), the Company should notify Participants as soon as those Shares cease to be subject to the dealing restrictions specified in the relevant Offer that gave rise to the Restricted Shares.

The Board may also need to take steps to remove any CHES holding lock previously applied.

The Board should also advise the open and close date of the trading window open at the time of the notification, and that the individual will need to consider whether the Corporations Act restrictions on trading will continue to restrict them from dealing in Company Shares.

## **2.22 Updating of Holding Records**

Once the above transactions have been completed, they should be recorded to ensure that current holding records are up to date with regards to the number of outstanding Rights, vested Rights, lapsed Rights and Restricted Shares and unvested Shares held.

## **2.23 Notify ATO**

As part of annual reporting to the ATO the Company needs to advise which individuals received vested (and subsequently unrestricted, to the best of the Board's knowledge) LTI as part of their remuneration (i.e. the taxing point is generally the point at which vested securities become unrestricted), and the value of those vested securities, to be valued using a one week VWAP up to and including the day of vesting. This aspect is to be the responsibility of the CFO to address on behalf of the Company.

## **3 Document Change History**

Effective 1 July 2016