



Remuneration Policy

Version 1.0

January 2020

1. Introduction

- 1.1 Remuneration is overseen by the nomination and remuneration committee, a committee of the board of directors of Electro Optic Systems Holdings Limited ACN 092 708 364 (the **Company** and, together with its controlled entities, the **Group**) (**Nomination and Remuneration Committee**).
- 1.2 The objective of the Nomination and Remuneration Committee is to help the board of directors of the Company (**Board**) to ensure that the Group:
- (a) has coherent remuneration policies and practices to attract, motivate and retain senior executives and directors who will create value for shareholders and who are appropriately skilled and diverse;
 - (b) observes those remuneration policies and practices;
 - (c) fairly and responsibly rewards executives having regard to Group and individual performance, the performance of the executives and the general external pay environment; and
 - (d) will integrate human capital and organisational issues into its overall business strategy.

2. Principles

In order to fulfil the role of the Nomination and Remuneration Committee set out above, its members must refer to the following principles when developing recommendations to the Board regarding remuneration:

- (a) motivating the directors and executives to pursue the Group's short-term and long-term growth and success without rewarding conduct that is contrary to the Group's values or risk appetite;
- (b) ensuring that incentives for non-executive directors do not conflict with their obligation to bring an independent judgement to matters before the Board;
- (c) demonstrating a clear relationship between the Group's overall performance and the performance of directors and executives;
- (d) align the interests of directors and senior executives with the creation of value for shareholders; and
- (e) complying with all relevant legal and regulatory provisions.

3. Remuneration packages

- 3.1 Remuneration may incorporate fixed and variable components with both a short-term and long-term focus.
- 3.2 In respect of **executive remuneration**, remuneration packages should include an appropriate balance of fixed and performance-based remuneration and may contain any or all of the following:
- (a) **fixed remuneration** – this should:
 - (i) be reasonable and fair;
 - (ii) take into account the Group's legal, regulatory and industrial obligations and labour market conditions;
 - (iii) be relative to the scale of the Group's business; and
 - (iv) reflect core performance requirements and expectations;

- (b) **performance-based remuneration** – this should:
 - (i) take into account individual and corporate performance;
 - (ii) be linked to clearly-specified performance targets, which should be:
 - (A) aligned to the Group's short and long-term performance objectives; and
 - (B) appropriate to its circumstances, goals and risk appetite; and
 - (iii) be reduced, cancelled or clawed back (as appropriate) in the event of serious misconduct or a material misstatement in the entity's financial statements;
- (c) **equity-based remuneration** – this can include options or performance rights under the Company's equity-based plans and is especially effective when linked to hurdles that are aligned to the Group's longer-term performance objectives. However, they should be designed so that they do not lead to 'short-termism' on the part of executives or the taking of undue risks. An executive will only be eligible to participate in the Company's equity-based plans if they have been in employment with the Company for a period of at least three months; and
- (d) **termination payments** – these should be agreed in advance, and any agreement should clearly address what will happen in the case of early termination. There should be no payment for removal for "with cause" reasons such as misconduct.

3.3 In respect of **non-executive director remuneration**, remuneration packages could contain cash fees, superannuation contributions and non-cash benefits in lieu of fees (such as salary sacrifice into superannuation or equity) and may contain any or all of the following:

- (a) **fixed remuneration** – this should reflect the time commitment and responsibilities of the role;
- (b) **performance-based remuneration** – non-executive directors should not receive performance-based remuneration as it may lead to bias in their decision-making and compromise their independence;
- (c) **equity-based remuneration** – non-executive directors can receive an initial allocation of fully-paid ordinary securities if shareholders have approved such an allocation in accordance with the ASX Listing Rules and provided that they have been engaged by the Company for a period of at least three months. However, non-executive directors generally should not receive options with performance hurdles attached or performance rights as part of their remuneration as it may lead to bias in their decision-making and compromise their independence; and
- (d) **termination payments** – non-executive directors should not be provided with retirement benefits other than superannuation.

3.4 Remuneration will be reviewed on at least an annual basis with consideration given to individuals' performance and their contribution to the Company's success (against measurable key performance indicators), external market relativities, shareholders' interests and desired market positioning.

4. Assessing remuneration

4.1 The Nomination and Remuneration Committee will make a recommendation to the Board regarding the remuneration of executives having regard to various factors including performance and any recommendations made by the chief executive officer of the Company and its other

executives, compensation consultants and internal and external legal, accounting or other advisers.

- 4.2 The Nomination and Remuneration Committee will also make a recommendation to the Board regarding the remuneration of non-executive directors having regard to, amongst other things, any recommendations made by compensation consultants and internal and external legal, accounting or other advisers.

5. Review and changes to this policy

The Nomination and Remuneration Committee will review this policy annually or as often as it considers necessary.

6. Approved and adopted

This policy was approved and adopted by the Board on January 30th 2020.