G8 Education Limited
TREASURY POLICY

G8 Education[ltd]

Approved by the Board on 20 August 2021

TABLE OF CONTENTS

1 POLICY & PRINCIPLES

1.1 *Policy*

This Treasury Policy establishes the framework for managing G8 Education Limited's (**G8**) financial risks related to its current debt holdings, deposits, offshore funding and offshore operations. G8 is required to act in accordance with the covenants within its Facility Agreements and prudent commercial principles.

A sound policy is essential to ensure risks are fully recognised, managed and recorded in a manner consistent with:

- G8's Board of Directors' (Board) management philosophy;
- Commonly accepted industry practice and corporate governance.

All team members responsible for financial risk management are required to understand G8's objectives and risk appetite, as well as the limits of their authority.
These issues will be addressed through the continuing evolution of this policy, which is to be reviewed at intervals of no more than 12 months.

1.2 *Policy Approval*

The Board approves the Treasury Policy and no part of the Policy document may be amended without Board approval.

The Board delegates authority for the implementation of this policy to Management. Management will comply with this policy and where any breach of policy has occurred or is likely to occur, the Chief Executive Officer is to be advised immediately. The Board is to be advised of the nature and quantum of any breach, or likely potential breach, at the next Board meeting. Advices of breaches to the relevant party will outline what will be done to rectify the breach or will seek approval for the breach.

1.3 *Sources of Risk*

G8 is an ASX listed child care centre operator with centres throughout Australia. It is partially funded by AUD fixed and floating rate loans. The rate of interest on the borrowings for each interest period is calculated as per the interest rate set out in the applicable documentation for each funding structure.

G8 must adhere to the financial covenants embodied in the various funding agreements.

It is recognised that a Treasury risk management program covering both interest rate and foreign exchange risk also introduces additional risks to G8, the management of which are covered within this policy. These additional risks primarily relate to the introduction of credit and operational risks.

1.4 *Risk Management Objectives*

The primary objectives of G8 are:

1. To be a profitable and leading provider of high quality, early educational and childcare services; and
2. To deliver secure, stable and expected returns on investment.

The treasury risk management objective centres on reducing G8's exposure to adverse movements in market interest rates and foreign exchange rates to assist the Company in the meeting of its primary financial objectives.

2 ORGANISATIONAL STRUCTURE AND RESPONSIBILITIES

The Management function is structured to ensure all financial exposures are properly supervised and executed within the policy guidelines established by the Board.

The Board is ultimately responsible for ensuring G8 has effective policies in place for the management of risks given the underlying objectives of the company and potential impact on G8's financial position.

Responsibility for the management and control of the financial risks faced by G8 are categorised into two main groups:

- The Oversight Group (G8 Board of Directors) and
- The Executive and Administration Group – Chief Executive Officer & Managing Director, Chief Financial Officer and any nominated external treasury advisor.

3 INTEREST RATE RISK

3.1 *Definition*

The risk that G8 will suffer financial loss due to adverse movements in market interest rates.

3.2 *Specific Objectives*

- To manage G8's interest rate exposure to provide greater stability and certainty with respect to cash flows.
- To ensure compliance with interest cover covenants under the Company's borrowing facilities.
- To minimise the impact of adverse interest rate movements through the use of interest rate risk management tools.

3.3 *Risk Management Approach*

G8 has loan issuances, which provide a mixed fixed and floating rate borrowing profile at present.

G8's fixed/floating borrowing mix is to be monitored by management and reported to the Board on a regular basis (at least quarterly).

Decisions around new funding programmes and banking facilities, or changes to current funding programmes and banking facilities, are subject to Board approval.

The Executive and Administration Group will develop and recommend to the Board appropriate interest rate hedging strategies to manage G8's exposure to floating interest rates. Derivative products may be used to manage G8's interest rate risk profile but any hedging undertaken is subject to Board approval and will not exceed the level of floating rate exposure.

For the purposes of this policy, the level of fixed hedges includes both fixed rate debt and derivatives that hedge floating rate debt to fixed rate. The amount to be hedged is up to 50% of drawn facilities.

3.4 *Approved Interest Rate Hedging Instruments*

For the purposes of hedging interest rate risks, the following instruments (refer Appendix 2 for description) are permitted to be transacted with qualifying counterparties:

1. Interest Rate Swaps
2. Interest Rate Caps and Collars
3. Fixed rate borrowing – where G8 may fix the interest rate on the underlying borrowing rather than hedging via a separate derivative instrument

Where possible, interest rate derivative transactions will be transacted on a competitive tender basis using a minimum of two counterparties.

4 FUNDING & LIQUIDITY RISK

4.1 *Definition*

The risk that G8 is unable to renew borrowing facilities, or to receive a favourable outcome, due to market conditions at the time it seeks to refinance.

4.2 *Specific Objectives*

- To manage G8's debt facility expiries and lender composition to reduce renewal risk.
- To ensure appropriate debt capacity and liquidity is available to the company.
- To minimise the impact of adverse market conditions, credit availability or lender credit risk through the use of varying facility tenors and lenders.

4.3 *Risk Management Approach*

G8 will endeavour to have the total debt spread in a staggered maturity profile so that a certain proportion is maturing periodically to reduce the risk of refinancing on one maturity date.

Facilities should be refinanced or extended to ensure no borrowings are recognised as Current on the Financial Statements at a June or December reporting date.

The CFO will ensure appropriate funding arrangements are in place to meet current and committed requirements and that appropriate forecasting mechanisms are maintained to show G8's projected cash requirements over the next 12 months.

If funding facilities are not able to support the future plans at this level the CFO is responsible for advising the Board to allow other sources of capital to be considered.

5 FOREIGN EXCHANGE RISK

5.1 *Definition*

The risk that G8 will suffer financial loss or accounting volatility due to adverse movements in foreign exchange rates between the markets that it is exposed to.

5.2 *Specific Objectives*

- To manage G8's foreign exchange exposure to provide greater stability and certainty with respect to cash flows.
- To ensure compliance with all the covenants under the Company's borrowing facilities.
- To minimise the impact of adverse foreign exchange movements through the use of foreign exchange risk management tools.
- Speculative positions in derivatives will not be undertaken.

5.3 *Approved FX Hedging Instruments*

For the purposes of hedging foreign exchange risks, the following instruments are permitted to be transacted with qualifying counterparties:

1. Forward Exchange Contracts
2. Foreign Exchange Collars
3. Foreign Exchange Options including the purchase of Puts and Calls.

Where possible, foreign exchange derivative transactions will be transacted on a competitive tender basis using a minimum of two counterparties.

6 OPERATIONAL RISK

6.1 *Definition*

The risk that G8 will suffer financial loss due to error, fraud, mismanagement, or unauthorised use of financial instruments.

6.2 *Specific Objective*

To safeguard the financial resources of G8 through efficient operations and to ensure that all financial risk management activities undertaken comply with the Board approved policy.

6.3 *Management Approach*

To meet the objective:

G8 will establish a segregation of duties for transacting such that no one person is responsible for initiating, confirming and settling a transaction.

- The Board authorises the undertaking of all hedge strategies.
- Thereafter the CEO and CFO jointly agree on the execution timing, counterparty and specific transaction terms.

- The nominated external treasury advisor executes the transaction and confirms the transaction details.

All approved counterparties must have an ISDA (International Swaps & Derivatives Association) Master Agreement in place before any derivative transactions can be entered into.

6.4 *Performance Measurement and Reporting*

An exceptions register is to be maintained to document the following:

- Failed settlements; and
- Any breach of Policy.

All exceptions are to be reported to the CEO and the Board.

Serious negligent or fraudulent action must be reported immediately to the CEO and the Board.

Confirmed or suspected fraudulent action shall also be reported to the CEO immediately.

7 COUNTERPARTY CREDIT RISK

7.1 *Definition*

Counterparty credit risk is defined as the potential financial loss associated with a customer or a financial counterparty's unwillingness, inability or failure to meet its financial obligations.

In the context of G8's interest rate risk management activities, the likely sources of counterparty credit risk are:

- Non-performance of obligations with respect to a contract where a financial counterparty is unwilling or unable to meet payment on demand or at maturity;
- Downgrading of a financial counterparty's credit worthiness; and
- Funds on deposit (i.e. where access is denied to money market or trading accounts).

7.2 *Specific Objective*

To safeguard G8's financial resources through the effective implementation of credit review procedures which minimise the risk of default or other loss.

7.3 *Measurement*

Counterparty credit risk exposure is recognised on the basis of:

- Marked-to-market revaluations of hedged positions (i.e. particularly when the MTM is in-the-money) and
- Face value of money market deposits.

7.4 *Management Approach*

To mitigate the potential for loss arising from a financial counterparty's unwillingness, inability or failure to meet its financial commitments against contractual obligations.

The key elements of G8's approach to the management of counterparty credit risks are:

- G8 will determine the credit worthiness of financial counterparties based on Standard & Poor's rating service.
- G8 will only deal with counterparties that are approved by the Board and which hold an 'A' rating or better. For clarity an 'A' rating includes 'A-'. Refer Appendix 1 for rating scales and agency equivalents.
- In the event of a counterparty credit downgrade, any outstanding positions will be assessed and, if deemed necessary, remedial action will be taken to immediately reduce exposure to the counterparty.
- To avoid undue concentration of exposures, where possible, G8 will endeavour to deal with a range of financial counterparties to spread this credit risk.
- The counterparty list will be re-affirmed annually as part of the review of this policy or on any credit event.

Appendix 1 details the approved counterparties credit profiles for financial management transactions.

8 ACCOUNTING TREATMENT AND DISCLOSURE

Accounting practices for financial instruments are in continuous evolution. G8 will monitor the changes with respect to financial instruments and accounting policies and will respond to new developments in terms of market best practice.

G8 will make tax, legal and accounting judgments when reviewing and evaluating the impact of hedging decisions, based upon independent professional advice supplied from its Auditors, Tax Advisors or other advisors when required.

All efforts should be made, prior to entering any derivative instrument, to ensure it can achieve hedge accounting, and if not, G8 is satisfied with the potential implications of having, in AASB139 or AASB9 terms, a non-effective hedge.

9 REPORTING

The Chief Financial Officer will report to the Board providing:

- A suite of reports semi-annually comprising mark-to-market valuations, hedged exposure analysis and transaction listing for all interest rate and foreign exchange hedging and deposits. The frequency of transactional reporting will increase if there are hedges in place with non-lenders to monitor credit exposures;
- Details of any policy compliance breaches including any hedging limit breaches as soon as detected;
- Details of any material issues with respect to serious negligence, fraudulent action or breaches of policy as soon as detected.

Credit ratings will be monitored by G8 on an ongoing basis and in the event of any downgrade or breach of the counterparty credit risk parameters, it will be immediately reported to the Chief Executive Officer and reported to the Board at the next opportunity.

10 REVIEW AND UPDATE

The Executive and Administration Group is responsible for ensuring the content of this policy is kept current at all times.

This Policy should be reviewed at intervals of no more than 12 months.

APPENDIX 1 APPROVED COUNTERPARTIES

Interest Rate Hedging

A party can be an approved counterparty for interest rate hedging instruments and FX hedging instruments if it has a minimum Long-term rating of A- or higher, as quoted by Standard & Poor's.

Deposits

A party can be an approved counterparty for funds on deposit if the counterparty is an approved deposit taking institution (ADI) and has a credit rating of A+ or higher, as quoted by Standard & Poor's. Where a counterparty with a rating of A or A- has loaned funds to G8 and is an ADI, that party can be utilised for funds on deposit up to the total value that party has loaned.

Credit Rating Scales by Agency, Long-Term

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	

Global Long-Term Rating Scale	
Aaa	Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.
Baa	Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
Ba	Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.
B	Obligations rated B are considered speculative and are subject to high credit risk.
Caa	Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.
Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C	Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a "(hyb)" indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.*

Note: For more information on long-term ratings assigned to obligations in default, please see the definition "Long-Term Credit Ratings for Defaulted or Impaired Securities" in the Other Definitions section of this publication.

** By their terms, hybrid securities allow for the omission of scheduled dividends, interest, or principal payments, which can potentially result in impairment if such an omission occurs. Hybrid securities may also be subject to contractually allowable write-downs of principal that could result in impairment. Together with the hybrid indicator, the long-term obligation rating assigned to a hybrid security is an expression of the relative credit risk associated with that security.*

APPENDIX 2 PRODUCT DESCRIPTIONS

Interest Rate Swap

An interest rate swap is an OTC derivative instrument under which two parties agree to exchange interest rate cash flows, based on a specified notional amount from a fixed rate to a floating rate (or vice versa) or from one floating rate to another. There are many variants which may be structured to meet specific needs. The type most likely to be used by G8 is a same currency fixed for floating swap which would be used to convert a floating rate loan into a fixed rate loan. It is described below.

One party to the swap (e.g. G8) commits to pay interest at a fixed rate, while the other party (e.g. Counterparty Bank) commits to pay interest at a floating interest rate on a notional principal amount for a predetermined period of time. The two parties agree a fixed rate, which is settled against a nominated floating reference rate (e.g. BBSW) at predetermined intervals (e.g. monthly, quarterly, semi-annually) throughout the life of the swap.

The use of this instrument to fix loan facilities removes uncertainty with respect to future interest rate movements and more importantly protects against increases in floating interest rates. The terms of the swap are generally selected to exactly match the interest rate terms of the loan.

It is a limiting hedge, in that it limits positive market price participation and obliges a settlement for difference (between the fixed and floating rate) by G8 for out of the money scenarios.

Advantages

- Known interest rate cost over the life of the swap
- Protects against interest rate rises (when the user is fixed rate payer) for the life of the swap
- If matched to underlying hedged item, will achieve 100% hedge effectiveness
- No upfront premium is required to be paid by G8.

Disadvantages

- No participation in lower variable interest rates (i.e. limiting)
- Hedge ineffectiveness will occur only if G8 is over-hedged, in which case the excess will be subject to P&L impact
- There may be a cost to unwind/close the hedge at a future point if the position is OTM
- Bank credit facilities are required

At each rollover/reset date the difference between the prevailing floating reference rate and the fixed swap rate is paid to or by G8;

  - Where the floating reference rate is higher than the swap rate, G8 will receive a net payment from its counterparty bank.
  - Where the floating reference rate is less than the swap rate, then G8 must make a net payment to its counterparty bank.

At each interest payment date, the underlying debt is rolled at the floating reference rate for the same period as the swap such that the net interest cost of the loan is the fixed swap rate.

Interest Rate Cap/Floor

An interest rate cap (Cap) is a derivative instrument under which the buyer receives payments at the end of each period when the prevailing interest rate exceeds the agreed option strike.

An interest rate floor (Floor) is a derivative instrument under which the buyer, in exchange for an upfront premium, receives payments at the end of each reset date when the prevailing interest rate is below the agreed strike price.

The most likely application for G8 will be to protect against a rise in interest rates. In this scenario G8 will purchase a Cap from a counterparty bank. If the interest rate exceeds the rate agreed on the cap then G8 will receive a payment with the net effect being that that G8's borrowing costs are 'capped' at the strike rate.

The Cap is usually structured to match the terms/reset dates of the loan

This is a non limiting hedge, in that it allows favourable market movement participation while obliging no settlement from G8.

Advantages

- Maximum interest rate cost over the life of the Cap is established.
- Allows participation in lower variable interest rates (e.g. non-limiting)
- If hedging is no longer required the remaining Caps (or caplets), can be sold back to the counterparty.

Disadvantages

- Requires payment of an upfront premium
- To be economical, the Caps are generally established at strike levels above the prevailing interest rates thus exposing G8 to greater upside risk on interest rates.
- Where the Cap strike rate is set closer to the at-the-money swap rate and the term to maturity increases, the premium payable for the options also increases.

Outcomes at each reset date:

If the floating reference interest rate is above the interest rate strike of the Cap then G8 will receive a payment from its counterparty reflecting the difference between the rates. G8's cost of debt is based on the Cap interest rate.

If the floating reference rate is less than or equal to the interest rate strike of the cap, then G8 will receive no payment, the option will expire worthless for that period and G8's cost of debt is based on the prevailing floating rate as though no hedge was in place.

Interest Rate Collars

An interest rate collar (Collar) is an option based derivative structure which involves the simultaneous purchase and sale of a Cap and Floor. The strikes are usually selected such that the premiums net to zero.

The most likely application for G8 will be to protect against a rise in interest rates. In this scenario G8 will purchase an interest rate Cap and simultaneously sell an interest rate Floor which will offset the cost of the Cap. The structure provides G8 with a known protection band.

G8 is protected against an increase in interest rates beyond the strike rate of the bought Cap and participates in falling interest rates up to the strike of the Floor i.e. the benefits of falling rates are limited to the strike of the Floor.

It is a limiting structure in the sense that participation in favourable market movements is limited to the strike of the sold floor.

Advantages

- Establishes a maximum interest cost over the life of the Collar at the Cap strike;
- Allows some participation in decreasing rates to the Floor strike;
- It can be structured to be a zero premium payable hedging solution.

Disadvantages

- Hedging lines are required.
- Opportunity cost potential on the sold Floor. G8 carries the obligation to pay the difference, if positive, between the Floor strike rate and lower prevailing BBSW rate.
- It is slightly more difficult to close-out prior to maturity than an IRS. There may be a cost to close out depending on the relative value of the Cap and Floor.

Outcomes at each reset date:

If the floating reference interest rate is above the interest rate strike of the Cap then G8 will receive a payment from its counterparty reflecting the difference between the rates and G8's cost of debt will be based on the Cap rate.

If the floating reference rate is between the interest rate strikes of the Cap and Floor, then no payments will be made or received and the options will expire worthless for that period. G8's cost of debt will be based on the prevailing floating rate.

If the floating reference interest rate is below the interest rate strike of the Floor then G8 will make a payment to its counterparty reflecting the difference between the rates and G8's cost of debt will be based on the Floor rate.