

Product Disclosure Statement

Exchange Traded Options

PART 1: Issue date: 28 March 2018

Incorporating

PART 2: Schedule of fees

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PART 1

1 General information

1.1 Important Information

This Product Disclosure Statement (“PDS”) has been prepared by Phillip Capital Limited ABN 14 002 918 247 AFSL 246827 (“PhillipCapital”) in accordance with the financial product disclosure requirements under the Corporations Act 2001 (Cth) (“Corporations Act”). This PDS provides only a summary of the significant features and risks of Exchange Traded Options.

This PDS does not take into account your investment objectives, financial situation and particular needs. No member of PhillipCapital or its affiliates guarantees the performance of any Exchange Traded Options transactions entered into by you. Before entering into an Options transaction referred to in this PDS, we strongly recommend you seek independent advice to ensure this is appropriate for your investment objectives, financial situation and particular needs and also your personal circumstances.

We also recommend that you obtain independent taxation and accounting advice in relation to the impact of Exchange Traded transaction gains and losses on your particular financial situation. The taxation consequences of Exchange Traded Option transactions such as Exchange Traded Options transactions can be complex and will differ for each individual’s financial circumstances, and your tax adviser should be consulted prior to entering into any Exchange Traded Options transaction.

This PDS is an important document and we recommend that you read it in full and contact us if you have any questions arising from the PDS prior to entering into any transactions relating to this PDS.

The offer to which this PDS relates is available only to persons receiving the PDS in Australia. The distribution of this PDS in jurisdictions outside Australia may be subject to legal restrictions. Any person who resides outside Australia who gains access to this PDS should comply with any such restrictions as failure to do so may constitute a violation of financial services laws. The offer to which this PDS relates is not available to US investors.

To the extent permitted by law, neither PhillipCapital nor their affiliates accepts any responsibility for errors or misstatements, negligent or otherwise, nor for any direct, indirect, consequential or other loss arising from any use of these documents and/or further communication in relation to them.

1.2 Purpose

This Product Disclosure Statement (PDS) has been prepared by PhillipCapital, the issuer of the Exchange Traded Options and is designed to assist you in deciding whether ETOs are appropriate for your needs and to assist you in comparing it with other financial products you may be considering. This PDS is an important document and we recommend you contact us should you have any questions.

The Corporations Act requires that a retail client must be given a PDS from an AFS Licensee before the client acquires a financial product. The PDS is a document that sets out the significant features of a financial product, including its risks, benefits, costs, fees and other related information.

This PDS is designed to assist you in making an informed decision regarding whether or not acquiring the Exchange Traded Options included in this PDS is a suitable investment for you.

1.3 Information subject to change

The information in this PDS is up to date at the time it was prepared but is subject to change from time to time. When new information becomes available, if such new information is materially adverse to you, we will either issue a new PDS or a supplementary PDS containing the new information. If the new information is not materially adverse to you, we will not issue a new PDS or a supplementary PDS to you.

However, you will be able to find the updated information on our website at www.phillipcapital.com.au

A copy of the updated information is also available upon request free of charge by contacting PhillipCapital. When we use terms ‘we’, ‘us’ or ‘our’ in this PDS, the reference is to Phillip Capital Limited.

1.4 PDS in two parts

This PDS is in two parts. Part 1 includes all information other than the Schedule of Fees which is provided in Part 2. You should read both parts of the PDS before making a decision to trade in Exchange Traded Options and you should retain the PDS for future reference.

1.5 Products covered by this PDS

This PDS relates to Exchange Traded Options traded on the market operated by ASX Limited ACN 008 624 691 (ASX) and settled and cleared by ASX Clear Pty Ltd ACN 001 314 503 (ASX Clear).

ETOs include:

- Equity Options: Options over quoted shares or interests in managed investment schemes of a range of different companies and managed investment schemes quoted on ASX.
- Index Options: Options over an index such as the S&P™/ASX 200™ Index or the S&P™/ASX 200™ Property Trust Index.
- LEPOs: Call Options with an Exercise Price of one cent per underlying share. In this PDS, equity Options, index Options and LEPOs are collectively referred to as Exchange Traded Options or ETOs.
- A list of companies, managed investment schemes and indices over which Exchange Traded Options are traded can be viewed on the ASX website at: <http://www.asx.com.au/asx/markets/optionPrices.do>

If you received this document electronically or if you received any updated or new information other than in writing, we will provide a free paper copy on request.

2. About the Issuer - Phillip Capital Limited

Phillip Capital Limited ABN 14 002 918 247 is the holder of an Australian Financial Services Licence No. 246827 and is authorised to provide financial services to both wholesale and retail clients and is regulated by the Australian Securities and Investment Commission.

Phillip Capital is a Market Participant of the ASX Limited (ASX) and is a party to a Clearing Agreement with Pershing Securities Australia Pty Ltd ABN 60 136 184 962 AFSL No. 338264 (Pershing) for the purpose of the ASX Operating Rules and the ASX Clear Rules and Pershing arranges the settlement and clearing of the Exchange Traded Options PhillipCapital is the issuer of this PDS, and regarded as the issuer of the Exchange Traded Options contracts referred to in this PDS by virtue of technical provisions in the Corporations Act.

2.1 Advice and your Adviser

PhillipCapital does not provide personal advice in relation to Exchange Traded Options offered under this PDS. All transactions undertaken will be on a general advice or no-advice/execution only basis. Your Adviser cannot provide any legal, accounting or taxation advice.

2.2 Contact us

Our Contact details are as follows:

Name: Phillip Capital Limited
Address: Level 10 330 Collins Street Melbourne VIC 3000
Postal address: PO Box 628 Collins Street West VIC 8007
Telephone: + 61 3 8633 9800 or Toll Free 1800 214 264
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3. Exchange Traded Options Explained

3.1 Types of Exchange Traded Options

The three types of Exchange Traded Options traded on the market operated by ASX are equity Options, index Options and LEPOs. These are each discussed briefly below:

(a) Equity Options are Options over financial products quoted on ASX, for example shares of listed companies. These Options are known as “deliverable” Options in the sense that, on exercise, one party must take or provide “delivery” of the underlying financial product.

(b) Index Options are Options over an index such as the S&P™/ASX 200™ Index or the S&P™/ASX 200™ Property Trust Index. These Options are known as “cash settled” Options in the sense that, on exercise of an Option, the Buyer (taker) of the Option will have the right to receive an amount of money and the Seller (writer) will have a corresponding obligation to pay that amount (provided the Option is “in-the-money”). The amount of money will be determined by the difference between the exercise level (set by ASX) and the Opening Price Index Calculation (OPIC) as calculated by ASX on the Expiry Date of the Option). The OPIC is based on the first traded price of each constituent stock in the index on the Expiry Date (if a constituent stock does not trade on the Expiry Date, the last traded price from the previous trading day will be used). Cash settlement occurs in accordance with the rules of ASX Clear.

(c) Low Exercise Price Options (LEPOs) are Call Options with an Exercise Price of one cent per underlying share or in respect of index LEPOs, an exercise level of 1 point of the underlying index. In other words, they function in a similar way to equity Options, but with a very low Exercise Price. Both LEPOs and index LEPOs are “cash settled”.

3.2 Uses of Exchange Traded Options

Exchange Traded Options are a versatile financial product which can allow investors to:

- hedge against fluctuations in their underlying share portfolio;
- increase the income earned from their portfolio (through the earning of premium income); and
- profit from speculation.

Their flexibility stems from the ability to both buy (take) and sell (write) an Exchange Traded Option contract and undertake multiple positions targeting specific movements in the overall market and individual underlying shares. Index Options can be used to trade a view on the market as whole, or on the sector of the market that is covered by the particular index. The use of Exchange Traded Options within an investor’s overall investment strategy can provide flexibility to take advantage of rising, falling and neutral markets. However, both the purchase and sale of Exchange Traded Options involves risks which are discussed in more detail in section 7.

3.3 Understanding some concepts

Concepts which should be understood before trading in Exchange Traded Options are:

- The effect that time has on a position/strategy;
- How volatility changes, both up and down, may affect the price or value of an Option and the potential outcome;
- How to calculate margins and worst-case scenarios for any position;
- The likelihood of early exercise and the most probable timing of such an event;
- The effect of dividends and capital reconstructions on an Options position;
- The liquidity of an Option, the role of market makers, and the effect this may have on your ability to enter and exit a position.

Whilst this PDS provides product information including information about the risks, characteristics and benefits of Exchange Traded Options, investors should inform themselves and if necessary obtain advice about the specific risks, characteristics and benefits of the Exchange Traded Option they intend to trade and relevant ASX Rules.

3.4 ASX educational booklets

Exchange Traded Options have been traded in Australia since 1976 on the ASX. ASX has prepared a number of educational booklets relating to Exchange Traded Options. Their current booklets are available free via the ASX website at

<http://www.asx.com.au/education/download-brochures.htm#options>

This PDS refers to a number of ASX booklets, including:

- “Understanding Options Trading”. This booklet discusses the features and contract specifications of Exchange Traded Options, risks and advantages in trading Options and gives examples of how Exchange Traded Options work and basic option trading strategies. You can view this booklet on the ASX website at :

<http://www.asx.com.au/documents/resources/understanding-options-trading-march-2016.pdf>

- “Options Strategies” – this booklet describes in more detail how Exchange Traded Options may be used in various trading strategies. You can view this booklet on the ASX website at :

<http://www.asx.com.au/documents/resources/UnderstandingStrategies.pdf>

- “Margins” – this booklet explains what margins are, how they are calculated by ASX Clear and how a Clearing Participant may meet its margin obligations to ASX Clear. You can view this booklet on the ASX website at :

http://www.asx.com.au/documents/resources/Understanding_Margins.pdf

- “LEPOs Low Exercise Price Options Explanatory Booklet” This booklet explains further the features of LEPOs. You can view this booklet on the ASX website at :

<http://www.asx.com.au/documents/resources/UnderstandingLEPOs.pdf>

- If you cannot access the ASX booklets via the ASX website, you may contact us to request a copy.

If you have any questions on any aspect of the booklets you should consult with us before making any investment decisions.

4. Basic Features of Exchange Traded Options

The following discussion is not intended to be a detailed discussion of the features of Exchange Traded Options, but rather to identify some of the key features of Exchange Traded Options. For a more detailed description, you should refer to the ASX explanatory booklets referred to in the previous section.

4.1 Standard Contracts

The terms and specifications of ASX’s Exchange Traded Options (other than the premium, which is negotiated between the Buyer (taker) and Seller (writer)) are determined by ASX in accordance with ASX’s rules. Details of contract specifications and standard features for Exchange Traded Options traded on ASX are published by the ASX on their website.

The contract specifications detail the key standard features of Exchange Traded Options traded on ASX. ASX determines the key contract specifications for each series of Exchange Traded Options.

For example, in the context of equity Options, ASX sets the following:

- the underlying share (eg. BHP);
- whether the Option is a Call Option or a Put Option;

- the contract size (that is, the number of units of the underlying share to which the Option relates) – when an Exchange Traded equity Option series is first opened by ASX for trading, the contract size is usually 100 (eg. 100 BHP shares);
- exercise style – that is American style or European style;
- the Exercise Price (or Strike Price) – is the specified price at which the Buyer (taker) of an equity Option can, if they exercise the Option, buy (in the case of a Call Option) or sell (in the case of a Put Option) the underlying shares; and
- the Expiry Date.

In accordance with its Rules, ASX may make an adjustment to any of the above specifications, as discussed below in clause 4.6 under the heading Adjustments.

Similarly, for index Options, the relevant parameters will also be set by ASX, including the underlying index, the index multiplier, the exercise style (European), the exercise level of the Option and the Expiry Date. Some of the concepts referred to above, such as contract size, exercise style, Exercise Price and Expiry Date are discussed in more detail below.

4.2 Sellers (writers) and Buyers (takers)

Every Exchange Traded Option contract has both a Seller (writer) and a Buyer (taker).

Buyers of Exchange Traded Options are referred to as “takers” as they take up the right to exercise the Option (for example, the right to exercise the Option and either buy or sell the underlying shares at the Exercise Price, in the case of an equity Option).

Sellers of Exchange Traded Options are also referred to as “writers” because they underwrite (or willingly accept) the obligations which are required to be performed on exercise of the Option (for example, to buy or sell the underlying shares at the Exercise Price, in the case of an equity Option).

4.3 Call and Put Options

Exchange Traded Options may be Call Options or Put Options. The nature of Call Options and Put Options will depend on whether the Options are equity Options or index Options.

(a) Equity Options

Call Options give the Buyer (taker) the right, but not the obligation, to buy a standard quantity of underlying shares at a predetermined price on or before a predetermined date. If the Buyer exercises their right to buy, the Seller (writer) to which the exercise notice is assigned by ASX Clear is required to sell the standard quantity of shares at the predetermined Exercise Price.

Put Options give the Buyer (taker) the right, but not the obligation to sell a standard quantity of underlying shares at a predetermined price on or before a predetermined date. If the Buyer exercises their right to sell, the Seller (writer) to which the exercise notice is assigned by ASX Clear is required to buy the standard quantity of shares at the predetermined Exercise Price.

(b) Index Options

Call Options give the Buyer (taker) the right, but not the obligation to exercise the Option. If the closing level of the index exceeds the exercise level of the index Option, the Buyer will, on exercise of the Option, have the right to receive an amount of money which is determined by multiplying the difference between the closing level and the exercise level by the index multiplier specified by

ASX. If the Buyer exercises the Option, the Seller (writer) to which the exercise notice is assigned by ASX Clear is required to pay the corresponding amount.

Put Options give the Buyer (taker) the right, but not the obligation to exercise the Option. If the closing level of the index is less than the exercise level of the index Option, the Buyer will, on exercise of the Option, have the right to receive an amount of money which is determined by multiplying the difference between the closing level and the exercise level by the index multiplier specified by ASX.

If the Buyer exercises the Option, the seller (writer) to which the exercise notice is assigned by ASX Clear is required to pay the corresponding amount.

4.4 Exercise style – American or European

Exchange Traded Options may be American or European exercise style. American style Options can be exercised at any time prior to and including the Expiry Date. European style Options can only be exercised on the Expiry Date and not before. Most ASX exchange traded equity Options are American style Options. ASX exchange traded index Options are European style. LEPOs are all European exercise style Options.

4.5 Premium

As noted above, the only term of an Option contract an investor trades on ASX which is not set and pre-determined by ASX is the price of the contract. The price, known as the “Premium” is negotiated between the Buyer (taker) and Seller (writer) of the Exchange Traded Option through the market at time of execution. The premium for an equity Option is quoted on a cents per underlying share basis so the dollar value payment is calculated by multiplying the premium amount by the number of underlying shares (which, as discussed above is usually 100 at the time the Option series is opened, but may be adjusted by ASX). For example, if you buy a Call Option with a premium quoted at 25c per share and the contract size is 100, the total premium is \$25.00 (being \$0.25 x 100).

The premium for an index Option is calculated by multiplying the premium (specified in terms of the number of points of the index) by the index multiplier. For example, a premium of 30 points, with an index multiplier of \$10, represents a total premium cost of \$300 per contract. The value of an Option will fluctuate during the Option’s life depending on a range of factors including the Exercise Price or, the price of the underlying share or the level of the underlying index, the volatility of the underlying share or the underlying index, the time remaining to Expiry Date, interest rates, dividends and general risks applicable to markets.

Most Option pricing involves the use of a mathematical formula which includes calculating the intrinsic and time value of the particular Option. You should refer to the section entitled “Option pricing fundamentals” in the ASX Booklet “Understanding Options Trading” available as advised in section 3 above for more information regarding the fundamentals of pricing Options.

ASX also provides a pricing calculator on the ASX website at: <http://www.asx.com.au/prices/calculators.htm>

You can obtain current price information from your adviser at PhillipCapital.

For further information on trading index Options and examples on how trading index Options can work for you, refer to the ASX booklet Understanding Options Trading available as advised in section 3 above.

4.6 Adjustments

ASX may in accordance with its operating rules make an adjustment to any of the specifications of an Option to reflect corporate actions in respect of the underlying shares, for example if the issuer makes a bonus issue, rights issue, special dividend, capital reduction or other similar event. If ASX does make an adjustment it will endeavour to do so in a way which Puts the Seller (writer) and Buyer (taker) in substantially the same economic position they would have been in had the adjustment event not occurred, so as to preserve the value of open positions of Buyers and Sellers at the time of the adjustment. In some cases, ASX may decide not to make an adjustment for a corporate action and, instead, direct that open positions be terminated or closed out. When ASX makes an adjustment to the terms of an Option series, ASX Clear will make a corresponding adjustment to the terms of contracts which are already open. For further information regarding ASX options Adjustments you may refer to the ASX Explanatory Note for ASX Option Adjustments which is available on the ASX website at: http://www.asx.com.au/documents/resources/explanatory_note_option_adjustments.pdf

4.7 No Dividends or Entitlements

The parties to an equity Option do not under the terms of the Option, have any entitlement to dividends, franking credits or other entitlements paid or made by the issuer of the underlying shares. The Seller (writer) of a Call Option or the Buyer (taker) of a Put Option who holds the underlying shares will have an entitlement to dividends, franking credits and other entitlements, but these are entitlements of the holders of the shares, not through the Option contract.

If the Buyer of a Call Option wants to participate in a prospective dividend or entitlement, the Buyer will need to first exercise the Option, allowing sufficient time to become the registered holder prior to the Ex Dividend or Ex Entitlement date. The resulting sale and purchase of underlying shares on the exercise of an equity Option will settle on the third business day (Trade day plus two business days "T+2") following the exercise of the Option (see the discussion below under the heading "4.11 Settlement Process following exercise of Exchange Traded Option").

4.8 Expiry – Limited life of Exchange Traded Options

All Exchange Traded Options have a limited life span with an expiry month, which generally follow one of three cycles, namely:

- (i) January/April/July/October
- (ii) February/May/August/November
- (iii) March/June/September/December.

Options expire on a specified day in the expiry month, as determined by ASX. For equity Options, the Option expires on the Thursday preceding the last Friday in the expiry month, as long as both the Thursday and Friday are full business days. Therefore if the last day of the month is a Thursday the Option will expire on the Thursday prior. Index Options and Index LEPOs expire on the third Thursday of the contract month provided that day is a business day. The ASX Clear has the right to change these Expiry Dates should the need arise.

Expiry day information is available on the ASX website at: <http://www.asx.com.au/about/expiry-calendar.htm>

4.9 Exercise by the Buyer and assignment to the Seller

The Buyer (taker) of an Exchange Traded Option has the right (but not the obligation) to exercise the Option contract. This means that the Seller (writer) of an Exchange Traded Option may be exercised against at any time prior to expiry (American style only). When the Buyer exercises an Option, ASX Clear will randomly assign that exercise to an open position held by a writer in the relevant Option series.

4.10 Automatic exercise

We will automatically exercise your taken Exchange Traded Option contract if on the Expiry Date your contract is in the money. For Call Options the Option will be in the money where the Exercise Price is below the price of the underlying shares. For Put Options the Option will be in the money where the Exercise Price is higher than the price of the underlying shares. All unexercised out of the money Option contracts will expire on the Expiry Date.

4.11 Deliverable or cash settled

Exchange Traded Options are either deliverable or cash settled. Options are described as deliverable where the obligations of the Buyer (taker) and Seller (writer) are settled by the "delivery" of the underlying share. Equity Options are deliverable, because on exercise, one party is required to transfer the underlying shares to the other at the Exercise Price. Options are described as cash settled where the obligations of the Buyer and Seller are settled by the Buyer and Seller settling their obligations by the payment and receipt of a cash amount. Index Options and LEPOs are cash settled.

4.12 Settlement Process following exercise of Exchange Traded Option

When an equity Option is exercised by a Buyer (taker), and the exercise is assigned by ASX Clear to an open position of a Seller (writer), a contract for the sale and purchase of the underlying shares at the Exercise Price will arise between the Seller and the Buyer. The parties to this transaction must then settle that transaction in the same way as any other ASX transaction.

Payment for, and the delivery of underlying shares occurs via ASX Clearing House Electronic Sub-register System (CHES) on T+2. CHES is operated by ASX Settlement Pty Ltd, the settlement facility for ASX transactions and settlement will occur in accordance with the ASX Settlement Operating Rules. Your obligations in relation to settlement are set out in the Phillip Capital Limited terms and conditions.

Index Options are cash settled. When an index Option is exercised by a Buyer, and the exercise is assigned by ASX Clear to an open position of a Seller, the Seller of the Option must pay the cash settlement amount to ASX Clear. That amount will be determined by the difference between the exercise level (set by ASX) and the Opening Price Index Calculation (OPIC) as calculated by ASX on the Expiry Date. Cash settlement occurs in accordance with the rules of ASX Clear.

For more information on settlement of index Options see the section entitled "Trading index options" in the ASX Booklet "Understanding Options Trading" available as advised in section 3 above.

4.13 Time for payments to us

PhillipCapital and its Clearing Participant, require that you settle by 9 am on the next business day ie.T+1 (Trade day plus one business day), whether they be payments of premiums, settlement amounts or margins. Trading debits or other cash financial transactions which arise from your transactions in Options, are reflected in the terms and conditions. Please also refer to the discussion on margins at 5.2 below.

4.14 Option contracts which are open for trading

Full details of all Exchange Traded Options listed on ASX and Expiry Date information is available on the ASX website.

A list of current option codes and delayed price information is available on the ASX website.

4.14 Opening a position

Unlike shares, Exchange Traded Options are not instruments which a person buys or sells in the ordinary sense of ownership. ASX sets the terms of the Exchange Traded Options and, if we enter into a contract for you as Buyer (taker) or Seller (writer), we are regarded as having "opened" the contract for you.

If you have opened a position as the Buyer of an Exchange Traded Option, you have three alternatives:

- you can exercise the Option
- you can hold the Option to expiry and allow it to lapse
- you can close out the position by selling an Option in the same series and instructing us to “close out” the open position.
- Similarly, if you have opened a position as the Seller of an Exchange Traded Option, you have two alternatives:
- you can let the Option go to expiry and risk being exercised against (if it is not exercised against, it will expire without any further obligation or liability on the Seller)
- you can close out the Option by buying an Option in the same series (provided it has not been exercised against).

4.15 Closing a position

An Exchange Traded Option may be “closed out” by entering into an Option in the same series, but in the opposite position. In other words, if you have an open position in an Option as a Buyer (taker), you can close out that position by entering into an Option in the same series as a Seller (writer). This effectively cancels out the open position.

For example, an investor might close out an open Option contract in the following scenarios:

- The Seller of an Option may want to close out the Option (by taking an Option in the same series) to avoid the risk of having a Buyer’s exercise notice allocated to the Seller’s Option.
- The investor may want to take a profit. For example, the Buyer of a Call Option may have paid a premium of \$1.00 per Option, and the same Option series may now be able to be sold for a premium of \$1.20, because the price of the underlying shares has increased. The Buyer may therefore close out his or her position by selling an Option in the same series, profiting from the difference of \$0.20 per option.
- The investor may want to limit a loss. For example, the Buyer of a Call Option may have paid a premium of \$1.00 per Option, and the same Option series may now be able to be sold for only \$0.80, because the price of the underlying shares has decreased or because the time to expiry has reduced. The Buyer may therefore close out his or her position by selling an Option in the same series, crystallising a loss of the difference of \$0.20 per option.
- It is important that you advise us if you are seeking to “close out” an existing position when placing your order.

4.16 LEPOs –some distinguishing features

LEPOs (over equities) are essentially equity Options with an Exercise Price of one cent per underlying share. LEPOs are European style Options, in other words, they can only be exercised on the last trading day before they expire. The Buyer (taker) of a LEPO has the right to buy an agreed number of shares (e.g. 100 shares per Equity LEPO contract) at a specified future date, in return for the payment of the Exercise Price (1 cent per share). The Seller (writer) of a LEPO undertakes to sell the underlying shares at expiry in return for the Exercise Price.

As with other Options, the Seller of a Call Option is only required to deliver the underlying shares if the Buyer exercises the Option. When you enter into a LEPO transaction, you do not pay /or receive the full amount of the premium upfront. Instead, you pay or receive margins during the life of the LEPO and pay or receive the balance of the premium if and when you exercise the LEPO.

LEPOs are different from standard Exchange Traded Options in a number of respects, summarised below:

- LEPOs are only available as Call Options
- LEPOs are European style Options, meaning they are exercisable only on the last trading day before they expire, while standard equity Options are generally American style Options
- LEPOs have a very low Exercise Price and a much higher premium – close to the initial value of the underlying shares the subject of the LEPO
- LEPOs have only one Exercise Price per expiry month, unlike other Options, which offer a range of Exercise Prices
- LEPOs do not require an amount equal to the full premium to be paid on purchase. Instead the buyer effectively pays a margin, which represents a small percentage of the value of the underlying shares. In standard equity Options, the Buyer pays the premium up front and the Seller receives the premium up front
- Both the Buyer and Seller of a LEPO are subject to ongoing margining.
- In summary, the premium for a LEPO will generally track the price of the underlying shares, so an investor’s profit or loss will generally track movements in the underlying security on a one-for-one basis. Buying a LEPO is similar to a forward purchase of shares, while selling a LEPO is similar to a forward sale of shares.

Because of their low Exercise Price, LEPOs trade for large premiums. The high premium exposure carries a risk similar to that of owning the securities outright or, for Sellers, short selling securities. Although the exposure with LEPOs is similar to owning the shares you are not entitled to dividends or other rights attached to the shares, such as voting rights.

4.17 Information on trading strategies

For information and examples regarding trading strategies using Exchange Traded Options, refer to the “Pay-off” section on page 24 of the ASX booklet “Understanding Options Trading” available as advised in section 3 above.

5. Clearing and Settlement – The Roles of ASX Clear and the National Guarantee Fund

Exchange Traded Options are traded on the ASX trading platform and cleared through ASX Clear which is a licensed clearing and settlement facility under the Corporations Act.

PhillipCapital’s Clearing Participant, Pershing, as a Participant of ASX Clear will clear and settle all ETOs traded with PhillipCapital. In doing so PhillipCapital’s Clearing Participant must comply with the ASIC Market Integrity Rules and ASX Clear Operating Rules.

5.1 The role of ASX Clear

All Exchange Traded Options traded for you by us will be cleared by ASX Clear, subject to the ASX Clear Rules. When we enter into an Exchange Traded Option contract for you, the transaction is reported to ASX Clear for registration. On registration of a contract by ASX Clear, the original traded contract is terminated and replaced by two contracts, known as Derivatives CCP Contracts. One Contract is between the Clearing Participant who clears the contract for the Buyer (taker) of the Option contract and ASX Clear. The other is between the Clearing Participant who clears the contract for the Seller (writer) of the Option contract and ASX Clear. This process of registration and creation of two Derivatives CCP Contracts is known as “novation” and is described briefly in the section entitled “You and your broker” in the ASX booklet, “Understanding Options Trading” available as advised in section 3 above. As the client, you are not party to either of those contracts actually registered with ASX Clear. We may act on your instructions or for your benefit upon registration of the Exchange Traded Option with ASX Clear in our Clearing Participant’s name. The Clearing Participant incurs obligations to ASX Clear as principal, even though the Exchange Traded Option was entered into on your instructions.

5.2 Margins

As ASX Clear contracts with Clearing Participants as principals, where a Clearing Participant has an exposure under an Exchange Traded Option contract to ASX Clear, ASX Clear will Call all amounts of money known as “Margin” from the Clearing Participant as cover. Margins are generally a feature of all Exchange Traded derivative products and are designed to protect ASX Clear against default. A margin is the amount calculated by ASX Clear as necessary to cover the risk of financial loss on an Exchange Traded Option contract due to an adverse market movement.

The Seller (writer) of an Exchange Traded Option will ordinarily be required to pay margin in respect of that contract or provide collateral acceptable to ASX Clear. That is because ASX Clear is exposed to the risk that the Seller will not perform its obligations if and when the Option is exercised. The Buyer (taker) of an Exchange Traded Option will not be required to pay margin in respect of that contract, because they are not “at risk” – they must pay the premium up front and that is the maximum amount the Buyer of the Option can lose in respect of that contract (plus transaction costs).

The total margin Called by ASX Clear for Exchange Traded Options is made up of two components, in each case, determined by ASX Clear:

- **Premium margin** – this is determined by reference to the market value of the underlying share at the close of business each day.
- **Risk margin** – this is the potential change in the price of the Option contract assuming a maximum probable inter-day price move in the price of the underlying security or index. Amounts of margin are determined daily by ASX Clear, following the close of trading each day. In times of extreme volatility an intra-day margin Call may be made by ASX Clear. We will, under the terms of our agreement with you, Call from you all amounts of margin which ASX Clear Calls from us in respect of positions which we have entered into for you.

PhillipCapital, and at our direction PhillipCapital’s Clearing Participant, may also Call for greater amounts of margin if we regard this as appropriate.

5.3 Collateral

ASX Clear margin obligations may be met by paying cash or by providing certain types of eligible collateral (e.g. shares). Shares (held by you) which are acceptable to ASX Clear may be lodged with ASX Clear as collateral for margin obligations relating to Exchange Traded Option positions. When shares are lodged with ASX Clear, the shares are held by ASX Clear as third party security in the sense that they represent collateral provided by you to secure PhillipCapital’s Clearing Participant’s obligations to ASX Clear. The lodged shares cannot be used by us or our Clearing Participant in relation to our dealings or for our other clients in relation to their dealings unless authorised by you.

As a risk management tool, ASX Clear may apply a “haircut” in relation to the value of collateral lodged. For example, if you lodge \$10,000 worth of collateral and ASX Clear applies a 30% haircut, only \$7,000 will be considered as collateral cover for any margin obligations.

The margining process used by ASX Clear is explained in detail in the ASX booklet “Margins” which is available on the ASX website at:

http://www.asx.com.au/documents/resources/Understanding_Margins.pdf

If no other time is stipulated in, or under, the Client Agreement you must pay the margin to PhillipCapital’s Clearing Participant, or provide alternative collateral which is acceptable to us, within 24 hours of being advised of the margin Call by us. Any interest levied on late settlement and margin payments is due and receivable at the time the amount is levied and certainly within one business day of demand by us.

5.4 Client Trust Accounts

The Corporations Act provides that your money held in PhillipCapital’s trust account or our Clearing Participant’s trust account can be used for the purposes of meeting margin obligations, guaranteeing, securing, transferring, adjusting or settling dealings in derivatives. This money will not be used to meet the obligations of any other party.

5.5 National Guarantee Fund

The National Guarantee Fund (NGF) provides investors with protection in the following circumstances:

1. If an equity Option is exercised, the NGF guarantees completion of the resulting trades in certain circumstances;

and

2. If you have entrusted property to PhillipCapital or its Clearing Participant in the course of dealing in Exchange Traded Options, and either party becomes insolvent, you may claim on the NGF, in accordance with the rules governing the operation of the NGF, for any property which has not been returned to you or has not otherwise been dealt with in accordance with our obligations to you. There are limits on claims to the NGF for property entrusted.

Further information on the possible protections offered by the NGF is available on the SEGC website at <http://www.segc.com.au/>

6. Significant Benefits of Exchange Traded Options

Exchange Traded Options have a number of advantages. These include the following:

- (a) Hedging. Investors can hedge (protect) their share portfolio against a drop in value by, for example, buying (taking) equity Put Options over particular shares.
- (b) Income. Shareholders can earn income by selling (writing) Call Options over underlying shares they already hold. As a Seller (writer) of Options, the investor will receive the premium amount up front, when the Option is entered into. The risk is that the Seller will need to maintain margin obligations throughout the life of the position and may be exercised against. This exercise will result in the Seller being required to deliver the underlying shares to the Buyer (taker) at the Exercise Price.
- (c) Time to decide. By buying (taking) a Call Option, the purchase price for the underlying shares is locked in. This gives the Call Option holder time to decide whether or not to exercise the Option and buy the shares. The holder has until the Expiry Date to make his/her decision. Likewise the Buyer (taker) of a Put Option has time to decide whether or not to sell the shares.
- (d) Reduce risk. Exchange Traded Options benefit from standardisation and registration with a clearing and settlement facility which reduces counterparty default risk. The Clearing Participant’s risk is to ASX Clear, not to a third party. This process also provides the benefit that an open position can be closed out without having to deal with the original counterparty.
- (e) Speculation. Exchange Traded Options can be used for speculation where the flexibility of entering and exiting the market prior to expiry (subject to liquidity) permits an investor to take a view on market movements and trade accordingly. In addition the variety of Option combinations allows investors to develop strategies regardless of the direction of the market.

- (f) Profit in rising or falling market. Investors can profit from both rising and falling markets depending on the strategy they have employed. Strategies may be complex and strategies will have different levels of risk associated with each strategy.
- (g) Leverage. The initial outlay for an Options contract is not as much as investing directly in the underlying shares. Trading in Options can allow investors to benefit from a change in the price of the share without having to pay the full price of the share. An investor can therefore purchase an Option (representing a larger number of underlying shares) for less outlay and still benefit from a price move in the underlying shares. The ability to make a higher return for a smaller initial outlay is Called leverage. Investors, however, need to understand that leverage can also produce increased risks (see below).
- (h) Diversify portfolios. Given the lower initial outlay attaching to Options, investors can diversify their portfolios and gain a broad market exposure over a range of shares or the index itself.
- (i) In relation to LEPOs:
 - (i) When you open a LEPO contract you gain exposure to the full value of the underlying shares but actually pay only a fraction of the full premium of the LEPO up front. This potentially provides a greater return to the investor but also means LEPOs have a higher risk profile.
 - (ii) Selling a LEPO gives you exposure to a decline in the value of the underlying asset, enabling you to profit if the price of the asset falls. The sale of a LEPO can be compared to a short stock position. Using a LEPO can also be a cost-effective alternative to borrowing to fund a purchase of shares.
 - (iii) Credit margins from existing open positions may be used to reduce the initial margin payable. This can further reduce the cash outlay when opening a contract.
 - (iv) LEPOs are European style Options, meaning they are only exercisable at expiry and you will not have to be concerned about the possibility of an early exercise.

For further information and detailed examples of LEPOs trading, refer to the LEPOs Low Exercise Price Options Explanatory Booklet by following the link provided in section 3.4 above.

7. Significant Risks of Exchange Traded Options

The risk of loss in trading in Exchange Traded Options can be substantial. It is important that you carefully consider whether trading Exchange Traded Options is appropriate for you in light of your investment objectives and financial position and needs and circumstances. Exchange Traded Options are not suitable for some retail investors. You should only trade Exchange Traded Options if you understand the nature of the products and the extent of your exposure to risks. The risks attached to investing in Exchange Traded Options will vary in degree depending on the Option traded.

In deciding whether or not you should trade Exchange Traded Options Contracts you should be aware of the following matters relating to risk. This PDS does not cover every aspect of risk associated with Exchange Traded Options. For further information concerning risks associated with Exchange Traded Option trading you are referred to the ASX booklet "Understanding Options Trading" and in particular the section entitled "Risks of options trading" This booklet is available as advised in section 3 above.

- (a) **Price sensitive announcements.** As a general rule, price movements in the underlying share can significantly affect the value of Exchange Traded Options. The value of the underlying share is affected by information that is announced to ASX in relation to the share. Accordingly, it

is to advisable that an investor in Exchange Traded Options regularly reviews information announced to the exchange in relation to relevant underlying shares. Price sensitive announcements in relation to shares are available on the ASX website at:

<http://www.asx.com.au/asx/statistics/announcements.do>

- (b) **High leverage.** The high level of leverage that is obtainable in trading Exchange Traded Options (due to the low level of initial capital outlay) can work against an investor as well as for the investor. Depending on the market movement, the use of leverage may lead to large losses as well as large gains.
- (c) Limited life span. Exchange Traded Options have a limited life span as their value erodes as the Option reaches its Expiry Date. It is therefore important to ensure that the option selected meets the investor's investment objectives.
- (d) Market movements. Exchange Traded Options are subject to movements in the underlying market. Options may fall in price or become worthless at or before expiry.
- (e) Loss of premium for Buyers. The maximum loss in buying (taking) an Exchange Traded Option is the amount of premium paid plus transaction costs. If the Option expires worthless, the Buyer (taker) will lose the total value paid for the Option (the premium) plus transaction costs.
- (f) Unlimited loss for Sellers. Whilst Sellers (writers) of Exchange Traded Options earn premium income, they may also incur unlimited losses if the market moves against the Option position. The premium received by the Seller is a fixed amount; however the Seller may incur losses greater than that amount. For example, the Seller of a Call Option has increased risk where the market rises and the Seller does not own the underlying shares. If the Option is exercised, the Seller of the Option is forced to buy the underlying shares at the current (higher) market price in order to deliver them to the Buyer (taker) at the Exercise Price. Similarly where the market falls, the Seller of a Put Option that is exercised is forced to buy the underlying shares from the Buyer at a price above the current market price.
- (g) Loss of margin for Sellers. Sellers of Options could sustain a total loss of margin funds deposited with their broker where the market moves against the Option position. In addition, the Seller (writer) may be obligated to pay additional margin funds (which may be substantial) to maintain the Option position or upon settlement of the contract. Margining is discussed at 5.2 above.
- (h) Close-out difficulties. Under certain conditions, it could become difficult or impossible to close out a position and the relationship between the price of Exchange Traded Options contracts and the underlying share may be distorted.

Examples of when this may happen are:

- (i) if there is a significant change in the price of the underlying share over a short period of time;
- (ii) if there is an absence or reduction in the number of willing Buyers (takers) and Sellers (writers) in either the Exchange Traded Options market or the underlying market;
- (iii) if the market is suspended or disrupted for any reason.

- (i) Underlying market. Similarly, events such as these in relation to the underlying market for the share may make it difficult for you to hedge or maintain your exposure under an open Exchange Traded Option contract;
- (j) Contingent orders difficult. The placing of contingent orders (such as “stoploss” orders, may not always limit your losses to the amounts that you may expect. Market conditions may make it impossible to execute such orders. For example, if the price of the underlying share moves suddenly, your order may not be filled, or may be filled at a different price to that specified by you, and you may suffer losses as a result.
- (k) ASIC and ASX powers. ASIC and ASX and ASX Clear have discretionary powers in relation to the market and the operation of the clearing facility. They have power to suspend the market operation, or lift market suspension in Options while the underlying securities are in trading halt if the circumstances are appropriate, restrict exercise, terminate an Option position or substitute another underlying security (or securities), impose position limits or exercise limits or terminate contracts - all to ensure fair and orderly markets are maintained as far as practicable. These actions can affect an investor's Option positions.
- (l) Trading disputes. Trades affected on the ASX may be subject to dispute. When a trade is subject to a dispute ASIC and ASX have powers, in accordance with their rules, to request that a broker amend or cancel a trade, which in turn will result in the contract with the client being amended or cancelled.

In some situations, ASIC and ASX may also exercise powers to cancel or vary, or direct the cancellation or variation, of transactions.

- (m) Trade amendments and cancellations. Under our terms and conditions, we have the ability to amend or cancel the trade. This could cause you to suffer loss or increase your loss. A trade executed on your behalf can also be amended or cancelled even where the trade has been confirmed to the client;
- (n) System outages. Trades affected on the ASX are traded on an electronic trading platform and cleared through ASX Clear, which also relies on electronic systems. As with all such electronic platforms and systems, they are subject to failure or temporary disruption. If the system fails or is interrupted we will have difficulties in executing all or part of your order according to your instructions. An investor's ability to recover certain losses in these circumstances will be limited given the limits of liability imposed by the ASX and ASX Clear. Any market disruption may mean a client is unable to deal in Exchange Traded Options when desired, a client may suffer a loss as a result. Common examples of disruption include a fire or other exchange emergency. The exchange could, for example, declare an undesirable situation has developed in a particular Exchange Traded Option contract and suspend trading. Exchanges or participants may also be able to cancel transactions under their operating rules.
- (o) Capital loss. By trading in Exchange Traded Options, you are exposed to the risk of losing capital. Speculators should not risk more capital than they can afford to lose.
- (p) Loss of LEPO margins. LEPOs are subject to all of the risk factors that affect other Exchange Traded Options. However, as LEPOs have a low Exercise Price, the full

premium amount will be closer to the full value of the underlying share than a standard Exchange Traded Option. Although the Buyer (taker) of a LEPO may only be required to outlay a relatively small amount of money when the LEPO is entered into, at expiry, if the Buyer of a LEPO does not exercise the LEPO, they will lose an amount approximately equal to the then current premium of the LEPO. Both Sellers (writers) and Buyers (takers) of LEPOs are required to pay margins to ASX Clear.

- (q) If:
 - (i) you fail to pay, or provide security for, amounts payable to us or fail to perform any obligation arising pursuant to the exercise or settlement of an Exchange Traded Option;
 - (ii) a guarantee or other security you have provided to us is withdrawn or becomes ineffective and other replacement security acceptable to us is not provided; or
 - (iii) any other event occurs which we have agreed with you in the Client Agreement entitles us to take action under that agreement; we may, in addition to any other rights which we may have against you, without giving prior notice to you, take any action, or refrain from taking action, which we consider reasonable in the circumstances in connection with Exchange Traded Option contracts entered into in relation to your Exchange Traded Options account with us and, without limitation, we may:
 - (iv) enter into one or more transactions to close out one or more open positions in accordance with the Clearing Rules;
 - (v) exercise one or more Exchange Traded Option contracts in accordance with the Clearing Rules;
- or
- (vi) exercise any other rights conferred by the Corporations Act, the ASX Market Rules, the Clearing Rules, our agreement with you, or perform any other obligations arising under the Corporations Act, the ASX Market Rules or the Clearing Rules in respect of Exchange Traded Options, and you must account to us as if those actions were taken on your instructions and you are, without limitation, liable for any deficiency and are entitled to any surplus which may result.

Protection

When selling (writing) an ETO or LEPO, the initial income or premium may seem attractive but the downside may be unlimited. Risk minimization strategies (protection) should be employed to mitigate losses that may arise from an adverse margin movement or adverse market condition.

Whilst this PDS provides information about the risks, characteristics and benefits of ETOs and LEPOs generally, investors should inform themselves and if necessary obtain advice about the specific risks, characteristics and benefits of the ETO or LEPO they intend to trade.

8. Costs associated with Exchange Traded Options

8.1 Premium

If you are the Buyer (taker) of an Exchange Traded Option, you will be required to pay a premium in connection with the purchase of the Exchange Traded Option contract. If you are the Seller (writer) of an Exchange Traded Option, you will be entitled to receive a premium in connection with the sale of the Exchange Traded Option contract.

For further detailed information on the premium in respect of an Exchange Traded Options contract, refer to Option pricing Fundamentals on page 9 of the ASX Booklet “Understanding Options” available as

advised in section 3 above and also the ASX's "Options Calculator" available on the ASX website at:

http://www.asx.com.au/documents/products/expiry_calendar_2016.pdf

8.2 Margin and collateral

If you are the Seller (writer) of an Exchange Traded Options contract, you will be required to provide margin, and in certain circumstances collateral, to ASX Clear in accordance with the terms of your agreement with us.

Your margin and collateral obligations are discussed in section 4 above.

For further detailed information on margin and collateral requirements, refer to the ASX "Margins" booklet available at the ASX website as advised in section 3 above.

8.3 Broker additional margin requirements

Details of any additional margin requirements PhillipCapital may Call over that required by ASX Clear are as discussed in Part 2 of this PDS.

8.4 Our fees and charges

The details of our fees and charges are provided in Part 2 of this PDS.

8.5 Liability

For Buyers (takers), trading Options may result in a loss situation if the Options are trading out of the money (for Call Options where the Exercise Price is higher or lower for Put Options, than the current market price), however the amount of the loss for a taker is limited to the premium paid. The liability of a Seller (writer) is potentially unlimited (naked position).

9. Dispute Resolution

PhillipCapital is committed to providing our clients superior service and as such we acknowledge the right of clients to make suggestions on how we may improve our service or make complaints.

PhillipCapital has implemented a dispute resolution system (DRS) for the management of complaints from retail clients. A complaint is defined as any expression of dissatisfaction made to PhillipCapital relating to our product or services or the complaints handling process itself, where a response or resolution is explicitly or implicitly expected. The DRS will provide an efficient, fair and accessible mechanism from inception to satisfaction or final determination, as the case may be, irrespective of the nature of the complaint. The overriding aim of the complaints handling process is to turn dissatisfied clients into satisfied clients.

If you have any concerns about the service provided to you, you should take the following steps:

Firstly, discuss the matter with your advisor and provide all the relevant information;

If the matter is not satisfactorily resolved within 3 Business Days, you may contact the PhillipCapital Complaints Officer by telephone on +61 3 8633 9800, or in writing to:

PhillipCapital Complaints Officer,
PO Box 628 Collins Street West Vic 8007
or by Phone: +61 3 8633 9800 Facsimile on +61 3 8633 9899.

Every effort will be made to resolve complex complaints within 45 days. If you are still not satisfied with the outcome, you may take your complaint to an external dispute resolution scheme. PhillipCapital is a member of the scheme operated by the Financial Ombudsman Service (FOS).

Write your complaint to:

Financial Ombudsman Service,
GPO Box 3 Melbourne VIC 3001
Phone: 1300 780 808
Facsimile: +61 3 9613 6399

Please note that FOS will not begin to consider the dispute unless you have first given us the opportunity to resolve the dispute with you directly.

You may also direct your complaint or seek advice from:
Australian Securities & Investments Commission ("ASIC")
free call infoline: 1300 300 630
Email: infoline@asic.gov.au

10. Significant Taxation Implications

PhillipCapital does not provide advice on taxation matters. The taxation of Options can be complex and may change over time. Accordingly, we recommend that you seek professional tax advice before entering in to or disposing of an Exchange Traded Option.

The taxation information provided below is intended as a brief guide only and does not cover every aspect of taxation related with the use of Exchange Traded Options. The information applies to Australian resident investors only. It is important to note that your tax position when trading Exchange Traded Options will depend on your individual circumstances, in particular whether you are trading on revenue or capital account (refer below for further discussion) or whether you are subject to the Taxation of Financial arrangements (TOFA) rules contained in Division 230 of the Income tax Assessment Act 1997.

In order to determine the taxation consequences of any transaction, you must first determine whether the TOFA rules apply as summarised in clause 10.2 of this PDS.

10.1 Implications for Australian resident investors Revenue account

Seller of the Option

Where a Seller (writer) of an Option sells (writes) an Option in the ordinary course of business or the Option has been sold over an underlying revenue asset, the Option will be treated as being on revenue account. The premium received by the Seller of the Option will be assessable on a due and receivable basis. Where any premium is credited to the Seller's Clearing House account the amount will still be assessable on this basis. Any subsequent margin calls are not deductible when they are deposited by the Seller into their Clearing House account.

These margins will merely reduce any net position of the Seller upon the close-out, settlement or exercise of the Option by the Buyer (taker). Where interest is received by the Seller on the margins held in their Clearing House account, this is required to be included in the Seller's assessable income.

Buyer of the Option

A Buyer (taker) will generally hold an Option on revenue account when it is held or traded in the ordinary course of business, or the Option is used to hedge an underlying revenue asset. Where this is the case, any premium paid by the Buyer is generally regarded as being deductible on a due and payable basis. This will generally be at the time the Option is entered into. When an Option on a revenue account lapses there are no further tax implications.

However, when an Option on revenue account is exercised, the Option Exercise Price will form part of the acquisition cost or disposal proceeds for the underlying asset in question.

Alternatively, when the Option is closed-out prior to its expiration, any gain or loss on the Option position will be treated as assessable or deductible as the case may be.

Capital account

Seller of the Option

When a Seller (writer) sells (writes) an Option over an underlying capital transaction, the Option will be held on capital account. Consequently, any income tax implications will be determined in accordance with the Capital Gains Tax (CGT) provisions. The premium received by the Seller of the Option will give rise to an assessable capital gain on a received or a receivable basis.

When any premium is credited to the Seller's Clearing House account the amount will still be assessable on this basis. Any subsequent margin calls will merely reduce any net position of the Seller upon the close-out, settlement or exercise of the Option by the Buyer (taker). When interest is received by the Seller on the margins held in their Clearing House account, this is required to be included in the Seller's assessable income.

Exercise of a Call Option

When a call Option is exercised, the Option premium and the proceeds on the sale of the underlying asset should be treated as a single transaction. Accordingly, both the premium and the proceeds received will form part of the Seller's capital proceeds for CGT purposes. This may have practical implications for Seller of Options where the premium and sale proceeds are received in different financial years.

Exercise of a Put Option

When a Put Option is exercised, the Option premium paid and Exercise Price will form part of the cost base of the underlying asset for the investor. Accordingly, both the premium and the Strike Price paid will form part of the Seller's cost base of the underlying asset for CGT purposes. This may have practical implications for Seller of Options where the premium is received in a different financial year to the payment of the Strike Price and acquisition of the underlying capital asset.

Buyer of the Option

A Buyer (taker) will generally hold an Option on capital account where an underlying capital transaction is being hedged. Consequently, any income tax implications will be determined in accordance with the CGT provisions. At the time the premium is paid, there are no taxation consequences for the Buyer in respect of any premium paid for Options which are held on capital account.

When an Option on a capital account lapses the Buyer will realise a capital loss at this time equal to the amount of the premium paid. When an Option is settled or closed-out the Buyer will realise a capital gain or loss depending on the amount paid (being the premium plus any incidental costs) for the Option and the amount received on settlement.

Exercising a Call Option

When a Call Option is exercised, the Option premium and Exercise Price will form part of the cost base of the underlying asset for the Buyer.

Exercising a Put Option

When a Put Option is exercised, the Buyer will generally deduct the Option price from the proceeds received on the disposal of the underlying asset.

Low Exercise Price Options

From an income tax perspective there are no specific legislative rules dealing with LEPOs. Consequently, the taxation consequences of investing in LEPOs will be determined having regard to the respective circumstances of the investor according to general tax principles. Generally, the taxation consequences of investing in LEPOs will be the same as those outlined above.

However, an alternate view exists which is again essentially the same as that outlined above, except that the relevant point for determining any taxation consequences does not occur until the LEPOs are closed out, exercised or expire.

10.2 Rules for the Taxation of Financial Arrangements (TOFA)

Depending on the relevant circumstances a taxpayer may be subject to the TOFA rules. The taxation of financial arrangements were introduced for the Taxation of Financial Arrangements (TOFA) rules. ETOs covered by this PDS are expected to qualify as financial arrangements and therefore the TOFA rules may have a significant impact on the taxation of ETOs.

Briefly, the rules:

- (a) generally deem gains and losses from financial arrangements to be on revenue account
 - (b) likely impact on the timing of the recognition of the gains and losses
- and
- (c) may cause unrealised gains and losses to become subject to tax.

Below is a brief summary of the rules. The TOFA rules are complex and it is strongly recommended that you seek specific tax advice on the application of the rules to your dealings.

Application

Generally, the TOFA rules do not apply to individuals, small superannuation funds and small securitisation vehicles. However, the rules will apply to these taxpayers if the financial arrangement involves substantial tax deferral.

The TOFA rules do apply to most corporate taxpayers provided certain turnover and other tests are met.

When did the TOFA rules commence?

The TOFA rules applied from 1 July 2010. However, taxpayers may have elected for the rules to apply from 1 July 2009. If the taxpayer has a substituted accounting period for tax purposes, a later date may apply, e.g. if the taxpayer has a 31 December year end, the rules applied from 1 July 2011 (or from 1 January 2010 by election).

Impact of TOFA

The TOFA rules allow taxpayers to make a number of elections that determine how gains and losses from financial arrangements will be taxed. The elections are generally irrevocable.

If you did not make any elections (other than the election to enter into the TOFA regime early), the rules should treat most of gains and losses from ETOs on a realisation basis. Gains from exercising ETOs will not contribute to the cost base of the assets received upon the exercise. However, the accruals method may apply in some cases to spread the recognition of some gains and losses over the life of the ETO.

The fair value and financial report elections include in the tax calculation gains and losses from financial arrangements that are reflected in the profit and loss statement (for example, financial arrangements that, for accounting purposes, are classified as held for trading or designated as valued at fair value through profit and loss). This means that unrealised gains and losses may be subject to tax. If you made a valid fair value or financial reports election and it did not cease to apply to you, the gains and losses from ETOs for tax will be aligned to the gains and losses recognised in the profit and loss for accounts.

The hedging election allows tax matching of the gains and losses from the underlying hedged item. The matching is both timing (i.e. over the time the underlying item is held) and character (i.e. will take on tax character, revenue or capital, of the underlying item).

The arrangements subject to the hedging election will not be subject to the fair value or financial reports elections, even if those are made. If you made a valid hedging election and an ETO qualifies for the hedging election treatment, the gains and losses from the ETO will be matched to the gains and losses from the underlying hedged item. The conditions for the hedging election are complex and include documentation and hedge effectiveness requirements.

10.3 Goods and Services Tax

The purchase and disposal of ETOs over shares and any index by investors is not subject to goods and services tax (GST) other than in respect of any brokerage or other transactional costs.

11 Terms and Conditions

11.1 Client Agreement

In order to enter into Exchange Traded Options transactions contemplated under this PDS, you will need to open an Account with us by completing and executing our Account Application and Client Agreement. By executing the Client Agreement you will acknowledge and consent to the Terms and Conditions of our Client Agreement. There are representations, warranties and indemnities contained in the Terms and Conditions that you must understand. If you do not understand any aspect of the Terms and Conditions, please seek advice.

Our Account Application is available on our website either via Online Account Opening, or via the manual application form and we can also email or post at your request. You will be provided with the Terms and Conditions and our Client Agreement and applicable documents free of charge.

Before making a decision to acquire the financial products described in this PDS, you must read this PDS the Client Agreement and the Terms and Conditions and other applicable documents and be satisfied that any trading you enter in relation to the Exchange Traded Options is appropriate in view of your investment objectives, financial situation and particular needs and circumstances.

It is recommended that you seek independent advice concerning our Client Agreement and Terms and Conditions and applicable documents before you apply to open an Account with us.

11.2 Additional Terms

Additional information and legal terms governing your and our rights, obligations and liabilities include :

- the information contained in our Financial Services Guide ("FSG")
- the information contained in our Terms and Conditions
- the information contained in our Risk Disclosure Statement
- the information contained in the Pershing Financial Services Guide ("FSG")
- the information contained in the Pershing Derivatives Client Agreement
- any supplementary terms for particular financial products such as the terms for Exchange Traded Options Contracts which are generally set out in the operating rules of the relevant Exchange;
- any supplementary terms for any electronic Trading Platform which you may use to transmit your orders;
- the ASIC Market Integrity Rules (where applicable) and
- other operating rules and legislation in relation to options markets.

You should also refer to the ASX website for information, details of contracts available for trading, contract specifications, operating rules, pricing information and clearing arrangements.

If you are unable to access the relevant website, please contact us and we will endeavour to make the information available to you through other means.

11.3 Cooling Off

No cooling off arrangements apply for Exchange Traded Options products acquired under this PDS. This means that when you enter into an Exchange Traded Options contract, you do not have a right to return the product and request a refund of the money you pay to acquire the product. If you change your mind after entering into a contract, you should endeavour to close out your position by taking an opposite position as soon as possible. You must be aware that you may incur a loss if you take this action.

12 Privacy Policy

PhillipCapital respects and upholds your rights to privacy protection under the Australian Privacy Principles contained in the Privacy Act 1988 (Cth) and has established a Privacy Policy which outlines how PhillipCapital manages the personal and sensitive information it holds about its clients, potential clients and others. The Privacy Policy of PhillipCapital may be viewed on our website at: www.phillipcapital.com.au

13 Glossary

In this PDS, the following words and expressions shall have the meanings set out below unless the context otherwise requires:

"Account" means the account on which the Client effects transactions in accordance with this PDS;

"AFS" means Australian Financial Services;

"AFSL" means Australian Financial Services Licence;

"Application Form" means the application form(s) by which the Client applies to PhillipCapital to open an Account with PhillipCapital;

"Applicable Laws" means all relevant or applicable statutes, laws, rules, regulations, directives and circulars (whether of governmental bodies or authorities or self-regulatory organisations in relation to which PhillipCapital or any person within PhillipCapital is a member of, or otherwise);

"ASIC" means the Australian Securities & Investments Commission or any regulatory body which replaces it or performs its functions;

"ASX" means The Australian Securities Exchange (operated by ASX Limited);

"ASX Clear" means ASX Clear Pty Limited;

"Business Day" means any day on which the relevant Market on which the Transaction is effected is open for trading;

"Buy" means a transaction that is opened by "buying" is referred to as a "Buy" and may also, in our dealings with you, be referred to as "long" or "long position";

"Call Option" means an Option contract which gives the buyer the right, but not the obligation, to buy the Underlying Asset from the seller at (in the case of a European Option) a future point in time (the Expiry Date) at a pre-defined price (the Exercise Price);

"Clearing House" means a clearing house appointed by the relevant exchange to clear and settle the Exchange Traded derivatives entered into on that exchange;

"Clearing Participant" refers to a participant of a Clearing House, as that term is defined in the operating rules of the relevant Clearing House. PhillipCapital has contracted with Pershing Securities Australia Limited as its Clearer.

"Client" means the person or corporation for whom PhillipCapital is maintaining or continuing to maintain one or more Account(s) and includes the Client's assignees, successors-in-title and agents;

"Client Agreement" means the agreement (which may from time to time be varied or modified in accordance with its provisions) entered into by you as part of the Account opening process and includes all appendices, schedules and all other documents or instruments made supplemental to it including but not limited to any Application Form(s);

"Client Money" means any money that is deposited with PhillipCapital, including net trading profits and the value of margins;

"Confirmation" means the confirmation note PhillipCapital sends you on execution or partial execution of a transaction;

"Corporations Act" means the Corporations Act 2001 (Cth) as amended from time to time;

"Derivatives CCP Contract" means one of the two matching contracts between ASX Clear and a Participant that arise when a Derivative Market Contract is registered by and novated to the ASX Clear under the ASX Clear Operating Rules.

"European Option" means an Option which can only be exercised on the date on which the Option expires (Expiry Date), not before;

"Exercise Price" means the price at which the buyer of an Option contract may buy or sell the Underlying Asset, as defined in the terms of the Option contract;

“**Exchange Traded Option**” or “**ETO**” means an option which, upon exercise, results in the transfer of the actual security underlying the option (in the case of deliverable contracts), or a cash adjustment (in the case of cash settled contracts).;

“**ETO Contract**” means a Derivatives Market Contract or Derivatives CCP Contract (each as defined in the ASX Clear Operating Rules) as the context requires in relation to ETOs;

“**Expiry Date**” In relation to an Option contract, the date on which the Option contract expires or matures;

“**Financial Services Guide**” The Financial Services Guide prepared by PhillipCapital and by Pershing in accordance with Section 941A of the Corporations Act 2001 (Cth).

“**GST**” means a tax, levy, charge or impost imposed by or under A New Tax System (Goods and Services Tax) Act 1999 (Cth), as amended, and/or any other Act relating to the imposition or administration of a GST;

“**in-the-money**” means an Option with intrinsic value. For example equity Call Option is in-the-money if the share price is above the Exercise Price. A Put Option is in-the-money if the share price is below the Exercise Price.

“**LEPO**” or “**Low Exercise Price Option**” means a Call Option with an Exercise Price of one cent per underlying share or in respect of index LEPOs, an exercise level of 1 point of the underlying index.

“**Loss**” means any and all loss, damage, costs, charges, and/or expenses of whatsoever nature and howsoever arising including legal fees on a full indemnity basis, cost of funding and loss or cost incurred as a result of, or relating to the terminating, liquidating or re-establishing of any hedge or related trading position;

“**Officer**” means any officer or employee of PhillipCapital;

“**Option**” means an Exchange Traded Option.

“**OTC**” Over the counter (not dealt with or listed on any exchange) contracts or products that are traded (and privately negotiated) directly between two parties;

“**PhillipCapital**” means Phillip Capital Limited ABN 14 002 918 247 AFSL 246827;

“**Product Disclosure Document**” or “**PDS**”: means this document described as the Product Disclosure Statement and issued by PhillipCapital, as revised from time to time;

“**Put Option**” means an Option contract that gives the buyer the right, but not the obligation, to sell the underlying security at a predetermined price on or before a fixed date. For the Seller of a Put Option, the contract represents an obligation to buy the underlying security if the Option is exercised.

“**Rules**” Any of all of:

- ASX Group Rules
- ASX Operating Rules
- ASX Settlement Operating Rules
- ASX Clear Operating Rules
- ASIC Market Integrity Rules and
- Any other applicable law.

“**Sell**” means a Transaction that is opened by “selling” is referred to as a “**Sell**” and may also, in our dealings with you, be referred to as “**short**” or “**short position**”;

“**Strike Price**” means the same as Exercise Price.

“**Terms and Conditions**” means the terms and conditions of PhillipCapital;

“**Transaction**” includes any Exchange Traded Options transaction.

PART 2: SCHEDULE OF FEES

Issue date: 28 March 2018

1 Payments and Schedule of Fees

This document forms part of the PDS. This document should be read in conjunction with Part 1 of the PDS. The following information relates to the way we charge for transacting in Exchange Traded Options for you, associated costs and the way our advisers are remunerated.

1 Payments and Schedule of Fees

This document forms part of the PDS. This document should be read in conjunction with Part 1 of the PDS. The following information relates to the way we charge for transacting in Exchange Traded Options for you, associated costs and the way our advisers are remunerated.

1.1 Payments

- (a) The Client shall promptly pay all of PhillipCapital's fees and/or other charges at such rates and in such manner as PhillipCapital may in its sole and absolute discretion impose and stipulate from time to time with respect to the execution, performance and/or settlement of any Transaction or otherwise for the maintenance of any Account(s) or the provision of any service or facility to the Client in connection with any Account(s).
- (b) The Client shall make payment to PhillipCapital's order promptly of any outstanding sum on the due date of the relevant Transaction, or upon demand by PhillipCapital as provided for in the Client Agreement.
- (c) All payments to PhillipCapital shall be in the Currency in which they are due (unless otherwise notified by PhillipCapital), in free and clear funds and free of deductions or withholdings. If the Client is obliged by law to make such deduction, the Client shall pay to PhillipCapital such greater amount which after deduction shall ensure that the net amount actually received by PhillipCapital will equal the amount which would have been received by PhillipCapital had no such deduction been required.
- (d) Funds transfer methods

If you wish to deposit or top up your Exchange Traded Options account, you may do so by:

| Mode | Details |
|-------------------------|--|
| Cash (not permitted) | Please note that PhillipCapital cannot accept physical cash in any circumstances |
| Cheque | Cheques should be in Australian dollars only and made payable to "Phillip Capital Limited <Trust A/C>" and crossed "Not Negotiable". On the reverse of the cheque write your ETO trading account number, name and contact number and specify that the payment is meant for your Options trading account. |
| Electronic Transfer | Pershing Securities Australia Limited <Trust A/C > Details provided with account opening |

PhillipCapital's Clearing Participant offers settlement of ETO transactions via direct debit from the client's Cash Management Account. Debit/Credit Authority forms are included in PhillipCapital's Account Application. PhillipCapital supports Debit/Credit Authorities with many major Cash Management providers.

1.2 Fees

(a) Fees and Charges

The following information relates to the way we charge for entering into Exchange Traded Options for you, associated costs and the way our advisers are remunerated.

(b) Brokerage

The specific rate of brokerage can be negotiated with your Adviser and will depend on factors such as the level of service, the type of advice, the size and complexity of the transaction and the frequency of any transactions on your Client Account. Brokerage charges are shown on your confirmation.

The brokerage payable by you to us in respect of buying or selling an Exchange Traded Option contract will be calculated as a percentage of the premium payable by the Buyer (taker) of the Exchange Traded Option contract.

The minimum brokerage charged by us is \$50 per trade plus GST to open or close a position. Minimum charges may be higher for phone execution or advice and negotiated with your adviser. Above this minimum, brokerage is charged on a percentage of premium basis.

Percentage fees can represent up to 2.5% of premium value at a rate agreed between you and your adviser.

(c) Interest

PhillipCapital's Clearing Participant will maintain a trust account to hold funds which you have provided to settle transactions we have undertaken on your behalf. PhillipCapital's Clearing Participant will pay to PhillipCapital interest on the trust account, at the Reserve Bank cash rate less an administration fee.

ASX Clear will pay interest to PhillipCapital's Clearing Participant on cash lodged as collateral to cover ASX Clear margins. Any interest paid by ASX Clear to PhillipCapital's Clearing Participant will be at the Reserve Bank cash rate less 65 basis points (0.65%). PhillipCapital's Clearing Participant will pass on the amount received from ASX Clear to PhillipCapital. PhillipCapital will pay that amount to clients less an administration fee of 35 basis points (0.35%) where a Client Account receives more than \$25.00 of interest per month as paid by ASX Clear to PhillipCapital's Clearing Participant. This interest will appear on your monthly statement.

PhillipCapital may charge you interest in circumstances if your account balance is in debit at an interest rate of 4% above the RBA cash rate. Interest on debit balances is calculated daily from the date when the amount was due (irrespective of any grace period) to the date of its final payment in full.

(d) Margin requirements

Refer to Margins in Part 1 clause 5.2 of this PDS

(e) Goods and services tax (GST)

GST will be charged on all brokerage and fees at the current rate which is 10% and may be amended from time to time in accordance with legislation. The purchase and disposal of Exchange Traded Options over shares and the share price index by investors is not subject to GST.

(f) ASX Clear Fees

ASX Clear charges a registration fee of \$0.13 per equity Option contract, plus GST. If you exercise an ETO or are assigned (where another party exercises the Option) on an ETO, ASX Clear charges an exercise fee of \$0.05 per contract, plus GST. In the case of index Options, ASX Clear charges \$0.35 per contract, plus GST. The fee is the same for both the registration and exercise fees in the case of index Options. The exact cost of your transaction will be disclosed on your confirmation.

(g) Tax deductibility

Some fees that we charge may be tax deductible. You must confirm this with your tax adviser or accountant in relation to your specific situation.

(h) Fail fees

Fail fees are charged as a percentage of the trade value or margin Call, per day they remain outstanding. For any trade value or margin Call greater than \$50,000, PhillipCapital will charge a late settlement fee of 0.04% of the total outstanding per day (due to provision of funding by PhillipCapital) plus an administration fee of \$50.00, plus GST. If the trade value or margin Call is less than \$50,000, a minimum charge will apply of \$30.00 per day, plus GST.

(i) Third Party Fees

Fees in relation to Exchange Traded Option confirmations are payable to a third party, these are not in addition to any charges payable by you and are included in your brokerage charge.

(j) Remuneration

Any fees in relation to the service provided by your adviser are payable to Phillip Capital Limited.

Your Adviser is either an employee of PhillipCapital or an independent contractor to PhillipCapital. Your Adviser, or their employer, is remunerated on either a commission basis or on a salary plus commission basis depending on their arrangements.

(k) Referral fees

Where you have been referred to us by a third party (such as a financial planning group or accountant), we may pay an introductory fee or commission rebate in relation to the referral. All introductory fees or Commission rebates are negotiated with the third party on a case by case basis. These fees are not in addition to any charges payable by you.

(l) Establishment fees

There are no establishment fees.