

# 2019 Corporate Governance Statement.

## Corporate Governance Statement

The Board and management of AFT Pharmaceuticals Limited (AFT or the Company) are committed to ensuring that AFT maintains corporate governance practices in line with best practice and adheres to the highest ethical standards.

The Board has had regard to the NZX Listing Rules and a number of corporate governance recommendations when establishing its governance framework, including the Third Edition of the Australian Securities Exchange (ASX) Corporate Governance Council Principles and Recommendations (notwithstanding AFT is not required to follow these recommendations owing to its ASX Foreign Exempt Listing) and the revised NZX Corporate Governance Code 1 January 2019 (NZX Code).

The NZX Listing Rules require AFT to formally report its compliance against the recommendations contained in the NZX Code. How AFT has implemented these recommendations is set out in this Corporate Governance Statement. The Board considers that AFT's corporate governance structures, practices and processes have followed all of the recommendations in the NZX Code in the financial year to 31 March 2019.

AFT's governance charters and policies can be found on the investor centre of the Company's website – [investors.aftpharm.com/Investors/](http://investors.aftpharm.com/Investors/). AFT's corporate governance charters and policies have been approved by the Board and are regularly reviewed by the Board and amended (as appropriate) to reflect developments in corporate governance practices.

This Corporate Governance Statement was approved by the Board on 21 May 2019 and is current as at that date.

### Stock exchange listings

AFT is listed on the New Zealand Stock Exchange (NZX Main Board) and on the Australian Securities Exchange (ASX) as an ASX Foreign Exempt Listing. As an ASX Foreign Exempt Listing, AFT needs to comply with the NZX Listing Rules (other than as waived by NZX) but does not need to comply with the vast majority of the ASX Listing Rule obligations.

AFT is incorporated in New Zealand.

### Overview of AFT's governance structure

The AFT Board of Directors has been appointed by shareholders to protect and enhance the long-term value of AFT and to act in the best interests of AFT and its shareholders. The Board is the ultimate decision-making body of the Company and is responsible for the corporate governance of the Company. The role and responsibilities of the Board are set out in the Board Charter, which can be found on the investor centre of the Company's website.

The Board currently comprises an independent non-executive Chair, three other independent non-executive directors, one non-independent, non-executive director and two executive directors, as detailed on the investor centre of the Company's website.

The Board has established three standing Board Committees to assist in the execution of the Board's responsibilities:

- Audit and Risk Committee
- Remuneration and Nominations Committee; and
- Regulatory and Product Development Oversight Committee.

## Principle 1 – Code of ethical behaviour

*“Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.”*

### Code of Culture and Ethics

The Board recognises that high ethical standards and behaviours are central to good corporate governance and has implemented a Code of Culture and Ethics to guide the behaviour of its directors, senior managers and employees.

AFT’s Code of Culture and Ethics establishes the framework by which directors and staff of AFT are expected to conduct their professional lives by facilitating behaviour and decision-making that meets AFT’s business goals and is consistent with AFT’s values, policies and legal obligations. AFT’s Code of Culture and Ethics is available to staff on AFT’s intranet and forms part of the induction process for new employees. Regular reminders are provided to staff about the application of the Code of Culture and Ethics. AFT encourages staff to report any concerns they have about compliance with the Code of Culture and Ethics, AFT policies or legal obligations via staff-wide communications and has established a designated email address, accessible only by non-executive directors, for staff to confidentially raise any concerns they may have. The Board has introduced six-monthly reviews of the Code and also expects any incidents arising under the Code to be brought to directors’ attention immediately. AFT’s process for managing any breach of the Code is detailed in the Code.

The Code of Culture and Ethics addresses:

- AFT’s values and commitments to establishing an inclusive culture
- Conflicts of interest
- Receipt of gifts
- Corporate opportunities
- Confidentiality
- Behaviours and responsibilities
- Proper use of AFT property and information
- Compliance with laws and AFT policies
- Reporting issues regarding breaches of the Code, legal obligations or other AFT policies; and
- Additional director responsibilities.

AFT’s Code of Culture and Ethics is available on the investor section of the Company’s website.

### Securities Trading Policy

The Company is committed to complying with legal and statutory requirements with respect to ensuring directors and employees do not trade AFT shares while in possession of inside information. AFT’s Securities Trading Policy and Guidelines apply to all directors, officers and employees of AFT and its subsidiaries.

The Securities Trading Policy seeks to ensure that those subject to the Policy do not trade in AFT securities if they hold undisclosed price-sensitive information. The Policy sets out additional rules, which includes the requirement to seek Company consent before trading and prescribes certain black-out periods during which trading is prohibited.

Compliance with the Securities Trading Policy is monitored through the consent process, through education and via notification by AFT’s share registrar when any director or senior manager trades in AFT securities. All trading by directors and senior managers (as defined by the Financial Markets Conduct Act 2013) is required to be reported to NZX and recorded in AFT’s securities trading registers.

Certain sale and transfer restrictions apply to ordinary shares issued to redeemable preference shareholders for any accrued dividends or in connection with a capital change event, as detailed in the relevant market release dated 17 March 2017.

AFT’s Securities Trading Policy is available on the investor section of the Company’s website.

## Principle 2 – Board composition and performance

*“To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.”*

### Role of the Board

The business and affairs of the Company are managed under the direction of the Board of Directors. At a general level, the Board is elected by shareholders to:

- Build sustainable value for shareholders
- Establish the Company’s objectives
- Develop major strategies for achieving the Company’s objectives
- Manage risks
- Determine the overall policy framework within which the business and Company is operated; and
- Monitor management’s performance with respect to these matters.

The Board has adopted a Board Charter that regulates internal Board procedure and describes the Board’s specific roles and responsibilities. The Board delegates management of the day-to-day affairs and responsibilities of the Company to the Management Team under the leadership of the Chief Executive Officer (CEO), to deliver on the strategic direction and goals determined by the Board. The Chief Executive Officer has, in some cases, formally delegated certain authorities to his direct reports within set limits. The Board regularly monitors and reviews management’s performance in the execution of its delegated responsibilities and the appropriateness of its delegated authority policy.

The Board met for ten regularly scheduled meetings during the financial year. There were also separate meetings of the Board committees held during the year. In addition, the Board and management met during the year to undertake strategic planning.

### Board membership, size and composition

The size of the Board is determined by the Board from time to time, in accordance with the limitations prescribed in the NZX Listing Rules and in accordance with the provisions of AFT’s Constitution and the Board Charter.

As at 31 March 2019 (and the date of this Corporate Governance Statement), the Board comprised seven directors:

- David Flacks – Independent, Non-executive Director and Chairman
- Jon Lamb – Independent, Non-executive Director
- Doug Wilson – Independent, Non-executive Director
- Jim Burns – Independent, Non-executive Director
- Nate Hukill – Non-independent, Non-executive Director
- Hartley Atkinson – Executive Director and Chief Executive Officer
- Marree Atkinson – Executive Director and Chief of Staff

A biography of each director can be found in the latest Annual Report and on the investor centre of the Company’s website.

The Board has delegated to the Remuneration and Nominations Committee the responsibility for recommending candidates to be nominated as directors. When recommending candidates to act as directors, the Committee will take into account factors it deems appropriate, including the diversity of background, experience and qualifications of the candidates. When appointing directors, the Board undertakes appropriate background checks. Newly appointed directors will be required to enter into letters of appointment, setting out the terms of their appointments.

As AFT operates in specialised markets, the Board believes that it is important to have directors with a broad range of experience and skills, both locally and internationally, that are appropriate to meet its objectives. The Board considers skills and experience in the global pharmaceutical industry (Research and Development, regulatory and ethics), marketing, finance, people development, public companies and governance/legal to be particularly relevant. The Board has developed a comprehensive skills matrix to inform Board succession planning.

## Board appointment, training and evaluation

The procedure for the appointment and removal of directors is ultimately governed by the Company's Constitution and relevant NZX Listing Rules. A director is appointed by ordinary resolution of the shareholders although the Board may fill a casual vacancy. Every director appointed by the Board must submit himself or herself for reappointment by shareholders at the next annual meeting following his or her appointment. Directors are subject to the rotation requirements set out in the NZX Listing Rules.

At the time of appointment, each director receives a copy of AFT's Corporate Governance Manual (comprising all of AFT's core governance documents) and is introduced to the business through a specifically tailored induction programme. All directors are regularly updated on relevant industry and Company issues and are expected to undertake training to remain current on how to best perform their duties as directors of AFT. During the Board's annual evaluation process, training needs are considered to assist directors to remain upskilled on the business, industry and legislative developments.

All directors have access to senior management to discuss issues or obtain information on specific areas or items to be considered at a Board meeting or other areas they consider appropriate. The Board, Board committees and each director have the right to seek independent professional advice at AFT's expense to assist them in carrying out their responsibilities.

During the financial period ended 31 March 2019, the Board undertook a review of its own and its committees' performances, to ensure AFT has the right composition and appropriate skills, qualifications, experience and background to effectively govern AFT and to monitor AFT's performance in the interests of shareholders.

## Independence of directors

A majority of AFT's directors are independent. The factors the Company takes into account when assessing the independence of its directors are set out in the revised NZX Code and the Board Charter. Generally speaking, a director is considered to be independent if that director is not an employee of AFT and if the director has no direct or indirect interest or relationship that could reasonably influence or be perceived to influence, in a material way, the director's decisions in relation to AFT.

The Board has determined that four out of the five non-executive directors are independent directors for the purposes of the NZX Listing Rules and in accordance with the Board Charter criteria.

The Board will review any determination it makes on a director's independence on becoming aware of any new information that may affect that director's independence. For this purpose directors are required to ensure they immediately advise AFT of any new or changed relationship that may affect their independence or result in a conflict of interest.

The Board supports the separation of the role of Chairman and Chief Executive Officer. The current Chairman has been elected by the Board from the independent directors, in accordance with the terms of the Board Charter. The Chairman's role is to manage and provide leadership to the Board and to facilitate the Board's interface with the Chief Executive Officer.

## Conflicts of interest

The Board is conscious of its obligations to ensure that directors avoid conflicts of interest (both real and perceived) between their duty to AFT and their own interests. The Board Charter outlines the Board's policy on conflicts of interest.

AFT maintains an Interests' Register in which relevant disclosures of interest and securities dealings by the directors are recorded.

## Company Secretary

The Company Secretary, Malcolm Tubby, is responsible for supporting the effectiveness of the Board by ensuring that its policies and procedures are followed and for coordinating the completion and dispatch of the Board agendas and papers. The Company Secretary is accountable to the Board, via the Chairman, on all governance matters.

## Diversity and inclusion

The Board recognises that building diversity across AFT will deliver enhanced business performance. AFT has adopted a Diversity and Inclusion Policy and is committed to achieving diversity in the skills, attributes and experience of its Board members, management and staff across a broad range of criteria (including, but not limited to, culture, gender and age). AFT is proud to have a workforce consisting of many individuals with diverse skills, values, backgrounds, ethnicities and experiences. The Company works to ensure that its selection processes for recruitment and employee development opportunities are free from bias and are based on merit. In the financial year to 31 March 2019, AFT maintained high levels of cultural diversity, with 21 different cultural backgrounds and birthplaces represented across our employee base of 83 full-time employees. This is reflective of the diverse nature of AFT as a global pharmaceutical company. The average age of AFT's full-time employees is 42 years old, with the spread ranging from 20 years to 75 years.

The Board as a whole is responsible for overseeing and implementing the Diversity and Inclusion Policy but has delegated to the Remuneration and Nominations Committee the responsibility to develop and to recommend measurable objectives to the Board that are designed to adhere to AFT's Diversity and Inclusion Policy.

AFT's Diversity and Inclusion Policy is implemented by promoting the following principles:

- Reviewing progress against diversity objectives and initiatives developed by AFT to deliver outcomes against the Policy.
- Promoting a working environment free from discrimination, harassment and victimisation.
- Emphasising the accountability of its leaders to cultivate a culture of inclusion in which the strengths of every individual are recognised and valued.
- Raising employee awareness of workplace diversity by designing, delivering, and measuring the effectiveness of programmes that promote workforce diversity, and gender equity.
- Striving to ensure that all employees and contractors receive equal and fair treatment in all aspects of the Company's employment policies and practices.
- Promoting a culture that empowers employees to act in accordance with this policy.
- Regularly benchmarking AFT's diversity standpoint, status and objectives against appropriate external comparators.

The Board has conducted its annual assessment of its diversity objectives and the Company's progress towards achieving these objectives in respect of the year ended 31 March 2019. During the year AFT took the following steps to continue to develop and maintain a diverse and inclusive working environment:

- We undertook an annual merits-based remuneration review, which provided visibility to management in relation to parity of working conditions and pay across its workforce. The review did not highlight any material pay disparity based on gender, taking into account experience and accountabilities of comparable roles.
- We continued to actively monitor and review gender diversity metrics across the business by department and geography. We reviewed the reasons for any significant deviations from Company averages and targets to seek to understand whether any unconscious bias was occurring at the recruitment and/or promotion stage. It was noted that where gender disparities were identified within teams, there tended to be a much higher applicant rate of that gender when recruiting new members to those teams. This will be taken into consideration when making future hires, aiming to correct the imbalance over time, where possible. Deviations against Company averages are reported quarterly to the Board.
- We continued to educate managers on the importance of creating a diverse and inclusive environment and providing awareness of the potential for unconscious bias in people management processes. We have implemented a formal managers training programme from an external company for maintaining our current diversity of culture, age and gender across departments.
- We continued to provide refresher training to all staff annually on the importance of AFT's Code of Culture and Ethics. This training is also included in the induction programme for all new staff.
- We continued to develop a wellness program to support our staff. This included management training on harassment, bullying and discrimination; providing employees with free flu vaccinations; implementing an employee assist programme; as well as providing employees with optional physical and mental health assessments.

In the year ahead the Company will continue to monitor and benchmark against the diversity and inclusion objectives adopted in respect of the year ended 31 March 2019 (as detailed above).

## Gender Composition of AFT's Workforce

The respective numbers and proportions of men and women at various levels within the AFT workforce as at 31 March 2019 and 31 March 2018 are set out in the table below:

	Female		2018		Male		2018	
	2019 No.	%	No.	%	2019 No.	%	No.	%
Directors	1	14%	1	14%	6	86%	6	86%
Officers <sup>1</sup>	4	40%	4	40%	6	60%	6	60%
Senior employees <sup>2</sup>	2	33%	2	29%	4	66%	5	71%
Overall workforce	48	58%	54	61%	35	42%	34	39%

<sup>1</sup> Officers are considered to be the CEO and his direct reports (Management Team). Note that CEO, Hartley Atkinson, and Chief of Staff, Marree Atkinson are included in both the number of directors and officers reported.

<sup>2</sup> Senior employees are considered to be direct reports to officers.

## Principle 3 – Board committees

***“The Board should use committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility.”***

The Board uses committees to deal with issues requiring detailed consideration, thereby enhancing the efficiency and effectiveness of the Board. However, the Board retains ultimate responsibility for the functions of its committees and determines each committee's roles and responsibilities. The current committees of the Board are:

- Audit and Risk Committee
- Remuneration and Nominations Committee; and
- Regulatory and Product Development Oversight Committee.

Details of the roles and responsibilities of these committees are described in their respective charters and summarised below. The Committee Charters are available on the investor section of the Company's website.

From time to time the Board may constitute an ad-hoc committee to deal with a particular issue that requires specialised knowledge and experience.

Proceedings of each committee meeting is reported back to the Board to allow other directors to question committee members and to keep apprised on matters being considered by each committee.

### Audit and Risk Committee

The primary function of the Audit and Risk Committee is to assist the Board in fulfilling its oversight responsibilities relating to the Company's risk management and internal control framework, the integrity of its financial reporting and the Company's auditing processes and activities. The Audit and Risk Committee held four formal Committee meetings during the year ended 31 March 2019.

Under the Audit and Risk Committee Charter, the Committee must be comprised of a minimum of three members who are each a non-executive director, the majority of whom are also independent directors and at least one director with an accounting or financial background. Further, the Chairman of the Committee is required to be independent and not be the Chairman of the Board. The Chairman of the Committee is not permitted to have been an audit partner or senior manager at AFT's external audit firm within the past three years.

The current members of the Committee are Jon Lamb (Chairman), Jim Burns and David Flacks. All members are independent, non-executive directors. Their qualifications and experience are set out in the latest Annual Report and on the investor section of the Company's website. Jim Burns is considered to be a financial expert for the purposes of the NZX Listing Rules.

### Remuneration and Nominations Committee

The Remuneration and Nominations Committee's role is to oversee remuneration policies and practices at AFT, oversee management succession planning, consider the composition of the Board and recommend candidates to fill Board vacancies as and when they arise. The Committee is also tasked with annually monitoring and evaluating the Company's performance with respect to its Diversity and Inclusion Policy. The Remuneration and Nominations Committee held three meetings during the year ending 31 March 2019 and carried out other functions via circular resolutions during the year.

Under the Remuneration and Nominations Committee Charter, the Committee must be comprised of a minimum of three members, a majority of whom are independent directors. The Chairman of the Committee is required to be independent.

The current members of the Committee are Jon Lamb (Chairman), Jim Burns and Hartley Atkinson.

### Regulatory and Product Development Oversight Committee

The Regulatory and Product Development Oversight Committee's role is to oversee the Company's regulatory risk management framework relating to product development; oversee the Company's key clinical and product development projects and monitor the Company's compliance with applicable regulations regarding the sale and distribution of pharmaceutical products. The Regulatory and Product Development Oversight Committee met twice during the year ending 31 March 2019.

Under the Regulatory and Product Development Oversight Committee Charter, the Committee must be comprised of a minimum of three members.

The current members of the Committee are Doug Wilson (Chairman), Hartley Atkinson and Marree Atkinson.

### Board and Committee attendance

The table below shows the number of Board and Committee meetings each director was eligible to attend and attended during the year ended 31 March 2019:

Director	Board	Audit and Risk Committee	Remuneration and Nominations Committee	Regulatory and New Product Development Committee
Hartley Atkinson	10/10	-	3/3	2/2
Marree Atkinson	10/10	-	-	2/2
Jim Burns	10/10	4/4	3/3	-
David Flacks	10/10	4/4	-	-
Nate Hukill	7/10	-	-	-
Jon Lamb	10/10	4/4	3/3	-
Doug Wilson	10/10	-	-	2/2

### Takeover Response Guidelines

AFT's directors have received legal advice on their directors' duties, and the process to be followed, in the event of a takeover offer. The Board has formally adopted this advice as the protocols to be applied in the event of a takeover offer. Any takeover of AFT shares would require the support of the Atkinson Family Trust, which at present holds approximately 75% of the shares on issue.



## Principle 4 – Reporting and disclosure

*“The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.”*

AFT is committed to the promotion of investor confidence by ensuring that the trading of Company shares takes place in an efficient, competitive and informed market. The Board is tasked with ensuring the integrity of financial and non-financial reporting to shareholders.

### Market Disclosure Policy

AFT’s Market Disclosure Policy establishes the Company’s procedures for meeting the continuous disclosure requirements of both the NZX Main Board and the ASX. A copy of the Market Disclosure Policy is available on the investor section of the Company’s website. In addition to the procedures set out in that Policy, directors and management consider at each meeting whether there are any issues that require disclosure to the market.

### Governance policies

AFT’s governance charters and policies can be found on the investor centre of the Company’s website.

### Financial reporting

The Board is responsible for ensuring the integrity of its financial reporting. To assist shareholders to make meaningful investment decisions, in addition to reporting historical statutory financial information, AFT is committed to providing shareholders with a balanced and understandable assessment of its performance, business model, strategic objectives and progress against meeting them at each earnings announcement and in its half-year and full-year reports.

The Audit and Risk Committee closely monitors financial reporting risks in relation to the preparation of the financial statements. The Audit and Risk Committee, with the assistance of management, works to ensure that the financial statements are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

As part of this process, the Chief Executive Officer and Chief Financial Officer are required to state in writing to the Board that, to the best of their knowledge, the Company’s financial reports present a true and fair view of the Company’s financial condition and operational results and are in accordance with the relevant accounting standards, and those reports are founded on a sound system of risk management and internal control that is operating effectively.

### Non-financial reporting

To assist shareholders to make meaningful investment decisions, in addition to reporting historical statutory financial information, AFT is committed to providing shareholders with a balanced and understandable assessment of its performance, business model, strategic objectives and progress against meeting those objectives at each earnings announcement and in its interim and annual reports.

AFT is also committed to developing long-term value creation. As part of this commitment, AFT’s Board is focused on delivering a sustainable future for its business, people, shareholders, customers and communities by doing what is right. Information about the commencement of AFT’s environmental and social initiatives are set out in the latest Annual Report. This statement sets out our governance initiatives. AFT’s environmental, social and governance (ESG) framework remains under development and will continue to be progressed over time.

## Principle 5 – Remuneration

*“The remuneration of directors and executives should be transparent, fair and reasonable.”*

AFT is committed to remunerating its non-executive directors, executive directors and employees fairly, transparently and reasonably.

### Non-executive director remuneration

The current maximum total monetary sum permitted to be paid by the Company by way of non-executive directors' fees is \$575,000 per annum. This sum has not been increased since it was approved by shareholders in 2015. The current approved directors' fees payable are set out in the table below. With the return of the Company to profitability and having held director fees at the same level since AFT listed in 2015, the Board will undertake a review of directors' fees during the current financial year to ensure that the Company is offering appropriate levels of remuneration to both existing and prospective directors.

Committee fees are payable to directors, as detailed in the table below. No equity-based remuneration is paid to non-executive directors, nor do the non-executive directors receive any performance-based remuneration. However, directors may hold shares in the Company, details of which are set out in the Director Interest Disclosures section of the latest Annual Report.

It is the Company's policy to encourage directors to hold shares in the Company.

The non-executive directors are entitled to be reimbursed for all reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or shareholder meetings or otherwise in connection with AFT's business. No retirement allowances will be paid to the non-executive directors on their retirement.

The current approved fixed annual fees payable to non-executive directors are detailed below (as mentioned above, these fees may be subject to review during the current financial year):

	Position	Fees per annum (paid in NZD except where stated)
Board of Directors	Chair	\$95,000
	Non-Executive Director	\$40,000 <sup>1</sup>
Audit and Risk Committee	Committee Chair	\$7,500
	Committee Member	\$5,000 <sup>2</sup>
Remuneration and Nominations Committee	Committee Chair	\$7,500
	Committee Member	\$5,000 <sup>2</sup>
Regulatory and Product Development Oversight Committee	Committee Chair	\$7,500
	Committee Member	\$5,000

<sup>1</sup> Fee payable to non-United States (US) based directors. US based directors receive USD\$50,000.

<sup>2</sup> Fee payable to non-US based directors. US based directors receive USD\$5,000.

## Remuneration Policy

AFT has adopted a formal Remuneration Policy, the purpose of which is to outline the remuneration principles that apply to all directors and employees to ensure that remuneration practices within AFT are fair and appropriate for the organisation and its directors and employees.

AFT's Remuneration Policy supports the Company to attract, retain and motivate high calibre people to achieve the Company's business objectives and create shareholder value.

The Remuneration Policy is available on the investor section of the Company's website.

Under AFT's remuneration framework, remuneration paid to the CEO and senior officers includes a mix of the following fixed and variable components:

- Fixed remuneration – which includes base salary and employer KiwiSaver (or overseas equivalent) contributions (where relevant), and relates to the base requirements of the role.
- A discretionary Short-Term Incentive (STI) may be offered to some employees, at the discretion of the CEO (or be offered to the CEO and/or Chief of Staff, at the discretion of the Board). AFT's short-term incentive is performance based, with any short-term incentive plan payment being conditional on satisfaction of pre-determined Company and individual performance objectives. Potential short-term incentive payments are generally between 10% and 60% of base salary, depending on seniority and role.
- A Long-Term Incentive (LTI) Plan may be offered, generally only to permanent senior management, as approved by the Board. AFT currently operates an option scheme. This is designed to attract and retain senior managers within the business and to align the interests of management with shareholders' interests. Under the LTI Plan, participants are granted options to acquire ordinary shares in AFT. One option will give the participant the right to subscribe for (or otherwise purchase) one ordinary share, subject to meeting any vesting conditions set by the Board and payment of the exercise price. The Board has an absolute discretion to invite employees to participate in the LTI Plan and to set the terms and conditions of options at the time they are granted. The maximum aggregate number of options which may be granted under the LTI Plan is 5% of the total number of ordinary AFT shares on issue immediately after the issue of options, unless shareholder approval is obtained. With respect to AFT's LTI Plan, no director or employee is permitted to enter into financial products or arrangements which operate to limit the economic risk of their vested or unvested entitlements.

In addition, AFT may offer provisions which have a monetary benefit to employees, but are not considered part of remuneration.

Each year a review is carried out to benchmark salaries with market increases and adjustments are made accordingly.

The Remuneration and Nominations Committee is responsible for reviewing the remuneration of the Company's senior executives in consultation with the CEO. The Company's senior executives are subject to regular performance reviews. The performance of senior executives is reviewed by the CEO who meets with each senior executive to discuss their performance, as measured against key performance targets (both financial and non-financial) previously established and agreed with that executive. During the year ended 31 March 2019, performance reviews took place in accordance with that process.

## Executive director remuneration

The executive directors, Hartley Atkinson and Marree Atkinson, receive remuneration and other benefits in their respective executive roles as CEO and Chief of Staff and, accordingly, do not receive directors' fees.

The table below sets out the total remuneration and value of other benefits earned by or paid to each executive director of AFT during, and in respect of, the financial period ended 31 March 2019:

	Base Salary	Taxable Benefits <sup>1</sup>	Subtotal	Pay for Performance			Total Remuneration
				STI	LTI <sup>4</sup>	Subtotal	
Hartley Atkinson	\$430,616	\$5,988	\$436,604	\$119,843 <sup>2</sup>	-	\$119,843	\$556,447
Marree Atkinson	\$116,378	-	\$116,378	\$11,400 <sup>3</sup>	-	\$11,400	\$127,778

<sup>1</sup> Taxable benefits include a car allowance.

<sup>2</sup> The short-term incentive stated was earned in FY2018 and paid in FY2019. Hartley Atkinson earned a short-term incentive for FY2019 of \$144,594 from a full potential of \$252,200. This will be paid in FY2020.

<sup>3</sup> The short-term incentive stated was earned in FY2018 and paid in FY2019. Marree Atkinson earned a short-term incentive for FY2019 of \$11,559. This will be paid in FY2020.

<sup>4</sup> Neither executive director was issued any form of long-term incentive during the financial period.

During the period ended 31 March 2019, Hartley Atkinson's STI component was based on key performance indicators relating to:

- Company revenue and profit targets
- Key innovative product development; and
- Key product registration and licensing.

During the period ended 31 March 2019, Marree Atkinson's STI component was based on key performance indicators relating to:

- Company revenue and profit targets
- Human resource objectives; and
- Overhead cost savings.

The executive directors' performance is reviewed by the Board annually. During the financial period ended 31 March 2019, performance reviews took place in accordance with that process.

No termination payments are payable to the executive directors in the event of serious misconduct.

## Principle 6 – Risk management

*“Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.”*

### Risk management framework

Like other businesses, AFT manages a range of risks that have the potential to impact its performance, reputation and customers' safety. While some risks can never be eliminated, AFT works hard to identify their significance and manage them.

AFT has designed and implemented a risk framework for the oversight and management of financial and non-financial business risks, as well as related internal compliance systems that are designed to:

- Optimise the return to, and protect the interests of, stakeholders
- Safeguard the Company's assets and maintain its reputation
- Improve the Company's operating performance
- Fulfil the Company's strategic objectives; and
- Manage the risks associated with the sale and distribution of pharmaceutical products.

The Board has ultimate responsibility for AFT's risk management and internal control system, setting the 'tone at the top' with regards to risk culture. The Audit and Risk Committee and Regulatory and Product Development Oversight Committee, under delegation from the Board, assists the Board in discharging its responsibilities. The Audit and Risk Committee monitors compliance with the overarching risk and compliance framework, while the Regulatory and Product Development Oversight Committee oversees the Company's regulatory risk management framework regarding the development, quality assurance and sale and distribution of pharmaceutical products.

The Audit and Risk Committee, in conjunction with management, regularly reports to the Board on the effectiveness of the Company's management of its material business risks and whether the risk management framework and systems of internal compliance and control are operating effectively and efficiently in all material respects. The Audit and Risk Committee conducts six monthly reviews of AFT's risk management framework and principal risks register and satisfies itself that AFT's approach to risk is sound.

AFT does not have a dedicated internal auditor, instead internal controls are managed on a day-to-day basis by the finance team. Compliance with internal controls is reviewed annually by AFT's auditors.

## Principal risks

AFT's current principal risks and their mitigations are summarised below.

- **Delay or failure in the development, manufacture, commercialisation or regulatory approval process for AFT products**

AFT mitigates this risk by:

- Adopting a low risk and low-cost development programme.
- Using multiple manufacturing sites for our key products and maintaining close working relationships with our suppliers.
- Engaging both in-house and external regulatory experts in our key markets.
- Monitoring regulatory timetables and maintaining regular dialogue with licensees to anticipate and manage delays proactively, where necessary.

- **Competition**

AFT mitigates this risk by:

- Product innovation
- Diversification of our product portfolio; and
- Having a broad range of distribution channels, partners and geographies.

- **Intellectual Property (IP) infringement and protection for AFT products**

AFT mitigates this risk by:

- Taking actions to protect our IP, including filing patent applications, and entry into confidentiality agreements with licensees, suppliers and employees to protect trade secrets.
- Undertaking extensive "freedom to operate" reviews before we make our IP applications to ensure that they do not infringe any other IP and are protectable. We also regularly monitor pharmaceutical patent registrations.

- **Reliance on third parties for the manufacture, distribution and licensing of AFT products**

AFT mitigates this risk by:

- Using multiple manufacturers where possible for our key products.
- Operating an inventory policy of holding three months' inventory to minimise interruption of supply.
- Being selective in our choice of distribution and licensing partners and having performance obligations in our commercial agreements.

- **Product liability and risks associated with marketing drugs and conducting clinical trials**

AFT mitigates this risk by:

- Having adopted compliance and regulatory systems to monitor our compliance with applicable laws and regulations.
- Manufacturing products in compliance with Good Manufacturing Practice (GMP) and other relevant regulatory requirements, including supplying products for use only with approved Certificates of Analysis.
- Maintaining and regularly reviewing a register of known adverse events.
- Focusing on novel dose forms, combinations and delivery systems of approved drugs, meaning clinical trial risks are relatively low.
- Contracting out clinical trials to specialists.
- Implementing a comprehensive product, clinical trial and contamination insurance programme.
- Ensuring that product labelling declares reported risks and adverse events are incorporated in the product package insert, in accordance with licensors advice, and local regulatory accepted rules and labels.

- **Failure to execute growth strategy**

AFT mitigates this risk by:

- Adopting expansion strategies that are scalable and are not capital intensive, for example utilising out-licensing and distributor arrangements outside of Australia and New Zealand.
- Closely monitoring our personnel, internal company structures and systems to ensure they remain appropriate to support our growth plans.

- **Capital management**

AFT mitigates this risk by:

- Closely monitoring forecasts, cash flows and our financial covenants to ensure they are not breached.
- Actively monitoring key revenue growth plans.
- Managing the mix of equity capital and borrowings.
- Having an active investor relations program should a further equity raise be considered.

- **Key personnel loss**

AFT mitigates this risk by:

- Succession planning.
- Adopting a competitive remuneration policy designed to assist us in retaining key personnel.
- Carefully selecting our personnel to try and ensure that they fit with our culture and growth plans.

## Health and safety risks

AFT has adopted a Health and Safety Policy and both the Board and management are committed to promoting a safe and healthy working environment for everyone working in or interacting with AFT's business. The Health and Safety Policy requires AFT people to endeavour to take all practicable steps to provide a working environment that promotes health and wellbeing, while minimising the potential for risk, personal injury, ill health or damage. The Board has agreed a detailed programme of work, which aims to ensure AFT remains compliant with its Health and Safety obligations. The Board is updated on Health and Safety (including wellness) matters and metrics at each meeting and there is a detailed review on health and safety risks each quarter.

To support its health and safety programme, during the year AFT has undertaken formal health and safety and first aid training across its main offices. An employee-led Health and Safety Committee meets regularly to monitor and manage health and safety risks, including hazards, within the business, and inform Board reporting. AFT intends to continue to develop its comprehensive wellness program during FY2020, including offering free flu vaccinations to employees and offering employees access to professionals who can support their physical and mental wellness.

## Principle 7 – Auditors

*“The Board should ensure the quality and independence of the external audit process.”*

### External auditor independence

AFT has adopted an Auditor Independence Policy that requires, and sets out the criteria for, the external auditors to be independent. The Policy recognises the importance of facilitating frank dialogue between the Audit and Risk Committee, the auditor and management.

The Policy prescribes the services that can and cannot be undertaken by the external auditors, which are designed to ensure that services provided by AFT's external auditors are not perceived as conflicting with their independent role.

The Policy also requires that the key audit partner is changed at least every five years so that no such persons shall be engaged in an audit of AFT for more than five consecutive years. AFT rotated its audit firm in February 2018, in accordance with this Policy and the NZX Listing Rules.

The Audit and Risk Committee Charter requires the Committee to facilitate the continuing independence of the external auditor by assessing the external auditor's independence and qualifications, and overseeing and monitoring its performance. This involves monitoring all aspects of the external audit, including the appointment of the auditor, the nature and scope of its audit, and reviewing the auditor's service delivery plan.

In carrying out these responsibilities the Audit and Risk Committee meets regularly with the auditor without executive directors or management present.

The auditor is restricted in the non-audit work it may perform, as detailed in the Auditor Independence Policy. In the last financial year, the audit firm has undertaken specific non-audit work. None of that non-audit work is considered to have compromised (or been seen to have compromised) the independence of the auditor. For further details on the audit and non-audit fees paid and work undertaken during the period, refer to the Financial Statements included in the latest Annual Report. The Audit and Risk Committee regularly monitors the ratio of fees for audit to non-audit work.

### Internal audit function

As noted above, AFT does not have a dedicated internal auditor, instead internal controls are managed on a day-to-day basis by the finance team. Compliance with internal controls is reviewed annually by AFT's auditors.

## Principle 8 – Shareholder rights and relations

*“The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.”*

### Information for shareholders

AFT is committed to maintaining a full and open dialogue with its shareholders (and other interested stakeholders). The Company has in place an investor relations programme to facilitate effective two-way communication with shareholders.

The aim of the Company's communication programme is to provide shareholders with information about the Company and to enable them to actively engage with the Company and exercise their rights as shareholders in an informed manner. The Company facilitates communication with shareholders through written and electronic communication, and by facilitating shareholder access to directors, management and the Company's auditors.

The Company provides shareholders with communication through the following channels:

- The investor section of the Company's website
- Full-year and half-year reporting
- The Annual Shareholders' Meeting
- Regular disclosures on Company performance and news via the NZX and ASX online disclosure platforms; and
- Disclosure of presentations provided to analysts and investors during regular briefings.

The Company's website is an important part of the Company's communication programme. Included on the website is a range of information relevant to shareholders and others concerning the operation and governance of the Company, including information about the Company and its history, biographies of the Company's directors and senior management, the Company's Constitution, Board Charter (and the charters of the various committees) and other corporate governance policies of the Company.

Shareholders may, at any time, direct questions or requests for information to directors or management through the Company's website or by sending an email to [investor.relations@aftp.com](mailto:investor.relations@aftp.com).

The Company provides shareholders with the option to receive communications from, and send communications to, the Company and its share registrar electronically. A large number of AFT shareholders have elected to receive electronic communications.

### Shareholder voting rights

In accordance with the Companies Act 1993, AFT's Constitution and the NZX Listing Rules, AFT refers major decisions which may change the nature of AFT to shareholders for approval.

AFT conducts voting at its shareholder meetings by way of a poll, reflecting the principle of one share, one vote. Further information on shareholder voting rights is set out in AFT's Constitution.

### Annual Shareholders' Meeting

AFT's 2019 Annual Shareholders' Meeting will be held in Auckland on 2 August 2019. Shareholders will be given an opportunity at the meeting to ask questions and comment on relevant matters. In addition, the auditors, Deloitte, will be available to answer any questions about their audit report. A Notice of Meeting will be sent to shareholders in advance of the meeting.

