



aspen

H O L D I N G S

**UNABRIDGED CORPORATE  
GOVERNANCE REPORT 2017**

# Corporate governance statement

Our corporate governance framework includes the structures, processes and practices that the Board of Directors use to direct and manage the Group's operations.

The Board is accountable to shareholders and other stakeholders and is ultimately responsible for the implementation of sound corporate governance practices throughout the Group. Our Board of Directors is committed to ensuring that the Group adheres to high standards of corporate governance in the conduct of its business.

In an environment of increasing regulatory pressure, the Board remains mindful of the need to maintain an appropriate balance between the governance expectations of investors, regulators, government and other stakeholders, and the market demands that the Group delivers competitive financial returns to its shareholders.

Governance in the Group extends beyond mere legislative and regulatory compliance and management strives to entrench an enterprise-wide culture of good governance, risk management and good corporate citizenship. These efforts are aimed at ensuring that decisions are taken in a fair and transparent manner, within an ethical framework that promotes the responsible consideration of all stakeholders, while also holding decision-makers appropriately accountable. In line with the philosophy that good corporate governance is an evolving discipline, governance structures, practices and processes are actively monitored and revised from time to time to reflect best practice.

## Application of King IV and compliance with the Companies Act

The Group continuously strives to enhance its application of King IV and to ensure its ongoing compliance with the South African Companies Act, 2008 ("Companies Act"). The application of the King IV principles and adoption of the various recommendations are published online.

## Statement of governance compliance

The directors are of the opinion that the Group has applied the requisite King IV principles as more fully detailed in the King IV application register available online.

## Review of governance practices

As indicated, the Group's corporate governance practices are reviewed on an ongoing basis to ensure alignment with internal developments and to ensure ongoing adherence to legislation, regulation and global governance trends. Opportunities to introduce further enhancements to the Group's governance practices are continuously considered and implemented as appropriate.

## The Board of Directors

We are led by a unitary Board of Directors, constituted as required in terms of the Companies Act, the Company's Memorandum of Incorporation and the Board Charter.

There are no fixed-term service contracts in place for the executive directors and their tenure is subject to the normal terms and conditions on which the Company appoints members of senior management.

Directors assume collective responsibility for steering and setting Aspen's direction, approving all material policy considerations and short, medium and long-term strategic planning, overseeing and monitoring the implementation and execution of strategy by management and ensuring accountability for organisational performance.

All directors are required to annually confirm adherence to our Code of Conduct.

## Board composition, appointment and independence of non-executive directors

The Board currently comprises 10 directors, two of whom are executive directors with the remainder being non-executives. Six of these are considered independent non-executive directors within the criteria determined by

King IV and constitute the majority of non-executive directors on the Board.

The composition of the Board ensures that there is a balance of power and authority in decision-making processes. Non-executive directors are appointed by the Board in terms of a formally documented and transparent process which takes place under the guidance of the Remuneration & Nomination Committee ("R&N Co"). Non-executive directors are selected on the basis of their skills, business experience, reputation and qualifications. Gender and racial diversity is also considered in the appointment of new directors. The non-executive directors collectively bring a wealth of skills, knowledge and experience from their own fields of business to the Board, ensuring that the Board's consideration of matters of strategy, policy and performance are always robust, informed and constructive.

While non-executive director appointments are based on merit and overall suitability for the role, the Remuneration & Nomination Committee remains appreciative of Aspen's status as a multinational pharmaceutical company and diversity considerations when making recommendations for appointment to the Board. The Board further recognises that, as a South African-based company, it is important to consider the gender and racial diversity of the Board and as such has set aspirational targets of 50% female representation (currently at 30%) and 50% black representation (currently at 40%) in the number of directors who serve on the Board. These targets will be reviewed from time to time to ensure broader representation into the future.

The terms and conditions of the appointment of each of the non-executive directors are contained in a letter of appointment which, together with the Board Charter, forms the basis of the director's appointment. Newly appointed non-executive directors are required to provide details of their professional commitments outside of Aspen and a statement that confirms that he or she will have sufficient time available to fulfil the responsibilities ascribed to directors. The

## Corporate governance statement continued

R&N Co is responsible for making recommendations to the Board for the identification and removal of underperforming or unsuitable directors, should this prove necessary.

While no formal staggered rotations arrangements are in place, the Company's Memorandum of Incorporation requires that one-third of the non-executive directors retire by rotation at each annual general meeting. Directors who retire may, if eligible, offer themselves for re-election. The names of the directors who retire by rotation at the next annual general meeting appear in the notice of the 2017 annual general meeting – refer to ordinary resolution 3 as set out in the notice of the 2017 annual general meeting. The re-election of retiring directors by shareholders is subject to a recommendation by the R&N Co, following an evaluation of those directors' performance. Directors who may be appointed during a reporting period must have their appointments ratified at the next annual general meeting.

Although the non-executive directors have no fixed-term contracts of appointment, the Board Charter provides for the automatic retirement of a director at the age of 70. At the Board's discretion, the retiring director may thereafter be invited to serve as a non-executive director on a year-to-year basis, provide that shareholders confirm such reappointment at the next annual general meeting. John Buchanan, who turned 73 during the year, has been invited by the Board to serve as a director for a further year and this re-appointment has been proposed to shareholders in terms of ordinary resolution 3.2 as set out in the notice of the 2017 annual general meeting.

The fees of the non-executive directors are independent of the Group's financial performance. In line with the requirements of the Companies Act, the fees payable to the non-executive directors for the 2016 financial year were approved by a special resolution of Aspen's shareholders at the Company's annual general meeting in December 2016. The fees payable to these

directors through to the annual general meeting in 2018 will be approved at the Company's annual general meeting to be held on 7 December 2017.

The independence of the non-executive directors is tested on a regular basis to ensure that there are no business or other relationships which could materially interfere with a director's capacity to act independently. At least once annually, we actively solicit details of our directors' interests in the Group, their external shareholdings and other directorships so as to determine whether there are any actual or potential conflicts of interest. A register containing the directors' declarations of interest is kept by the Company Secretary & Group Governance Officer, circulated to all directors at least once per year and is available for inspection by any of the directors on request. In addition, the agenda at each scheduled Board meeting allows the Board to consider any conflicts arising from changes to the directors' declarations of interests or in respect of any of the matters to be dealt with at that meeting. The Board has satisfied itself that no relationships exist which could adversely affect the classification of its independent non-executive directors, and accordingly that the classification of each of the directors is appropriate. The independence of Roy Andersen, John Buchanan and Sindi Zilwa was independently assessed by the Board, due to them having served on the Board of Aspen for more than nine years. The relevant directors recused themselves from deliberations on this matter. This Board's assessment concluded that the ongoing qualification of these directors as independent non-executive directors is beyond question. A brief *curriculum vitae*, and the classification of each director, appears on pages 96 to 99 of the Integrated Report.

### **Director induction, training and access to information**

Newly appointed directors are required to participate in an induction programme coordinated by the Chairman together with the Company Secretary & Group Governance Officer. In addition to

providing an orientation in respect of the Group's operations, directors are guided in their fiduciary duties, provided with information relating to the relevant statutory and regulatory frameworks and introduced to key members of management. The programme also makes directors aware of relevant policies such as those relating to dealing in the Company's securities, the duty to declare conflicts of interest and our Code of Conduct.

The Company Secretary & Group Governance Officer is also, with the assistance of the Group Legal Officer & Group Compliance Officer, responsible for ensuring that directors are kept abreast of relevant legislative and regulatory developments, as well as significant information impacting the Group's operating environment. Training sessions for non-executive directors are held regularly, with a total of three sessions held during the past year. These sessions are presented by senior management or subject experts and are designed to keep directors updated on developments in the Group and the territories in which it operates, as well as other relevant matters.

To facilitate the proper functioning of the Board, directors have unrestricted access to all Group information, records, documents and facilities through the office of the Company Secretary & Group Governance Officer, subject to the prior notification of the Group Chief Executive or, in his absence, the Deputy Group Chief Executive. In addition, non-executive directors have unrestricted access to members of management and, where appropriate, are entitled to access the external auditors without members of management being present. Directors, after discussion with the Chairman, may also seek independent professional advice at the Group's expense should they deem it necessary for the proper execution of their directorial role.

## Corporate governance statement continued

### Board mandate and key outcomes for 2017

A formally documented and approved Board Charter outlines the composition, scope of authority, responsibilities, powers and functioning of the Board. The Board Charter is reviewed as and when required to ensure that it remains relevant, appropriate and in line with governance best practice. The following were the key activities and outcomes from the performance of the Board's responsibilities during the year:

- approved and reviewed the strategic direction of the Group and monitored the execution of strategic plans to ensure the Group achieves its objectives in this regard;
- identified and oversaw the Group's communication and the constructive engagement with key stakeholders;
- monitored and oversaw major capital expenditure, acquisitions and disposals as reported in the Integrated Report;
- considered financial reports and reviewed and approved annual budgets and business plans;
- monitored the financial performance and the achievement of approved KPIs relating to the Group's capitals and approved annual and interim financial reports and the dividend payable to shareholders;
- identified and monitored key risk areas;
- reviewed risk management strategies and ensured the implementation of appropriate mitigation strategies;
- reviewed the performance of the Board, its committees, the Chairman, the Group Chief Executive, the Deputy Group Chief Executive and oversaw succession planning in respect of the executive directors and other senior executives, with the assistance of the R&N Co; and
- made decisions on key issues or matters and delegated authority for the day-to-day running of the business of the Group to management in line with an approved Group approvals framework.

### Board leadership

The Chairman of the Board is appointed by the directors annually after each annual general meeting of shareholders, and remains in office for a period of one year at a time. The Chairman is absent during the discussion of, and the vote on, his reappointment.

The Board is currently led by Kuseni Dlamini, an independent non-executive director. The Board has, for practical and succession planning considerations, appointed Roy Andersen as the lead independent non-executive director to act as Chairman in instances where the Chairman may become unavailable in the short to medium term or have a conflict of interest. As with the chairmanship, the appointment of the lead independent non-executive director is made by the Board annually, after each annual general meeting.

Both the Chairman and the lead independent non-executive director have formally mandated roles and responsibilities and the Chairman is subject to an annual evaluation of his performance. The evaluation of the Chairman's performance is coordinated under the direction of the lead independent non-executive director.

The roles of the Chairman of the Board and the Group Chief Executive are separate and clearly defined, such that no one individual director has unfettered powers of decision-making.

### Succession planning

The Board has delegated succession planning in respect of Board and committees membership, the Group Chief Executive, Deputy Group Chief Executive and senior executives to the R&N Co with direct input, as appropriate, from the Chairman and the Group Chief Executive.

Succession plans are integrated into the key performance areas at management and executive levels and reported to the Board annually.

### Board meetings

The Board meets at least quarterly, with additional meetings being convened to discuss specific issues which arise between scheduled Board meetings. The Board compiles an annual work plan to ensure all relevant matters for Board consideration are prioritised, included on the agenda and addressed at the appropriate time. Eight meetings were held in the year under review.

The table on page 4 of this report sets out the attendance by directors at Board meetings.

Board meetings are convened by formal notice to the directors. There are comprehensive management reporting disciplines in place with strategic, financial, operational, risk and governance reports tabled. Meeting packs, containing detailed proposals and management reports, are distributed by the Company Secretary & Group Governance Officer to all directors in a timely manner in advance of scheduled meetings, and directors are afforded ample opportunity to study the material presented and to request additional information from management where necessary.

Decisions taken at Board meetings are decided by a majority of votes, with each director having one vote. Where resolutions need to be taken between Board meetings, a written proposal is circulated to all directors, and requires signature by a majority of directors to be valid. A resolution passed in this manner is effective as at the date on which a majority of directors has signed and is formally noted at the next Board meeting.

## Corporate governance statement continued

The table below sets out the attendance by the directors at these meetings:

Board	5 September 2016	14 September 2016	6 December 2016	28 February 2017	8 March 2017	2 May 2017 (Ad hoc)	28 Jun 2017 (Strategy)	29 June 2017
Roy Andersen	✓	✓	✓	✓	✓	✓	✓	✓
Gus Attridge	✓	✓	✓	✓	✓	✓	✓	✓
John Buchanan	✓	✓	✓	✓	✓	✓	✓	✓
Kuseni Dlamini	✓	✓	✓	✓	✓	✓	✓	✓
Maureen Manyama	Apology	✓	✓	✓	✓	✓	✓	✓
Chris Mortimer	✓	✓	✓	✓	✓	✓	✓	✓
Babalwa Ngonyama	✓	✓	✓	✓	✓	✓	✓	✓
David Redfern	✓	✓	✓	✓	✓	✓	✓	✓
Stephen Saad	✓	✓	✓	✓	✓	✓	✓	✓
Sindi Zilwa	✓	✓	✓	✓	✓	✓	✓	✓

The average overall attendance rate of the Board meetings for the 2017 financial year was 98,75%.

### Board committees

The Board has established the following Board committees, each with specific Terms of Reference, to assist it in the execution of its role:

- Audit & Risk ("A&R Co");
- Remuneration & Nomination ("R&N Co"); and
- Social & Ethics ("S&E Co").

These Board committees are constituted, after a thorough consideration of the allocation of roles and associated responsibilities, in accordance with the Companies Act and recommendations of King IV and are chaired by an independent non-executive director.

The Terms of Reference of each of the Board committees are reviewed as necessary and specify the relevant committee's composition, mandate, relationship and accountability to the Board. The Company Secretary & Group Governance Officer is the secretary to all committees of the Board and assists in ensuring that the committees operate within the limits of their respective mandates, in terms of an agreed annual work plan and that a formal process of reporting is in place.

Regular meetings of the Board's committees are scheduled, in advance, in the Group's corporate calendar. In addition, any of the committees may convene *ad hoc* meetings should the business of the Group so require. The number of meetings held by each committee and the directors' attendance at those meetings appear in the reports of the committees available online.

The Board committees report formally to the Board at each Board meeting following any meeting of a committee. All directors are entitled to attend any committee meetings as observers.

In line with the requirements of the Companies Act the members of the Audit & Risk Committee are required to be elected by shareholders at the next annual general meeting.

Detailed reports on the composition, role and performance of each of the Board committees are either contained in the Integrated Report (R&N Co) or are available online (A&R Co and S&E Co).

### Evaluation of Board performance

An evaluation of the performance of the Board, the Board committees, the Chairman, the Group Chief Executive, the Deputy Group Chief Executive, the Company Secretary & Group Governance Officer and each of the individual directors is conducted annually. The evaluations carried out in 2017 focused on the effectiveness of:

- the Board's composition, governance processes and procedures;
- the Board's committees in discharging their respective mandates;
- the Chairman of the Board;
- each of the directors and their individual contributions;
- the Group Chief Executive and Deputy Group Chief Executive;
- the Company Secretary & Group Governance Officer; and
- governance processes in general.

The evaluations were designed to gain an insight into how each of the directors of the Board believes the Board is meeting its objectives. The evaluations provided guidelines for evaluating the Board's effectiveness and focused on areas where the Board's performance may possibly be enhanced or improved, as well as assessing the individual contributions of the directors.

Responses were collated by the Company Secretary & Group Governance Officer and reported to the R&N Co and, subsequently, the Board. While the results of these assessments were found to be satisfactory, the Chairman has engaged with directors in respect of certain aspects raised as a result of the evaluation process.

### The Company Secretary & Group Governance Officer

The Company Secretary & Group Governance Officer is also the Group Governance Officer and plays a pivotal role in the corporate governance of the Group. He attends all Board and committee meetings and provides the Board and directors, collectively and individually, with guidance on the execution of their governance roles. The Board has considered and is satisfied with the qualification, competence and expertise of the Company Secretary & Group Governance Officer. He is not a director of the Company and the Board has also satisfied itself of the fact that he continues to maintain an appropriate arm's length relationship with the Board. Abbreviated biographical details of the

## Corporate governance statement continued

Company Secretary & Group Governance Officer are set out on page 99 of the Integrated Report.

All directors have access to the advice and services of the Company Secretary & Group Governance Officer. The Company Secretary & Group Governance Officer is appointed by and is accountable to the Board as a whole.

### Corporate values and ethics

Our values of integrity, excellence, commitment, innovation and teamwork are fundamental to our business philosophy and guide the way the Group conducts its business and interacts with all stakeholders.

Further information in respect of the Group's ethics management programme and its Code of Conduct are contained in the S&E Co report, available online.

### Legislative compliance

The Board is ultimately responsible for overseeing the Group's compliance with laws, rules, codes and standards in terms of King IV. The Board has delegated to management the responsibility for the implementation of an effective legislative compliance framework and processes as envisaged by King IV. The Board has considered the compliance framework that has been established by management and has satisfied itself that it is adequate for the requirements of King IV. The Group Legal Officer & Group Compliance Officer provides the Board with assurance that the Group is compliant with applicable laws and regulations. The Board has considered and is satisfied with the qualification, competence and expertise of the Group Legal Officer & Group Compliance Officer. This role is an independent, objective assurance and consulting activity designed to give operational effect to the principles of King IV.

The Group Legal Officer & Group Compliance Officer's function includes:

- identifying and advising the Group on existing and new legislation applicable to the Group's business in the jurisdictions where it operates companies; and
- developing and implementing the annual legislative compliance audit plan across the Group.

A legislative compliance policy has been implemented and is reviewed as and when necessary.

The Group Legal Officer & Group Compliance Officer, supported by internal and external counsel, monitors developments in legislation and the implementation of new legislation in jurisdictions where we operate. The Group Legal Officer & Group Compliance Officer reports to the Board on a quarterly basis and has unrestricted access to management, employees, activities and all information considered necessary for the proper execution of the legislative compliance function.

During the year, the Italian Competition Authority ruled that Aspen had abused its dominance in respect of a portfolio of oncology products in this country. This ruling was upheld on appeal and resulted in us having to pay a fine of EUR5,2 million plus interest. Legal advisers are being consulted on the next steps to be taken, which could include an appeal to the "Council of State" appeal court. No other material incidents of legislative infringements were recorded during the year and no other notable fines were incurred. There were no prosecutions of Group companies or directors and officers for failure to comply with any applicable legislation or codes of conduct.

The Group voluntarily complies with a range of non-binding rules, codes and standards throughout the Group.

### Engagement with stakeholders

The Board acknowledges that it is ultimately responsible for the management of relationships with the Group's major stakeholders. The Board receives formal feedback from management on a quarterly basis as to the nature of interaction with stakeholders.

The Stakeholder Engagement report is available on pages 14 and 15 of the Integrated Report.

### Risk governance

Risk management is an embedded attribute of Aspen's corporate culture and is inherent to all its business decisions, activities and transactions. Risk management is considered to be a

prerequisite to the sustainability of the Group. As such an integrated approach to risk management is implemented giving due consideration to economic, environmental and social indicators which impact the Company and its stakeholders. Both the opportunities and threats underlying each identified risk are considered to ensure a balanced outcome between risk and reward for the sustainability of the Group as a whole. Our risk management objectives aim to sustainably support the effective pursuit of the Group's strategy.

On an annual basis, our internal audit function conducts an independent audit of the Group's risk management process on behalf of the A&R Co. This audit was conducted in June 2017 and concluded that the Group's risk management process, risk management systems and risk governance structures were effective. Other sources of combined assurance supporting the Group's risk mitigation processes were also considered and these included external specialist functions, legislative and regulatory compliance, IT systems and financial controls.

The Group's strategic objectives and challenges in achieving these objectives are detailed on pages 32 to 37 of the Integrated Report.

### IT governance

IT systems have an essential role to play in the implementation of the Group's strategy and the effectiveness of these systems is reported to the Board on a quarterly basis. The Board has adopted an IT governance charter and has an appointed Chief Information Officer to discharge the duties contained in this charter. An IT Steering Committee ensures that the Group's IT strategy is aligned with the Group business objectives and to oversee the implementation and maintenance of the Group's IT governance. This Steering Committee meets periodically, comprises representatives from both the Group's businesses and functions and is chaired by the Deputy Group Chief Executive. The Board is provided with a quarterly report from the Chief Information Officer detailing aspects relating to IT governance and the Group's IT investments in general.

## Corporate governance statement continued

The governance and management of technology and information is based on a federated operating model where Aspen businesses and functional departments are responsible for the implementation, management and operation of technology and information considered appropriate to enable those businesses and functional departments. Opportunities for standardisation and to achieve procurement synergies are however being explored from a Group perspective.

Business system implementation by various Aspen businesses and functional departments across the Group are in progress and are being monitored by the IT Steering Committee. A programme to mitigate infrastructure technology security risks is being coordinated centrally and includes the introduction of a supporting policy. Mitigation plans have been introduced to address the risk of material operational and disruptive incidents. No incidents of this nature occurred during the year.

In line with Aspen's federated approach to implementing IT systems, effectiveness of technology and information management is the responsibility of the respective Aspen business or functional department and its monitoring and review is included in the overall management and review of business performance. Material IT risks are assessed and included within the risk registers of each unit.

The following are planned areas of future IT governance focus:

- Guiding and assisting business units and group functions with the implementation of best practices for management of their technology and information to support mitigating risks and improving their performance;
- Continued guidance and monitoring of business unit and group function system and infrastructure projects;

- Developing and driving a programme to improve regulatory compliance from an infrastructure technology qualification perspective;
- Developing strategies and roadmaps for growing the implementation of cloud-based infrastructure solutions, in particular with regard to supporting pharmaceutical regulatory compliance; and
- Development of standards and templates.

### Internal audit

The Group's internal audit function is an independent, objective assurance and consulting activity aimed at assisting Aspen to accomplish its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, internal control and governance processes.

This function is supported by approved external service providers.

The role of this function is more fully described in the internal audit charter as approved by the Board, read with the Terms of Reference of the A&R Co. Further information regarding this function's activities and its focus for the year under review can be found in the A&R Co report online.

### Delegation of authority

The Board sets the direction and parameters for the matters reserved for itself and those delegated to the executive directors, by annually approving a formal delegation of authority policy. This policy addresses the authority to appoint senior executives. The Board is satisfied that the adopted authority framework contributes to role clarity and the effective exercise of authority and responsibilities.

### Dispute resolution

In line with the Group's stakeholder engagement policy, conflict and dispute resolution is dealt with through constructive dialogue with the relevant parties. Where this preferred method does not result in adequate resolution of the matter, external legal advisers, mediators and/or arbitrators are engaged to expedite resolution.

### Going concern

The Board has assessed the Group's going concern status and is satisfied that it has adequate resources to continue operating for the next 12 months and into the foreseeable future, based on the following considerations:

- the appropriateness of the capital structure, funding and liquidity ratios of the Group, given the nature of the Group's business and operations; and
- the Group's continued ability to meet solvency and liquidity requirements as set out in section 4 of the Companies Act.

The appropriateness of the going concern basis of reporting the Group's results and its likely continuing appropriateness for the ensuing 12 months.

The Annual Financial Statements of the Group and the Company have been prepared on the going concern basis. These Annual Financial Statements are available online.

A register explaining Aspen's application of the 16 King IV principles has been published online.