



2023
CORPORATE
GOVERNANCE
STATEMENT

AFT *pharmaceuticals*
Working to improve your health

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Corporate Governance Statement

The Board and management of AFT Pharmaceuticals Limited ('AFT' or 'the Company') are committed to ensuring that the Company 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 NZX Corporate Governance Code as dated 1 April 2023 ('NZX Code'); and
- the Third and Fourth Editions of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (notwithstanding AFT is not required to follow these recommendations owing to its ASX Foreign Exempt Listing).

The NZX Listing Rules require AFT to formally report its compliance against the recommendations contained in the NZX Code. For the financial year ended 31 March 2023, AFT may elect to either report against the version of the NZX Code as dated 17 June 2022 or to report against the current version of the NZX Code as dated 1 April 2023. AFT has elected to do the latter and it sets out in this Corporate Governance Statement how it has implemented the recommendations in the current version of the NZX Code.

Except to the extent outlined in this Corporate Governance Statement, the Board considers that AFT's corporate governance structures, practices and processes have followed all the recommendations in the NZX Code in the financial year ended 31 March 2023.

For ease of reference, relevant sub-headings in this Corporate Governance Statement include a reference to the primary relevant recommendation(s) in the NZX Code to which the disclosures under that sub-heading relate. Please note that this is a general guide only, and disclosures under a particular sub-heading are not limited solely to the recommendation(s) referred to in that sub-heading.

AFT's governance charters and policies can be found in the Investor Centre on the Company's website (<https://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 18 May 2023 and is current as at that date.

Stock Exchange Listings

AFT is incorporated in New Zealand and is listed on the 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.

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 in the Investor Centre on the Company's website.

The Board currently comprises an independent non-executive Chair, three other independent non-executive directors, and two executive directors, as detailed in the Investor Centre on 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:

Ethical Standards

“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

(Recommendation 1.1)

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

The Ethics Code 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.

The Ethics Code is available to staff on AFT’s intranet and forms part of the induction process for new employees. Existing staff receive refresher courses at least once every three years. Regular reminders are provided to staff about the application of the Ethics Code.

The Ethics Code 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 Ethics Code, legal obligations, or other AFT policies; and
- additional director responsibilities.

AFT encourages staff to report any concerns they have about compliance with the Ethics Code, AFT policies, or legal obligations.

It achieves this with staff-wide communications and has established a designated email address, that is directed to the personal emails of all non-executive independent directors, for staff to confidentially raise any concerns they may have.

The Board has introduced six-monthly reviews of the Ethics Code and expects any incidents arising under the Ethics Code to be brought to directors’ attention

immediately. AFT’s process for managing any breach of the Ethics Code is detailed in the Ethics Code.

In addition, AFT has implemented the following stand-alone policies to support the application of the Ethics Code and define the process for raising concerns about actual, suspected, or anticipated wrongdoings within the AFT group of companies:

- Diversity and Inclusion Policy;
- Anti-Bribery and Anti-Corruption Policy;
- Whistleblowing Policy; and
- Conflicts of Interest Policy.

The Ethics Code and the policies listed above are available in the Investor Centre on the Company’s website.

Securities Trading Policy

(Recommendation 1.2)

The Company is committed to ensuring that its people comply with legal requirements not to trade AFT securities while in possession of inside information. AFT’s Securities Trading Policy accordingly applies to all directors, officers, employees, and contractors 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 in the Company’s securities is prohibited.

Compliance with the Securities Trading Policy is monitored through the consent process, through education and periodic reminders 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 disclosed to NZX and in AFT’s Interests’ Register.

AFT’s Securities Trading Policy is available in the Investor Centre on 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

(Recommendation 2.1)

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:

- provide leadership to the Company;
- build sustainable value for shareholders;
- establish the Company’s values and objectives;
- develop major strategies for achieving the Company’s objectives;
- manage financial and non-financial risks;
- determine the overall policy framework within which the business and Company are operated; and
- monitor management’s performance and remuneration 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 ending 31 March 2023. There were also separate meetings of the Board Committees during the year. In addition, the Board and management met during the year to undertake strategic planning.

Board Membership, Size, and Composition

(Recommendation 2.2, 2.3)

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 2023 the Board comprised six directors:

David Flacks	Independent, Non-executive Director and Chairman
Anita Baldauf	Independent, Non-executive Director
Jon Lamb	Independent, Non-executive Director
Ted Witek	Independent, Non-executive Director
Hartley Atkinson	Executive Director and Chief Executive Officer
Marree Atkinson	Executive Director and Chief of Staff

The average tenure of non-executive directors at the date of this report is 5.9 years. A biography of each director, their qualifications and relevant experience can be found in the latest Annual Report and in the Investor Centre on the Company’s website.

The Board has delegated to the Remuneration and Nominations Committee the responsibility for identifying and recommending director candidates for the approval of the Board. When recommending candidates, the Committee takes 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 are 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, gained both locally and internationally, that are appropriate to meet its objectives.

The Board has developed (and periodically reviews and updates) a comprehensive skills matrix to inform Board succession planning and considers each director’s experience against identified industry specific and broader governance-related skills.

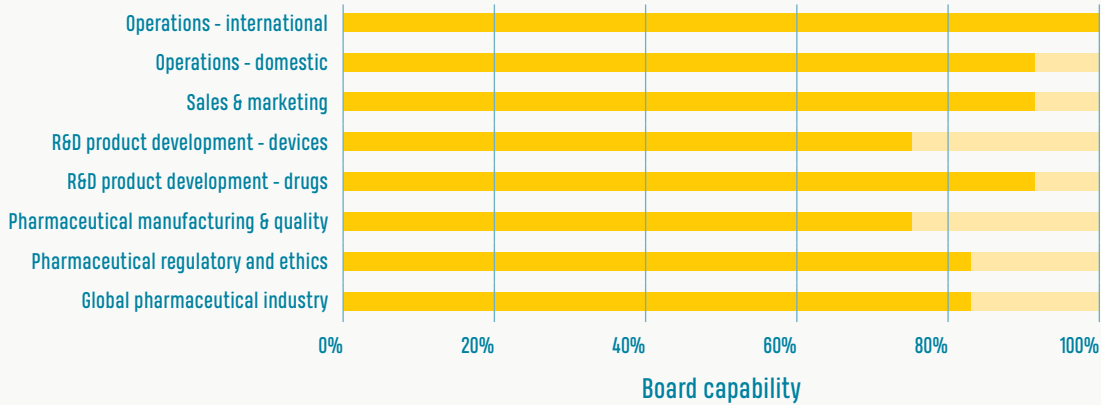
Industry-specific skills identified as being particularly relevant include:

- global pharmaceutical industry experience;
- pharmaceutical regulatory and ethics experience;
- R&D product development for drugs and devices;
- commercial operations experience – both domestic and international; and
- pharmaceutical sales and marketing.

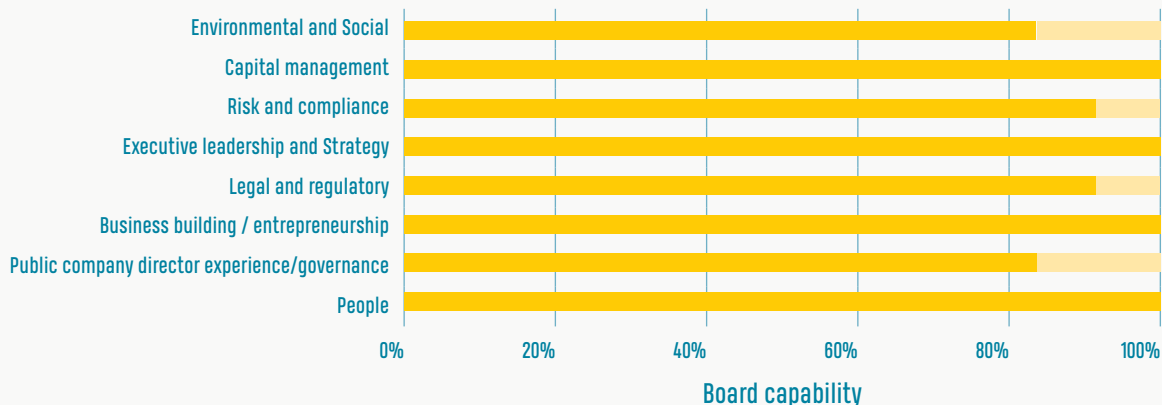
A summary of the board’s assessment of its aggregate capability against these criteria is set out below, with an assessment of 100% representing very high Board capability. The Board arrived at these assessments by calculating the aggregate scores of the three most highly skilled directors in each of these domains.

This approach recognises that a diversity of skills is important to delivering best practice governance and that it is unrealistic and unnecessary for all directors to be highly skilled in each of the relevant domains. It also balances these considerations against the need to ensure a diversity of well-informed perspectives is brought to bear on any issue brought before the Board.

Board Skills Specific to Aft Pharmaceuticals



Board General Business Skills



Board Appointment, Training, and Evaluation

(Recommendation 2.6, 2.7)

The procedure for the appointment and removal of directors is ultimately governed by the Company's Constitution and relevant NZX Listing Rules.

A person may be appointed as a director by the Board or by appointment at a meeting of shareholders.

A director appointed by the Board must not hold office (without standing for re-election) past the next Annual Shareholders Meeting following their appointment. Directors are otherwise subject to the rotation requirements set out in the NZX Listing Rules.

No new directors were appointed to the Board during the 2023 financial year. However, longstanding director Dr Doug Wilson retired from the board at the conclusion of the Company's 2022 Annual Shareholders Meeting.

Additionally, in accordance with the rotation requirements of the NZX Listing Rules, Executive Director Dr Hartley Atkinson, and Independent Non-Executive Director Jon Lamb were re-elected to the Board at the Company's 2022 Annual Shareholders Meeting.

At the time of appointment, each director receives a copy of AFT's Corporate Governance Manual (comprising all 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 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 and 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 year ended 31 March 2023, the Board undertook a review of its own and its committees' composition and performance to ensure they are effectively governing AFT and monitoring AFT's performance in the interests of shareholders.

Independence of Directors

(Recommendation 2.4, 2.8, 2.9, 2.10)

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 NZX Code and the Board Charter and include factors such as the director's professional and personal relationships with the Company and its subsidiaries and the director's length of tenure as applicable.

Generally, a director is considered to be independent if that director is not an employee of AFT and does not have any direct or indirect interest, position, association, tenure, or relationship that could reasonably influence, or be perceived to influence, in a material way, the director's capacity to:

- bring an independent view to decisions in relation to AFT;
- act in AFT's best interests; and
- represent the interests of AFT's shareholders generally.

The Board has determined that all the 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 and the Conflicts of Interest Policy outline 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

(Recommendation 2.5)

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, ages, genders, and 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.

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 the Policy.

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

- reviewing progress against measurable diversity objectives and initiatives developed by AFT to deliver outcomes consistent with the Policy;
- promoting a working environment free from discrimination, harassment, and victimisation;
- emphasising the accountability of AFT's 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, inclusion, 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 the Policy; and
- 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 financial year ended 31 March 2023. The steps AFT took during the year to develop and maintain a diverse and inclusive working environment and fair remuneration, including gender pay gap reporting, are detailed in the latest Annual Report.

In the year ahead (the financial year ending 31 March 2024) the Company will continue to monitor and benchmark against the diversity and inclusion objectives agreed by the Board in the financial year ended 31 March 2024.

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 in the Investor Centre on 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 are 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

(Recommendation 3.1, 3.2)

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.

Under the Audit and Risk Committee Charter, the Committee must be comprised of a minimum of three members who are each non-executive directors, a majority of whom are 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.

Employees are not permitted to attend meetings of the Audit and Risk Committee without an invitation. The Chairman of the Committee should not have a long-standing association with AFT’s external audit firm as a current, or retired, audit partner or senior manager at the firm.

The current members of the Committee are Jon Lamb (Chairman), David Flacks and Anita Baldauf.

All members are independent, non-executive directors. Anita Baldauf is considered to have a financial background for the purposes of the NZX Listing Rules.

The Audit and Risk Committee held four formal Committee meetings during the financial year ended 31 March 2023.

Remuneration and Nominations Committee

(Recommendation 3.3, 3.4)

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.

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. Management of the company are not permitted to attend the Remuneration and Nomination Committee unless invited.

The Chairman of the Committee is required to be independent. The current members of the Committee are Jon Lamb (Chairman), David Flacks and Ted Witek.

The Remuneration and Nominations Committee held two meetings during the financial year ended 31 March 2023 and carried out other functions via circular resolution.

Regulatory and Product Development Oversight Committee

(Recommendation 3.5)

The Regulatory and Product Development Oversight Committee's role is to, at least bi-annually, review the Company's regulatory risk management framework relating to product development; oversee the Company's strategy relating to key clinical and product development projects and monitor the Company's compliance framework against applicable regulations regarding the sale and distribution of pharmaceutical products.

Committee members also meet frequently on an informal basis to discuss regulatory and new product development matters. The functioning of the Committee complements the monthly monitoring undertaken by the Board on the status of new product development and filings.

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 Ted Witek (Chairman), Hartley Atkinson, and Marree Atkinson.

The Regulatory and Product Development Oversight Committee met twice during the financial year ended 31 March 2023.

Board and Committee Attendance

(Recommendation 3.5)

A table showing the number of Board and committee meetings each director was eligible to attend and attended during the financial year ended 31 March 2023 is provided in the Statutory Disclosures section of the latest Annual Report.

Takeover Response Guidelines

(Recommendation 3.6)

AFT's independent 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 69% 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 and other stakeholders.

Market Disclosure Policy

(Recommendation 4.1)

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 in the Investor Centre on 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

(Recommendation 4.2)

AFT's governance charters and policies can be found in the Investor Centre on the Company's website.

Financial and Non-Financial Reporting

(Recommendation 4.3, 4.4)

The Board is responsible for ensuring the integrity of its financial and non-financial reporting.

AFT is committed to providing shareholders and other stakeholders with a balanced and, clear, objective, understandable and easily accessible assessment of its performance, business model, strategic objectives and its progress against them.

To achieve these goals the Company reports a range of financial and non-financial information at each results announcement and in its full-year reports.

Reporting Oversight

The Audit and Risk Committee closely monitors financial and other reporting risks in relation to the preparation of the financial statements and accompanying non-financial information.

With the assistance of management, the Audit and Risk Committee works to ensure that the financial statements and accompanying non-financial

information are founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting and other material 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 and accompanying non-financial statements:

- present a true and fair view of the Company's financial condition and operational performance;
- are in accordance with the relevant accounting standards; and
- are founded on a sound system of risk management and internal controls that are operating effectively.

The Board receives copies of all material announcements made to the NZX and ASX.

Non-Financial/Environmental Social and Governance ('ESG') Reporting

(Recommendation 4.4)

Over recent years AFT has been evolving its strategies to incorporate the ESG factors that are material to the Company's ability, and commitment, to creating value long-term. It has also taken steps to report its progress against those strategies in a way that is aligned with the Company's broader reporting standards and commitments.

The Company has aligned its ESG reporting to the United Nations Sustainable Development Goals, which reflect the most urgent global environmental, political, and economic challenges.

Having completed a systematic and robust assessment of the ESG issues that are material to AFT during the year to 31 March 2022, AFT is now evolving the breadth and depth of measures against which it can assess its performance against these material issues and establish a broader range of targets. These disclosures are overseen by the Board.

In addition to the information contained in this Governance Statement further detail is covered in the ESG section of the latest Annual Report.

In addition to the information contained in this Governance Statement further detail is covered in the ESG section of the latest Annual Report.

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.

Director Remuneration

(Recommendation 5.1)

Director Remuneration Policy

AFT’s policy regarding remuneration of its directors is set out in the Board Charter. Key aspects of this policy in respect of Non-Executive and Executive Director remuneration are summarised in the “Non-Executive Director Remuneration” and “Executive Director Remuneration” sections below.

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.

Directors’ fees were reviewed in May 2022 and the overall increase of 17% as detailed in the table below was approved, effective from April 2022. Committee fees are payable to directors, as detailed in the table below. Despite this increase, directors’ fees are still within the \$575,000 per annum limit noted above.

Directors may hold shares in the Company, the 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 in the table below.

Executive Director Remuneration

See heading “Chief Executive and Chief of Staff Remuneration” under “Senior Executive Remuneration” below.

	Position	Fees per annum effective April 2022 ¹
Board of Directors	Chair	\$127,500
	Director ²	\$70,000
Audit and Risk Committee	Committee Chair	\$20,000
	Committee Member	\$5,000
Remuneration and Nominations Committee	Committee Chair	\$7,500
	Committee Member ³	\$5,000
Regulatory and Product Development Oversight Committee	Chair ³	\$15,000
	Committee Member ⁴	\$5,000

¹ All fees are paid in NZD unless stated.

² Fee payable to non-United States (US) based directors. US-based directors receive USD\$70,000.

³ Fee payable to non-US based directors. US based directors receive USD\$5,000.

⁴ Fee payable to non-US based directors. US based directors receive USD\$15,000.

Senior Executive Remuneration

(Recommendation 5.2, 5.3)

Remuneration Policy

AFT has adopted a formal Remuneration Policy, the purpose of which is to outline the remuneration principles that apply to all 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 in the Investor Centre on 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% to 30% of base salary, depending on seniority and role, and this increases to 75% for the Chief Executive Officer.
- 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 that 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 that operate to limit the economic risk of their vested or unvested entitlements. In addition, AFT may offer provisions that have a monetary benefit to employees but are not considered part of remuneration.

Each year an internal review against our public company peers 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 financial year ended 31 March 2023, performance reviews took place in accordance with this process.

Chief Executive and Chief of Staff 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.

Their remuneration packages are set by the Board to reflect the scope and complexity of each role, with reference to comparative market data.

During the financial year ended 31 March 2023, Hartley Atkinson, and Marree Atkinson's remuneration both comprised a fixed cash component and an at-risk short-term incentive. Neither executive director was issued any form of long-term incentive during the financial period.

Further details on the actual remuneration received by the executive directors during the financial year ended 31 March 2023 can be found in the Statutory Disclosures Section of the latest Annual Report.

The executive directors' performance is reviewed by the Board annually. During the financial year ended 31 March 2023, 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

(Recommendation 6.1)

Like other businesses, AFT manages a range of risks that have the potential to impact its performance, operations, 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 its stakeholders;
- safeguard the Company’s assets and maintain its reputation and social licence to operate;
- improve the Company’s financial and 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 and reviews the risk management framework and risk register at least twice a year.

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. Information regarding AFT’s internal audit functions can be found under the section headed “Internal Audit Function” below.

Principal Risks

(Recommendation 6.2)

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

AFT’s risk management framework has positioned AFT well to respond to the challenges the Company faces and further detail is included in the Company’s latest annual report.

1. **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; and
- monitoring regulatory timetables and maintaining regular dialogue with licensees to anticipate and manage delays proactively, where necessary.

2. Competition of pharmaceutical products and devices.

AFT mitigates this risk by:

- product innovation;
- diversification of our product portfolio; and
- maintaining a broad range of distribution channels, partners, and geographies.

3. 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; and
- regularly monitoring pharmaceutical patent registrations.

4. Reliance on third parties for the manufacture, distribution, and licensing of AFT products

AFT mitigates these risks by:

- using multiple manufacturers where possible for our key products;
- operating an inventory policy of holding a minimum of 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.
- engaging with suppliers on compliance with our Modern Slavery Policy to ensure AFT and all the entities it controls address and report on any Modern Slavery and ethical sourcing risks in its operations and supply chain; and
- introducing a Supplier Code of Conduct in the 2023 financial year, which fosters and encourages respect for Human & Labour Rights, Ethical Business Practices, Environmental Responsibility, Product and Service Quality and Safety with our external partners.

5. 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 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; and
- 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.

6. Failure to execute growth strategy.

AFT mitigates this risk by:

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

7. 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; and
- maintaining an active investor relations program should a further equity raise be considered.

8. Key personnel loss.

AFT mitigates this risk by:

- succession planning and promoting a culture of diversity and inclusion;
- adopting a competitive remuneration policy designed to assist us in retaining key personnel; and
- carefully selecting our personnel to try to ensure that they fit with our culture and growth plans.

9. Health and safety risks.

AFT mitigates these risks by:

- adopting 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;
- agreeing a detailed (Board-approved) 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 Board meeting and there is a detailed review on health and safety risks each quarter; and
- establishing an employee-led Health and Safety Committee. The committee meets regularly to monitor and manage health and safety risks, including hazards, within the business, and inform Board reporting. Further detail on the Company's management of health and safety risks is covered in the latest Annual Report.

10. Cyber risk.

AFT mitigates this risk by:

- maintaining robust systems and processes to support our information and communication technology (ICT) system security;
- commissioning regular independent reviews of our ICT systems;
- maintaining and regularly reviewing business continuity and disaster recovery plans and systems; and
- promoting a culture of cybersecurity in the organisation through regular training; and communication.

11. Climate change risk.

AFT mitigates this risk by:

- commencing preparations to report against the new Aotearoa New Zealand Climate Standards for the 2024 financial year. Through this process the Company will identify and assess and develop practices and processes to manage any climate related risks to the Company.

PRINCIPLE 7

Auditors

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

External Auditor Independence

(Recommendation 7.1)

AFT has adopted an Audit 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 do not conflict, and are not perceived as conflicting, with their independent role.

The Policy also requires that the key audit partner be changed at least every five years so that no person shall be engaged in an audit of AFT for more than five consecutive years. AFT engaged a new audit firm in February 2018 and in accordance with this Policy and in accordance with NZX Listing Rule 2.13.3 has rotated to a new audit partner for the year to 31 March 2023.

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.

Details of this work are covered in the Company’s latest Annual Report.

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.

(Recommendation 7.3)

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 who provide feedback on AFT’s control environment, which is reviewed by the finance team and Board.

The Board and finance team regularly consider how AFT can improve its internal audit and risk management practices during AFT’s annual governance review, bi-annual risk reviews, preparation of interim and full-year financial statements and following AFT’s annual audit.

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

(Recommendation 8.1, 8.2)

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 stakeholders with information about the Company and to enable them to actively engage with the Company and exercise their rights 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 Centre on the Company’s website;
- full-year and half-year results and/or reports;
- 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, investors and the media 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 financial position, 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@aftpharm.com

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

Shareholder Voting Rights

(Recommendation 8.3)

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.

In the financial year ended 31 March 2023, there were no such transactions requiring shareholders’ approval under the Companies Act 1993, AFT’s Constitution and/or the NZX Listing Rules.

As required by the NZX Listing Rules, AFT conducts voting at its shareholder meetings by way of polls, reflecting the principle of one share, one vote. Further information on shareholder voting rights is set out in AFT’s Constitution.

Annual Shareholders Meeting

(Recommendation 7.2, 8.2, 8.5)

AFT’s 2023 Annual Shareholders Meeting is currently intended to be held in early August 2023. Shareholders will be given an opportunity to participate, vote and ask questions and comment.

In addition, the Company’s auditors, Deloitte, will be available to answer any questions about their audit report. A Notice of Meeting will be posted on AFT’s website as soon as possible and will be posted at least 20 working days prior to the meeting.

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