



Aspen Pharmicare Holdings Limited

Annual Report 2012



Corporate governance statement

Corporate governance includes the structures, processes and practices that the Board of Directors uses 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. Aspen's 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 is ever 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 aimed at ensuring that decisions are taken in a 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 III AND COMPLIANCE WITH COMPANIES ACT

The Group's efforts to enhance its application of King III during the current financial year and to ensure its ongoing compliance with the South African Companies Act, 2008 ("Companies Act") effective from 1 May 2011, resulted in certain further incremental changes being made to the Group's governance structures and in the preparation of the Company's Memorandum of Incorporation ("MOI"). This MOI will be tabled for shareholder approval at the annual general meeting of the Company to be held on 4 December 2012.

Statement of Governance Compliance

The directors are of the opinion that the Group has applied the requirements of King III except as disclosed in the gap analysis provided on page 94 of this Annual Report and complied with the corporate governance provisions prescribed by the JSE Listings Requirements.



Highlights of significant governance changes

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. The following further enhancements were made to the Group's governance framework during the reporting period:

- reviewing the Board Charter, Terms of Reference of the Board committees and relevant Group policies and procedures in light of the requirements brought

about by the Companies Act and implementing additional amendments where necessary;

- obtaining shareholder confirmation of the Group's remuneration policy at the Company's annual general meeting held on 1 December 2011;
- establishing a Social & Ethics Committee in accordance with the provisions of the Companies Act and best practice; and
- rolling out an ethics management programme to all businesses within the Group.

THE BOARD OF DIRECTORS

Aspen is led by a unitary Board of Directors, currently constituted as required in terms of the Companies Act, and the Company's current MOI.

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.

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. Five of these are considered independent non-executive directors within the criteria determined by King III 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. 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. The terms and conditions of 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. The Remuneration & Nomination Committee is responsible for making recommendations to the Board for the identification and removal of underperforming or unsuitable directors, should this prove necessary.

In terms of the Company's Memorandum and Articles of Association, 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 annual general meeting on page 175 of this report. The re-election of retiring directors by shareholders is



subject to a recommendation by the Remuneration & Nomination Committee, 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.

Non-executive directors have no fixed term of appointment, however, 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.

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 2012 financial year were approved by a special resolution of Aspen's shareholders at the Company's annual general meeting in December 2011. The fees payable to these directors through to the annual general meeting in 2013 will be approved at the Company's annual general meeting to be held on 4 December 2012.

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, Aspen actively solicits details of its 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 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. 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 John Buchanan and Rafique Bagus was independently assessed by the Remuneration & Nomination Committee, due to them having served on the Board of Aspen for more than nine years. John Buchanan, a member of the Remuneration & Nomination Committee, recused himself from deliberations on this matter. This assessment concluded that their ongoing qualification as independent non-executive directors is beyond question and this conclusion was supported by the Board as a whole. A brief *curriculum vitae*, and the classification of each director, appears on pages 84 and 85 of this report.



Director induction, training and access to information

Newly appointed directors are required to participate in an induction programme co-ordinated by the Chairman together with the Company Secretary. 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

Corporate governance statement continued

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 the Company's Code of Conduct.

The Company Secretary is also 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 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, all directors have unrestricted access to all Group information, records, documents and facilities through the office of the Company Secretary, 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.

Board mandate

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 at least once annually to ensure that it remains relevant, appropriate and in line with governance best practice. The key responsibilities of the Board are, in the main, to:

- approve and review the strategic direction of the Group and monitor the execution of strategic plans;
- monitor and oversee major capital expenditure, acquisitions and disposals;
- consider financial reports and to review and approve annual budgets and business plans;
- monitor the financial performance of the Group and to approve annual and interim financial reports and capital distributions or dividends;
- identify and monitor key risk areas;
- review risk management strategies and ensure the implementation of effective internal controls;
- approve the appointment and replacement, where necessary, of the Group Chief Executive and other senior executives and to oversee succession planning;
- approve the nomination of directors and to monitor the performance of all the directors, including the Chairman and the Group Chief Executive;
- make decisions on key issues or matters at levels deemed material to the Group and to delegate authority for the day-to-day running of the business of the Group to management; and
- identify and oversee the Group's communication with key stakeholders.

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, her reappointment.

The Board is currently led by Judy Dlamini, a non-executive director. In line with the recommendations of King III and in view of the fact that she is not classified as an independent non-executive director in terms of these recommendations, the Board has appointed Roy Andersen as the Lead Independent Director. He also acts as Chairman in instances where the Chairman may have a conflict of interest. As with the chairmanship, the appointment of the Lead Independent Director is made by the Board annually, after each annual general meeting. Both the Chairman and the Lead Independent Director have formally mandated roles and responsibilities and are subject to an annual evaluation of their performance.

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 for the Group Chief Executive, Deputy Group Chief Executive and senior executives to the Remuneration & Nomination Committee 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 twice each year.

Board meetings

The Board meets at least once every quarter. Additional meetings may be 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. Four meetings and a strategy session were held in the year under review.

The table below 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. A Board pack, containing detailed proposals and management reports, is distributed by the Company Secretary 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, and requires signature by all directors to be valid. A resolution passed in this manner is effective as at the date of signature of the last-signing of the directors and is formally noted at the next Board meeting.

During the year under review four Board meetings and a strategy session were held – the table below sets out the attendance by the directors at these meetings:

Director	Board meeting 13 September 2011	Board meeting 1 December 2011	Board meeting 7 March 2012	Strategy session 28 June 2012	Board meeting 29 June 2012
Roy Andersen	✓	✓	✓	✓	✓
Gus Attridge	✓	✓	✓	✓	✓
Rafique Bagus	✓	✓	✓	✓	✓
John Buchanan	✗	✓	✓	✓	✓
Kuseni Dlamini#	n/a	n/a	n/a	✓	✓
Judy Dlamini	✓	✓	✓	✓	✓
Abbas Hussain	✓	✗	✓	✓	✓
Chris Mortimer	✓	✓	✓	✓	✓
David Nurek*	✗	n/a	n/a	n/a	n/a
Stephen Saad	✓	✓	✓	✓	✓
Sindi Zilwa	✓	✓	✓	✓	✓

Joined the Board with effect from 1 April 2012.

* Resigned from the Board with effect from 1 December 2011.

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Board of Directors

Judy Dlamini	Chairman, Non-Executive
Roy Andersen	Lead Independent Non-Executive
Gus Attridge	Deputy Group Chief Executive
Rafique Bagus	Independent Non-Executive
John Buchanan	Independent Non-Executive
Kuseni Dlamini	Independent Non-Executive
Abbas Hussain	Non-Executive
Chris Mortimer	Non-Executive
Stephen Saad	Group Chief Executive
Sindi Zilwa	Independent Non-Executive

Audit & Risk Committee

John Buchanan*
Roy Andersen
Sindi Zilwa

Remuneration & Nomination Committee

Roy Andersen*
John Buchanan
Judy Dlamini

Social & Ethics Committee

Sindi Zilwa*
Gus Attridge
Rafique Bagus
Judy Dlamini

* Committee chairman

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
- Remuneration & Nomination
- Social & Ethics

All of the Board committees are constituted in accordance with the recommendations of King III and are chaired by an independent non-executive director.

The Terms of Reference of each of the Board committees is approved annually by the Board and specifies the committee's constitution, mandate, relationship and accountability to the Board. The Company Secretary 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 in this Annual Report. The Board committees report formally to the Board at each Board meeting following any meeting of a committee.

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 constitution, role and performance of each of the Board committees are included on pages 96 to 113 of this Annual Report.



Evaluation of Board performance

An evaluation of the performance of the Board, the Board committees, the Chairman, the Group Chief Executive, the Company Secretary and of each of the individual directors is conducted annually. The evaluations carried out in 2012 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
- the Company Secretary.

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 and reported to the Chairman and, subsequently, the Board. The Board

found the results of these evaluations to be satisfactory.

The Company Secretary

The Company Secretary is also the Group Governance Officer and plays a pivotal role in the corporate governance of the Group. The Company Secretary attends all Board and committee meetings and provides the Board and directors, collectively and individually, with guidance on the execution of their governance role. The Board has considered and is satisfied with the qualification, competence and expertise of the Company Secretary. The Company Secretary is not a director of the Company and the Board has also satisfied itself of the fact that the Company Secretary continues to maintain an appropriate arm's-length relationship with the Board. Abbreviated biographical details of the Company Secretary are set out on page 85 of this Annual Report.



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

CORPORATE VALUES AND ETHICS

Aspen's values of Integrity, Innovation, Excellence, Commitment and Teamwork are fundamental to its 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 report of the Social & Ethics Committee on pages 110 to 113 of this Annual Report.



LEGISLATIVE COMPLIANCE

The Board is ultimately responsible for overseeing the Group's compliance with laws, rules, codes and standards in terms of King III. The Board has delegated to management the responsibility for the implementation of an effective legislative compliance framework and processes as envisaged by King III. 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 III. Aspen has appointed a Group Legal Officer who fulfils the function of Group Compliance Officer in providing the Board with assurance that the Group is compliant with applicable laws and regulations. This is an independent, objective assurance and consulting activity designed to give operational effect to the principles of King III.

The 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 will be reviewed annually.

Developments in legislation and the implementation of new legislation in jurisdictions where Aspen operates companies is monitored by the Aspen

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Legal department. The Group Compliance Officer reports to the Board on a quarterly basis. The Group Compliance Officer has unrestricted access to management, employees, activities and all information considered necessary for the proper execution of legislative compliance.

Based on the principal laws effective during the year, there are no material areas of non-compliance within the Group. No notable fines were incurred nor were there any 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 the following non-binding rules, codes and standards:

Australia

- Australian Self Medication Industry Association Codes
- Medical Technology Association of Australia Codes, including the Medical Devices Code
- Medicines Australia Code
- Generic Medicines Industry Association Code of Practice

South Africa

Trade associations

Aspen is a voluntary member of the following trade associations:

- Pharmaceuticals Made in South Africa
- Self Medication Manufacturers Association of South Africa
- The Health Products Association of Southern Africa
- The Infant Feeding Association of South Africa
- Cosmetic, Toiletry & Fragrance Association of South Africa

Food Quality and Safety

- ISO 22000:2008
- BSI PAS220
- ISO 9001
- ISO 17025:2005
- SANS 10049:2011

Industry

- Marketing Code for Medicines (Pharmaceutical Council of South Africa)
- Constitution of Pharmaceuticals Manufactured in South Africa
- Constitution of Self Medication Association of South Africa

Regulative

- MCC: Guidelines on Proprietary Names for Medicinal Products
- WHO: Guidance on International Non-proprietary Names

Europe

Aspen Ireland adheres to:

- Irish Pharmaceutical Healthcare Association Code of Marketing Practice
- European Union directive 2001/83/EC
- Statutory Instrument, S.I of 2007, 2008 and 2009
- Pharmaceutical Price Regulation Scheme (United Kingdom)

ENGAGEMENT WITH STAKEHOLDERS

The Board acknowledges 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.

A summary of engagement with key stakeholders is contained on pages 114 to 117 of this Annual Report.

RISK GOVERNANCE

Risk management is an embedded attribute of Aspen's corporate culture and is inherent to all 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. Aspen's risk management objectives aim to sustainably support the effective pursuit of Group strategy.

A summary of the Group's risk management process, its key risks and corresponding mitigating activities is contained on pages 80 to 83 of this Annual Report. The Group's strategic objectives and challenges in achieving these objectives are detailed on pages 18 to 25 of this Annual 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 in accordance with the King III recommendations and has appointed a Chief Information Officer to discharge the duties contained in this charter. An IT steering committee has been established to ensure 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.

During the reporting period an independent assessment was performed of the Group's IT governance processes and the application of King III to these processes. It was reported to the Audit & Risk Committee and Board that the Group's material operating subsidiaries were applying all the IT governance principles contained in King III and that Aspen's IT governance maturity was at a high level compared to the IT governance maturity levels of other large South African companies.

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.

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 Audit & Risk Committee. Further information regarding this function's activities and its focus for the year under review can be found in the Audit & Risk Committee report on pages 96 to 99 of this Annual Report.



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;

- the Group's continued ability to meet solvency and liquidity requirements as set out in section 4 of the Companies Act; and
- 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 statements are included on the compact disc in the insert on the back inside cover of this report, and are available online at www.aspenpharma.com.

