

## CORPORATE GOVERNANCE

At Abano, we are committed to conducting business in the right way, ethically and in line with our legal and regulatory obligations, to ensure we add long term value to our staff, shareholders and other stakeholders.

Abano is working towards adoption of the NZX Corporate Governance Code 2017 (the Code), which comes into effect on 1 October 2017. The Board considers that Abano's governance practices for the year comply with the existing NZX Corporate Governance Code.

Abano's approach to corporate governance and other governance documents are available for viewing on the Abano website [www.abano.co.nz/governance](http://www.abano.co.nz/governance).

A summary of Abano's governance actions and performance against each of the Principles in the new Code in FY17 is detailed below.

### PRINCIPLE 1: CODE OF ETHICAL BEHAVIOUR

FY17 Key Events	Completed annual review of Share Trading Policy	Communication of Whistle Blowing Policy across the group
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Abano is committed to ensuring the highest ethical standards are maintained by Directors, staff and suppliers in all activities conducted by the Group or in the interests of the Group.

These standards, as well as guiding principles, are set out in Abano's Ethical Conduct Policy which is available on Abano's website. Additional guidance for Directors is provided in the Board Charter.

A separate Whistle Blowing Policy provides an avenue for employees to gain director access to the CEO and/or Chairman of the Risk Assurance and Audit Committee if they believe there are issues that need to be raised.

Abano also has a Share Trading Policy to mitigate the risk of insider trading in Abano securities by employees and directors. Additional trading restrictions apply to Restricted Persons including directors and certain employees. Details of Directors' share dealings are detailed on page 47 of the Financial Statements.

### PRINCIPLE 2: BOARD COMPOSITION AND PERFORMANCE

FY17 Key Events	Completed annual review of Board Charter	Completed three-year review of Company Constitution	Independent external review of Abano Board
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The Abano Board is committed to acting in the best interests of the Company and for the benefit of all shareholders.

The Board Charter sets out the structure of the Board and the procedures for the nomination, resignation and removal of Directors. The Board Policy Manual acts as a reference for Directors in regards to Board procedures, policies and matters of governance. It outlines the responsibilities and roles of the Chairman and Directors and identifies procedures to ensure that the Board meets regularly, conducts its meetings in an efficient and effective manner and that each Director is fully empowered to perform his or her duties as a Director of the Company and to fully participate in meetings of the Board. The Company has adopted a Delegated Authorities Policy which sets out all formal delegations to the management and is reviewed annually.

#### Director Appointment

FY17 Key Events	Appointment and election of Dr Ginni Mansberg as an Independent Director	Re-election of Trevor Janes and Danny Chan as Independent Directors at 2016 annual meeting	Re-election by the Board of Trevor Janes and Pip Dunphy as Chair and Deputy Chair respectively
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The number of elected Directors and the procedure for their retirement and re-election at Annual Meetings of shareholders is set out in the Constitution of the Company.

The Board takes into consideration tenure, capability and skill sets when reviewing Board composition and new appointments. While the nomination process is the responsibility of the whole Board, the Governance and Remuneration Committee is responsible for identifying and recommending candidates, taking into account such factors as it deems appropriate, including tenure, capability, skill sets, experience, qualifications, judgement and the ability to work with other Directors.

The Abano Board currently consists of six Independent Directors. In order for a Director to be independent, the Board has determined that he or she must not be an executive of Abano Healthcare Group Limited and must have no disqualifying relationships. The Board follows the guidelines of the NZX Listing Rules.

Abano's Directors offer a wide range of complementary skills, experience and expertise in areas including the operation and management of large complex organisations, retail, capital markets, healthcare businesses, governance, business strategy, finance and Australian and Asian markets.

They provide value by making quality contributions to corporate governance matters, conceptual thinking and strategic planning, policies and providing guidance to enable management to increase profitable growth in the years ahead. Together, they reflect diversity, balance, cohesion and match the demands facing the Group.

Profiles of each Director are set out on the Abano website. Director’s interests are disclosed on pages 43 to 45 of the Financial Statements.

The Board is satisfied that each Director has the necessary time available to devote to the position, broadens the Board’s expertise, has a personality that is compatible with the other Directors and has strong market perception.

All Directors are either members of the Institute of Directors or the Australian Institute of Company Directors. Directors are committed to carrying out their roles and responsibilities in line with the Four Pillars of Best Governance Practice presented by the Institute of Directors in July 2012.

The Company encourages all Directors to undertake appropriate training and education so that they may best perform their duties. In addition, all Directors are regularly updated on relevant industry and Company issues, including briefings from key executives and ongoing presentations to the Board by all business units. External and internal training was undertaken by Directors in FY17.

All Directors have access to executives to discuss issues or obtain information on specific areas in relation to matters to be discussed at Board meetings, or other areas as they consider appropriate.

The Board Committees and Directors, subject to the approval of the Chairman, have the right to seek independent professional advice at the Company’s expense, to enable them to carry out their responsibilities.

The Company has arranged a policy of Directors’ and Officers’ liability insurance which is underwritten by QBE Insurance (International) Limited. This ensures that any monetary loss suffered by Directors and Officers, as a result of actions undertaken by them as Directors or Officers, is capped to specified limits (subject to legal requirements or restrictions).

The Board has a policy of regular evaluation of individual and collective performance, together with a regular review of the skill sets and succession planning required to govern the business. A formal independent review is conducted every three years and was last completed in 2017.

The Board supports the separation of the roles of Chairman and CEO and the appointment of an Independent Chairman.

It is also the practice of the Company that the Chairman and Deputy Chairman retire and offer themselves for re-election (should they so desire) by the Board after each Annual Meeting. Trevor Janes was re-elected Chair and Pip Dunphy was re-elected Deputy Chair following the annual meeting held in October 2016.

**Diversity**

Diversity is defined as a variety of characteristics that make individuals unique. The key aspects that Abano is seeking are diversity of thinking and skills as these attributes are most likely to assist Abano in delivering better outcomes for its stakeholders. Diversity of thinking and skills can arise through a number of different characteristics including but not limited to the following; gender, ethnic background, religion, marital status, culture, disability, economic background, education, language, physical appearance and sexual orientation. Different backgrounds, communication styles, lifeskills and interpersonal skills are also considered of value in building diverse teams.

Abano has adopted a Diversity policy which outlines Abano’s commitment to providing an inclusive and diverse environment throughout the company. The Board believes that Company performance met the objectives of the Diversity Policy in FY17. This Policy will be reviewed in 2018 and additional objectives and measures of diversity will be considered.

As at 31 May 2017, females represented 30% (FY16: 22%) of Directors and Officers of the Company (an Officer is a person who is within two tiers of reporting to the Board).

Females represented 40% (FY16: 30%) of the Company’s business management teams (including Officers) holding the positions of General Manager, Financial Controller and Operations Managers.

	FY17		FY16	
	Male	Female	Male	Female
Directors	4	2	4	1
Officers	3	1	3	1
<b>Total</b>	<b>7</b>	<b>3</b>	<b>7</b>	<b>2</b>

**Meeting Attendance**

The table below sets out Director attendance at Board and Committee meetings during FY17. There was an abnormally high number of meetings in FY17, as the Board managed the response to the hostile partial takeover offer from Healthcare Partners Holdings Limited and undertook due diligence for the capital raising announced on 26 July 2017. In total, there were 13 Board meetings, three Risk Assurance and Audit Committee (RAAC) meetings and one Governance and Remuneration Committee (GRC) meeting. An additional eight meetings were held in relation to the partial takeover offer and attended by the majority of Directors.

Board meetings are usually held monthly, with other meetings to deal with certain matters arising from time to time being held when necessary.

	Board	Risk Assurance and Audit Committee	Governance and Remuneration Committee	Takeover Committee
<b>Total number of meetings held</b>	<b>13</b>	<b>3</b>	<b>1</b>	<b>8</b>
Ted van Arkel	12	2	1	7
Murray Boyte	13	3	1	7
Danny Chan	13	3	1	8
Pip Dunphy	13	3	1	7
Trevor Janes	13	3	1	8
Dr Ginni Mansberg <sup>1</sup>	11	2	1	6

<sup>1</sup> Appointed on 24 August 2016

**PRINCIPLE 3: BOARD COMMITTEES**

FY17 Key Events	Risk Assurance and Audit Committee met three times	Governance and Remuneration Committee met once	Takeover Committee met eight times
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The Board has delegated a number of its responsibilities to Committees to assist in the execution of the Board’s responsibilities.

The use of Committees allows issues requiring detailed consideration to be dealt with separately by members of the Board with specialist knowledge and experience, thereby enhancing the efficiency and effectiveness of the Board. However, the Board retains ultimate responsibility for the functions of its Committees and determines their responsibilities.

The Committees meet as required and have terms of reference, which are approved and reviewed by the Board. Committee charters are available to view on the Abano website. Minutes of each Committee meeting are forwarded to all members of the Board, who are all entitled to attend any Committee meeting. Each Committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

The membership and performance of each Committee is reviewed annually.

The current Committees of the Board are:

**Risk Assurance and Audit Committee**

Chairman: Pip Dunphy  
 Danny Chan  
 Trevor Janes  
 Dr Ginni Mansberg

**Governance and Remuneration Committee**

Chairman: Ted van Arkel  
 Murray Boyte  
 Trevor Janes

From time to time, special purpose Committees are formed to review and monitor specific projects with senior management. A Takeover Committee was formed in FY17 to oversee disclosure and the response to the Healthcare Partners Holdings Limited partial takeover offer. Members of the Takeover Committee were Trevor Janes, Pip Dunphy and Danny Chan.

**PRINCIPLE 4: REPORTING AND DISCLOSURE**

FY17 Key Events	Increased communication with shareholders during the failed partial takeover period	Finalist in the INFINZ Emerging Leaders Best Corporate Communicator Award	Completed bi-annual review of Market Disclosure Policy
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Abano's Directors are committed to keeping investors and the market informed of all material information about the Company and its performance. In addition to all information required by law, Abano also seeks to provide sufficient meaningful information to ensure stakeholders and investors are well informed.

For the financial year ended 31 May 2017, the Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

Abano has a Market Disclosure Policy which governs the release to the market of all material information that may affect the value of the Company.

While Abano already has policies that support environmental, social and governance concerns, a more detailed framework will be considered in FY18.

**PRINCIPLE 5: REMUNERATION**

FY17 Key Events	Shareholder approval of increase in directors' remuneration at 2016 annual meeting	20,862 shares acquired by Directors under the Directors' Share Plan and the reinvestment of dividend proceeds
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Remuneration of Directors and senior executives is the key responsibility of the Governance and Remuneration Committee. The framework for the determination and payment of Directors' and senior executives' remuneration is set out in the Directors and Senior Executives Remuneration Policy. External advice is sought on a regular basis to ensure remuneration is benchmarked to the market for senior management positions, Directors and Board positions.

**Executive Remuneration**

Executive remuneration comprises a fixed base salary, a variable short term bonus payable annually with some long term bonuses. Bonuses are paid against targets agreed with executives at the commencement of the period, and are based on profitability, growth and personal objectives.

In addition, in the 2016 financial year, a long term performance based share scheme was implemented for the CEO, on materially similar terms to the original 2008 scheme approved by shareholders and renewed in 2011. The scheme further aligns management's interests with those of shareholders, and encourages management to ensure the Company performs well, through long term growth and increasing shareholder value. The Board believes it is important to motivate and retain key executives, and provide performance incentives which allow executives to share the rewards of the success of the Company. Details are provided on page 20 of the 2017 Financial Statements.

Details of executives' remuneration and entitlements are detailed under Key Management Compensation on page 42 and Remuneration of Employees information on page 49 of the 2017 Financial Statements.

**CEO Remuneration**

The review and approval of the CEO's remuneration is the responsibility of the Board.

Richard Keys commenced his role as CEO of Abano in November 2015. His remuneration package comprises a fixed base salary, a variable short term performance incentive (STI) payable annually and a long term performance based share scheme. Use of external advice was sought on the CEO's remuneration package.

Short term bonuses are paid against targets agreed at the commencement of the year, and are based on achievement of strategic objectives including financial performance against budget, specific achievement of major milestones in the strategic plan and enhancing organisation culture and capability including IT, health and safety, risk, people and culture.

Vesting of shares under the three-year Long Term Performance-based Share Scheme requires satisfaction of Underlying EPS hurdles. Details are provided on page 20 of the 2017 Financial Statements.

**CEO Remuneration (FY17)**

	Salary <sup>1</sup>	Benefits <sup>2</sup>	Subtotal	Pay for performance		Subtotal	Total remuneration
				STI <sup>3</sup>	LTI <sup>4</sup>		
CEO 1 - Richard Keys	544,758	-	544,758	122,106	-	122,106	666,864

**CEO Remuneration (FY16)**

	Salary <sup>5</sup>	Benefits <sup>6</sup>	Subtotal	Pay for performance		Subtotal	Total remuneration
				STI <sup>7</sup>	LTI <sup>8</sup>		
CEO 1 - Richard Keys <sup>9</sup>	483,201	2,220	485,421	132,018	56,700	188,718	674,139
CEO 2 - Alan Clarke <sup>10</sup>	271,893	5,099	276,992	114,389	157,500	271,889	548,881

<sup>1</sup> Actual salary paid includes holiday pay paid as per NZ legislation. Richard Keys' base salary was \$530,400.

<sup>2</sup> No additional benefits are payable as base salary is total remuneration which includes employer Kiwisaver contribution (if any).

<sup>3</sup> STI payment for the period 1 June 2015 to 31 May 2016 (maximum STI payable was \$143,654).

<sup>4</sup> Refer page 20 of the 2017 Financial Statements for details of long term incentive plan. Shares will vest in FY19 if hurdles are met.

<sup>5</sup> Actual salary paid includes holiday pay paid as per NZ legislation. Base salary for Richard Keys in CEO role was \$520,000.

<sup>6</sup> Benefits include Southern Cross health insurance and home telephone.

<sup>7</sup> STI payment for the period 1 June 2014 to 31 May 2015 (maximum STIs payable to Richard Keys and Alan Clarke were \$151,745 and \$131,482 respectively).

<sup>8</sup> LTI payment for the period 1 June 2014 to 31 May 2015 (maximum LTI paid).

<sup>9</sup> Remuneration for Richard Keys includes payment for COO/CFO role for period 1 June 2015 to 2 November 2015 and as CEO for remainder of FY16 financial year.

<sup>10</sup> Remuneration for Alan Clarke covers period 1 June 2015 to 2 November 2015.

**Director Remuneration**

An increase in the total amount of remuneration payable per annum to non-executive Directors from \$564,000 to \$663,000 was last approved at the 2016 Annual Meeting in October 2016.

Board role	Approved remuneration
Chairman	\$130,000
Deputy Chair	\$97,000
Director	\$65,000
Additional fee for Committee Chairs	\$13,000
Special annual pool to provide flexibility for the remuneration of non-executive directors who take on additional duties	\$150,000

Details of Directors' remuneration are detailed on page 48 of the 2017 Financial Statements.

The Board has previously approved a Directors' Share Plan, whereby 50% of the annual after tax fees for non-executive Directors are paid in shares, which are acquired on the market on a quarterly basis. The framework for the Share Plan is outlined in the Directors' Share Plan and Policy. Details of shares acquired under the share plan can be found in Directors' Share Dealings on page 47 of the 2017 Financial Statements.

Any proposed increases in non-executive Director fees and remuneration are put to shareholders for approval. Independent advice is also sought by the Board and disclosed to shareholders as part of the approval process.

**PRINCIPLE 6: RISK MANAGEMENT**

FY17 Key Events	Completed review of Earthquake Policy	Commenced implementation of new Risk Management reporting system
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The Board has overall responsibility for the Company's system of risk management and internal control and has procedures in place to provide effective control within the management and reporting structure. In addition, the Risk Assurance and Audit Committee (RAAC) provides an additional and more specialised oversight of Company risks. The RAAC Charter details the specific responsibilities of the Committee in regards to Risk Assurance.

Financial statements are prepared monthly and are reviewed by the Board progressively throughout the year to monitor management's performance against budget goals and objectives, and the Board requires managers to identify and respond to risk exposures. In addition, a quarterly formal risk assessment review is presented to the Board by the CEO, which identifies areas of exposure and strategies to mitigate these.

A structured framework is in place for capital expenditure, including appropriate authorisation and approval levels which place a high emphasis on the commercial logic for the investment. The Board has set limits to management’s ability to incur expenditure, enter contracts and acquire or dispose of assets.

Risk profiles which identify, assess, monitor and report the Company’s key business risks are formally reviewed by the Board quarterly. These risk profiles also identify the key risk mitigation strategies which are in place.

Crisis plans have been developed and are in place along with agreed protocols on actions to be taken and external and internal communication protocols.

Occupational Health and Safety statistics and reported data from each business are reviewed at each Board meeting. This includes serious and minor incidents along with near misses and corrective actions and internal training schemes.

The Board is responsible for monitoring corporate risk assessment processes and this is not delegated to a subcommittee.

**Health and Safety**

FY17 Key Events	Ongoing development and implementation of best practice sterilisation protocols	Development of best practice equipment and infection control manual
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The Abano Board recognises that effective management of health and safety is essential for the operation of a successful business, and its intent is to prevent harm and promote wellbeing for employees, contractors, customers and patients. The Health and Safety Charter defines the Board’s responsibilities and actions in regards to health and safety matters.

As a healthcare company, the health and safety of our patients and customers is of particular relevance.

Appropriate resources have been allocated to ensure all safety related legislative requirements are complied with and the best available health and safety management systems are established, maintained and regularly reviewed for continuous improvement. Details of Abano’s approach are outlined in the Health and Safety Policy Statement.

**PRINCIPLE 7: AUDITORS**

FY17 Key Events	Re-appointment of PricewaterhouseCoopers as Abano’s auditor	\$431,000 paid to auditors for audit and non-audit work
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Abano’s External Auditor Policy outlines the Company’s commitment to ensuring audit independence, both in fact and appearance, so that Abano’s external financial reporting is viewed as being highly objective and without bias.

The Risk Assurance and Audit Committee (RAAC) reviews the quality and cost of the audit undertaken by the Company’s external auditors and provides a formal channel of communication between the Board, senior management and external auditors.

The RAAC also assesses the auditor’s independence on an annual basis.

All audit work at Abano is fully separated from non-audit services, to ensure that appropriate independence is maintained.

For the financial year ended 31 May 2017, PricewaterhouseCoopers (PwC) was the external auditor for Abano Healthcare Group Limited. PwC was re-appointed under the Companies Act 1993 at the 2016 Annual Meeting. The last audit partner rotation was in FY15.

The amount of fees paid to PwC for audit and non-audit work are identified on page 19 of the 2017 Financial Statements.

Other services provided by PwC in FY17 were non-audit related and involved the provision of advice rather than recommendations. These were deemed to have no effect on the independence or objectivity of the auditor in relation to audit work.

Abano has a number of internal controls overseen by the RAAC, including controls for computerised information system, security, business continuity management, insurance, health and safety, conflicts of interest, and prevention and identification of fraud.

**PRINCIPLE 8: SHAREHOLDER RIGHTS AND RELATIONS**

FY17 Key Events	Delivered on annual communications plan	38% of shareholders have elected to receive electronic communications
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The Board is committed to open and regular dialogue and engagement with shareholders. Abano has a calendar of communications and events for shareholders, including but not limited to:

- Annual and Interim Reports
- Bi-annual Shareholder Newsletter
- Market announcements
- Annual Meeting
- Institutional investors and retail broker roadshows
- Other ad hoc investor presentations
- Easy access to information through the Abano website [www.abano.co.nz](http://www.abano.co.nz)
- Open access to management via phone calls and email.

Shareholders are actively encouraged to attend the Annual Meeting and may raise matters for discussion at this event, and vote on major decisions which affect Abano. Voting is by poll, upholding the 'one share, one vote' philosophy.

Abano also provides additional opportunities for shareholders to meet with management at various shareholder events, including investor roadshows in New Zealand and Australia and presentations at shareholder organisations.

All shareholders are given the option to elect to receive electronic communications from the company.

In addition to shareholders, Abano has a wide range of stakeholders and maintains open channels of communication for all audiences, including brokers, the investing community and the New Zealand Shareholders' Association, as well as its staff, suppliers and customers.

Abano has a number of policies which uphold stakeholder interests including but not limited to the Share Trading Policy, Market Disclosure Policy and Ethical Conduct Policy.