



2016 **NOTICE OF MEETING**

Australian Pharmaceutical Industries Limited

NOTICE OF MEETING

Notice is given that the 2016 Annual General Meeting of shareholders of Australian Pharmaceutical Industries Limited will be held at Rydges Parramatta Hotel, 116-118 James Ruse Drive, Rosehill, NSW on Wednesday 25 January 2017 at 2.00 pm (AEDT).

BUSINESS

Items 2 to 4 will be proposed as ordinary resolutions.

ORDINARY BUSINESS

Reports

1. To receive and consider the Financial Report of the Company and its controlled entities and the reports of the Directors and the Auditor for the year ended 31 August 2016.
2. Adoption of the Remuneration Report.

To adopt the Remuneration Report for the year ended 31 August 2016.

The vote on this resolution is advisory only and does not bind the Company or its Directors.

Re-election of Director

3. To re-elect a Director. Mr Gerard J. Masters retires by rotation in accordance with the Company's Constitution, and being eligible, offers himself for re-election.

Non-Executive Director's Remuneration

4. To consider and, if thought fit, to pass the following resolution:

"In accordance with Rule 10.2 of the Company's Constitution and for the purposes of ASX Listing Rule 10.17, that the maximum aggregate amount of Approved Fees (within the meaning in the Company's Constitution) available for payment to the Directors of the Company (other than the Managing Director) as remuneration for their services as Directors of the Company be increased by \$350,000 from \$850,000 to \$1,200,000."

VOTING RESTRICTIONS

Voting restrictions for Item 2

The Corporations Act prohibits Directors and other key management personnel of the Company (details of whose remuneration are included in the Remuneration Report) and their closely related parties voting in any capacity (e.g. as a shareholder, proxy or corporate representative) on item 2.

In addition, other members of the key management personnel (and their closely related parties) must not cast a vote as a proxy for another shareholder.

However, these restrictions do not apply to a vote cast by such person on behalf of a person who is not themselves subject to the restrictions, and:

- the person is appointed as proxy by writing that specifies the way the proxy is to vote on item 2; or
- the person is the Chairman of the Meeting and the proxy appointment expressly authorises the Chairman of the Meeting to vote undirected proxies as the Chairman decides.

The Chairman of the Meeting intends to vote undirected proxies (where he has been appropriately authorised) in favour of item 2.

Voting restrictions for Item 4

In accordance with the ASX Listing Rules, the Company will disregard any votes cast on item 4 by a Director or an associate of a Director.

The Company need not disregard a vote if the vote is cast by such person on behalf of a person who is not themselves subject to the restrictions, and:

- the person is appointed as proxy by writing that specifies the way the proxy is to vote on item 4; or
- the person is the Chairman of the Meeting and the proxy appointment expressly authorises the Chairman of the Meeting to vote undirected proxies as the Chairman decides.

The Corporations Act also prohibits the Company's other key management personnel and closely related parties of the Company's key management personnel voting as a proxy on item 4, if the proxy appointment does not specify the way the person is to vote. The prohibition does not apply to the Chairman of the Meeting where the proxy appointment expressly authorises the Chairman of the Meeting to exercise an undirected proxy.

Other Directors and other key management personnel of the Company and their closely related parties will not cast any votes in respect of item 4 that arise from any undirected proxy that they may hold.

The Chairman of the Meeting intends to vote undirected proxies (where he has been appropriately authorised) in favour of item 4.

UNDIRECTED PROXIES

The Chairman of the Meeting intends to vote undirected proxies (where the Chairman has been appropriately authorised) in favour of all items.

If you do not wish to appoint the Chairman of the Meeting to vote in favour of all items, it will be important for you to complete the voting directions in respect of each item in Step 2 of the proxy form.

VOTING ENTITLEMENTS

The Board has determined that for the purposes of the Meeting (including voting at the Meeting), shareholders are those persons who are the registered holders of ordinary shares at 7.00 pm (AEDT) on Monday 23 January 2017.

PROXIES

A shareholder has the right to appoint a proxy, who need not be a shareholder of the Company. If a shareholder is entitled to two or more votes they may appoint two proxies and may specify the percentage of votes each proxy is appointed to exercise.

To be effective for the Meeting, the proxy form (and any authority under which it is signed or a certified copy) must be received by the Company no later than 2.00 pm (AEDT) on Monday 23 January 2017 (48 hours before the commencement of the Meeting).

Completed proxy forms can be:

- hand delivered during normal business hours to the Company's Share Registry, Boardroom Pty Limited located at Grosvenor Place, Level 12, 225 George Street, Sydney NSW 2000;
- returned by post to Boardroom Pty Limited GPO Box 3993, Sydney NSW 2001; or
- sent by facsimile to Boardroom Pty Limited on +61 2 9290 9655.

Alternatively, shareholders may complete and lodge the proxy form online by following the instructions on the proxy form, so that the instructions are received no later than 48 hours before the commencement of the Meeting.

CORPORATE REPRESENTATIVES

A body corporate which is a shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the Meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which it is signed or a certified copy, unless it has previously been given to the Company.

By order of the Board



Peter Sanguinetti
Company Secretary

9 December 2016

ITEM 1 – ANNUAL REPORTS

A copy of the Company's 2016 Annual Report (including the Financial Report of the Company and its controlled entities and the reports of the Directors and the Auditor for the year ended 31 August 2016) can be obtained by contacting the Company's Share Registry or by visiting the Company's website www.api.net.au and clicking on the "Investors" tab and following the links to the 2016 Annual Report.

Shareholders may elect to receive by mail, free of charge, the Company's Annual Report. Shareholders who wish to receive a hard copy of the Annual Report should contact the Company's Share Registry to obtain the necessary election form.

ITEM 2 – REMUNERATION REPORT – NON-BINDING ADVISORY VOTE

As required by the Corporations Act, the Board is presenting the Remuneration Report for the year ended 31 August 2016 to shareholders for consideration and adoption by a non-binding vote. The Remuneration Report contains:

- an explanation of the Company's policy for determining the remuneration of the Directors, senior managers and employees;
- a description of the relationship between the remuneration policy and the Company's performance;
- a summary of the approach to remunerating senior executives, including performance related remuneration; and
- remuneration details for each Director and for each of the Company's key management personnel.

The Remuneration Report, forms part of the Company's Annual Report.

The vote on item 2 is advisory and will not bind the Directors. The Board will take the outcome of the vote into consideration when reviewing remuneration practices and policies of the Company.

Board Recommendation

The Board considers that the remuneration policies adopted by the Company are appropriately structured to provide rewards that are commensurate with the performance of the Company.

On this basis, the Board recommends that shareholders vote in favour of item 2.

NOTICE OF MEETING

continued

ITEM 3 – RE-ELECTION OF DIRECTOR

Rule 3.6 of the Company's Constitution requires a Director to retire from office at the third annual general meeting after the Director was elected or last re-elected.

Accordingly, Mr Gerard J. Masters and Ms Carol Holley having been last re-elected in 2014, will retire at the end of the Meeting.

Ms Carol Holley has chosen not to offer herself for re-election. Ms Holley has been a valuable contributor to the Board since 2006, especially in her capacity as Chair of the Audit and Risk Committee. The Board would like to express their sincere gratitude for her service as a Director.

Being eligible, Mr Gerard J. Masters offers himself for re-election as a Director. The profile of Mr Masters is set out below.

Mr Gerard J. Masters

Independent non-executive director.

Director since 7 September 2010.

Appointed member of the Nomination Committee on 15 August 2012.

Appointed member and Chair of the Remuneration Committee on 30 January 2014.

Mr Masters has had extensive experience in retailing. Until his resignation in early 2006, he spent more than 33 years with the Coles Myer Group. This included a 10 year period as Managing Director of Bi Lo, Coles and then the total Supermarkets Group which was Coles Myer's largest and most profitable business. His most recent role, until his resignation in 2009, was as the Managing Director and CEO of The Reject Shop Limited.

The Board considers that Mr Masters is an independent Director.

Board Recommendation

The Board (excluding Mr Gerard J. Masters because of his interest) supports the re-election of Mr Gerard J. Masters.

ITEM 4 – NON-EXECUTIVE DIRECTORS' REMUNERATION

Shareholder approval is sought to increase the maximum aggregate of fees payable to Non-executive Directors by \$350,000 from \$850,000 to \$1,200,000 per annum.

ASX Listing Rule 10.17 provides that the Company must not increase the total amount of Non-Executive Directors' fees payable by it without shareholder approval. Rule 10.2 of the Company's Constitution provides that the total aggregate amount of remuneration paid to Non-Executive Directors must not exceed in aggregate the amount last fixed by ordinary resolution of a general meeting of shareholders.

The maximum aggregate of fees payable to Non-executive Directors is \$850,000 as resolved at a general meeting of shareholders on 30 January 2014.

The fees paid to Non-executive Directors were independently reviewed by Guerdon Associates during 2016 who determined that the base board fees are significantly below the median of market benchmarks and that, with the exception of the Audit & Risk committee chair, committee fees are also below market benchmarks.

The fees currently paid to each Director are set out in the 2016 Annual Report.

Over the next two to three years, the Board will be moving through a period of renewal, and is seeking to appoint new directors, and possibly increasing the number of non-executive directors to ensure an appropriate balance and level of skills and experience. For example, this could include directors with in-depth knowledge and experience of the markets and sectors which we may want a stronger focus on.

In seeking the fee pool increase, the Board has had regard for a range of factors including:

- as the current fees are well below market levels, the Board needs to ensure the fees are at least at a level commensurate with the Company's size and industry to attract and retain suitably qualified and experienced directors;
- increasing the pool of potential directors for a sufficient diversity of skills, age, ethnicity, gender and experience to ensure it is fully capable of meeting the increasing demands of the business and the market. Current fee levels may be insufficient to encourage qualified individuals from more diverse backgrounds to consider becoming an API Director; and
- the Board needs to ensure it has sufficient capacity and flexibility for renewal and possibly additional directors to provide the breadth and depth of skills and experience needed for continued and sustainable growth.

Given the findings of the independent adviser, and following consideration by the Remuneration Committee and the Board, it is proposed that the maximum aggregate of fees per annum available for payment (inclusive of superannuation and exclusive of reimbursement of expenses) be increased from \$850,000 to \$1,200,000.

The Non-Executive Directors' fees for the financial year commenced 1 September 2016 will not use any part of the proposed increase (beyond \$850,000).

Board Recommendation

Given their interest in the subject matter of this resolution, the Directors make no recommendation to shareholders on item 4.