



api

2017
**NOTICE OF
MEETING**

Australian Pharmaceutical Industries Limited

NOTICE OF MEETING

Notice is given that the 2017 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 24 January 2018 at 2.00 pm (AEDT).

BUSINESS

Items 2 to 7 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 2017.
2. Adoption of the Remuneration Report.

To adopt the Remuneration Report for the year ended 31 August 2017.

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

Election of Directors

3. To re-elect a Director. Ms Lee Ausburn retires by rotation in accordance with the Company's Constitution, and being eligible, offers herself for re-election.
4. To re-elect a Director. Mr Kenneth Gunderson-Briggs retires by rotation in accordance with the Company's Constitution, and being eligible, offers himself for re-election.
5. To elect a Director. Mr Mark Smith retires in accordance with the Company's Constitution, and being eligible, offers himself for election.
6. To elect a Director. Ms Jennifer Macdonald retires in accordance with the Company's Constitution, and being eligible, offers herself for election.

Grant of Performance Rights to Mr Richard Vincent, Managing Director and Chief Executive Officer

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

"That, for the purposes of Listing Rule 10.14, and for all other purposes, the grant of performance rights under the API Long Term Incentive Plan to the Company's Managing Director and Chief Executive Officer, Mr Richard Vincent, on the terms set out in the Explanatory Notes to the Notice of 2017 Annual General Meeting be approved."

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 7

In accordance with the ASX Listing Rules and the Corporations Act, the Company will disregard any votes cast on item 7:

- by Mr Vincent and his associates; and
- by the Company's key management personnel and their closely related parties if voting as a proxy,

unless the vote is cast by:

- a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- the Chairman of the Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

There is no share plan in respect of which the Directors (other than Mr Vincent) are entitled to participate. Therefore, under the ASX Listing Rules, each of the Directors (other than Mr Vincent) is able to vote on item 7.

The Chairman of the Meeting intends to vote undirected proxies (where he has been appropriately authorised) in favour of item 7.

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.

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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 22 January 2018.

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 22 January 2018 (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

8 December 2017

ITEM 1 – ANNUAL REPORTS

In accordance with the Corporations Act, the Company's 2017 Annual Report, which contains 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 2017, will be put before the Annual General Meeting.

A copy of the Company's 2017 Annual Report 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 2017 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.

There is no requirement for a formal resolution on this matter. Accordingly, there will be no formal resolution put to the Annual General Meeting. Shareholders will be given a reasonable opportunity at the Annual General Meeting to raise questions on these reports or make comments on Company matters.

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 2017 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 only 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.

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ITEMS 3, 4, 5 AND 6 – ELECTION OF DIRECTORS

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, Ms Lee Ausburn having been last re-elected in 2015 and Mr Kenneth Gunderson-Briggs having been last elected in 2015, will retire at the end of the Meeting. Being eligible, Ms Lee Ausburn and Mr Kenneth Gunderson-Briggs both offer themselves for re-election as a Director.

Mr Peter Robinson, who has been a Director on the API Board since 5 May 2000, will be retiring from the Board at the conclusion of this year's Annual General Meeting, and will not be seeking re-election. Mr Robinson has been a valuable contributor to the Board, especially in his role as Chairman. The Board would like to express its sincere gratitude for his exceptional service as a Director.

Rule 3.3 of the Company's Constitution provides that a Director appointed by the Board automatically retires at the next annual general meeting following their appointment and is eligible for election as a Director at that general meeting. Mr Mark Smith and Ms Jennifer Macdonald, having been appointed by the Board on 6 September 2017 and 9 November 2017 (respectively), each retire at the end of the Meeting. Being eligible, Mr Mark Smith and Ms Jennifer Macdonald offer themselves for election as a Director.

The profiles of each Director seeking re-election or election is set out below.

Ms Lee Ausburn

M.Pharm, B.Pharm, Dip.Hosp.Pharm, FAICD

Independent Non-executive Director.

Appointed Director on 7 October 2008.

Appointed member of the Audit and Risk Committee on 7 October 2008.

Appointed member of the Nomination Committee on 15 August 2012 and appointed Chair on 8 April 2015.

Ms Ausburn is a pharmacist with experience in retail and hospital pharmacy and in academia. She had a long career in the pharmaceutical industry with Merck Sharp and Dohme (Australia) Pty Ltd and was previously Vice President, Asia, for Merck and Co Inc with responsibility for the company's operations across Asia.

Ms Ausburn is also a Non-executive Director of SomnoMed Limited and NIB Holdings Limited, and President, Pharmacy Faculty Foundation, University of Sydney.

The Board considers that Ms Ausburn is an independent Director.

Mr Kenneth Gunderson-Briggs

B. Bus, FCA, MAICD

Senior Independent Non-executive Director.

Appointed Director on 6 May 2014.

Appointed member of the Audit and Risk Committee on 6 May 2014 and appointed Chair on 25 January 2017.

Appointed member of the Remuneration Committee on 8 April 2015.

Appointed Senior Independent Director on 2 September 2015.

Mr Gunderson-Briggs is a chartered accountant, registered company auditor and public company Director, with broad experience in finance and the retail franchise sectors.

Since 2003, Mr Gunderson-Briggs has been an independent Non-executive Director of Harvey Norman Holdings Limited, and sits on the Audit, Remuneration and Nomination Committees of that company. Mr Gunderson-Briggs has been Chairman of Glenaeon Rudolf Steiner School Limited since 2013, having been a Director on the Board since 2009.

The Board considers that Mr Gunderson-Briggs is an independent Director.

Mr Mark Smith

Dip Business (Marketing), FAICD, FAIM, FAMI, CPM

Independent Non-executive Director.

Appointed Director on 6 September 2017.

Appointed member of the Audit and Risk Committee on 6 September 2017.

Mr Smith was previously the Chair of Patties Foods Limited for three years and a Non-executive Director of Toll Holdings Limited for eight years.

Mr Smith has extensive senior management experience in the fast moving consumer goods industry globally and was Managing Director of Cadbury Confectionery ANZ from 2001, Managing Director of Cadbury Schweppes Australia and New Zealand from 2003 to 2007, and a member of the Cadbury Schweppes Asia Pacific Regional Board.

Mr Smith also has a strong commitment to not-for-profit organisations as Chair of Enactus Australia and Chair of the Humour Foundation Ltd. Mr Smith is also an independent Non-executive Director of GUD Holdings Limited.

The Board considers that Mr Smith is an independent Director.

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Ms Jennifer Macdonald

ACA, A.Fin, GAICD

Independent Non-executive Director.

Appointed Director and member of the Audit and Risk Committee on 9 November 2017.

Ms Macdonald has a strong background in financial and general management roles across a range of industry sectors including fast moving consumer goods, travel and digital media. Ms Macdonald has previously undertaken the roles of Chief Financial Officer and Interim Chief Executive Officer at Helloworld Travel and Chief Financial Officer and General Manager International at REA Group.

Ms Macdonald was a Non-executive Director of Hipages Pty Limited and Chair of their Audit and Risk Committee (2014-2016) and a Non-executive Director of Fitted for Work (2013-2014).

Ms Macdonald is also a member of the Institute of Chartered Accountants ANZ, and has a Masters of Entrepreneurship and Innovation from Swinburne University.

The Board considers that Ms Macdonald is an independent Director.

Board Recommendation

The Board (in each case excluding the relevant candidate) recommends that shareholders vote in favour of the re-election or election of each of the above candidates.

ITEM 7 – GRANT OF PERFORMANCE RIGHTS TO MR RICHARD VINCENT, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

It is proposed that Mr Richard Vincent, the Company's Managing Director and Chief Executive Officer, be granted performance rights under API's Long Term Incentive Plan (**Plan**).

Number of performance rights to be granted to Mr Vincent

Subject to shareholder approval, it is intended that Mr Vincent be granted a total of 580,159 performance rights under the Plan. Upon vesting, the performance rights will provide him with the right to be provided with up to 580,159 fully paid ordinary shares in the Company.

These performance rights are proposed to be granted in two tranches (one of 177,895 and another of 402,264). This is due to the timing of Mr Vincent's appointment as Managing Director and Chief Executive Officer after the January 2017 AGM on 15 February 2017, which has resulted in a one-off timing adjustment, requiring two tranches of performance rights to be presented for shareholder approval.

The number of performance rights to be granted was derived by calculating a value representing 60% of Mr Vincent's fixed remuneration, and dividing that value by the unit value per performance right. This unit value was determined by calculating the 10 day volume weighted average closing price of API shares immediately after announcement of the 2016 full year results which was \$1.90 (in relation to Tranche 1) and immediately after announcement of the 2017 full year results which was \$1.59 (in relation to Tranche 2).

The terms and conditions on which each tranche is granted are the same, except as described below.

API's Long Term Incentive Plan

The Plan is designed to:

- focus senior management on medium to long-term performance outcomes and shareholder returns;
- align the interests of senior management with API shareholders;
- attract and retain experienced and capable key personnel; and
- reward senior managers for improvements in the Company's performance on factors underlying shareholder value.

The Board is responsible for the overall design and structure of the Plan and any awards made under it. The Remuneration Committee is responsible for making recommendations to the Board in determining specific awards to individuals and overseeing the administration of the Plan. The features of the Plan, which are summarised in the Company's Remuneration Report, apply to the grant of performance rights to Mr Vincent, as well as other participants under the Plan. The key features are summarised below.

What is a performance right?

A "performance right" is a right to be provided with a fully paid ordinary share in the Company. Under the Plan, the shares can either be purchased on market, or new shares issued by the Company.

If a performance right is satisfied through the achievement of a performance condition (as described below), the performance right vests and is automatically exercised at that time (or if that time is not in a trading window under the Company's securities trading policy, the exercise of the right is restricted until the first day of the next trading window). Upon exercise, Mr Vincent will be provided with one API share for each vested and exercised performance right. The sale of shares following vesting of a performance right can occur only in accordance with the terms of the Company's Securities Trading Policy.

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Award	Details
2016-2019 Tranche (Tranche 1)	<p>177,895 performance rights, with a performance period from 1 September 2016 to 31 August 2019.</p> <p>Half the Tranche 1 performance rights are subject to the Return on Equity performance condition and the other half are subject to the Earnings Per Share performance condition (as described below). The number of performance rights to be granted was derived by calculating a value representing 60% of Mr Vincent's fixed remuneration, and dividing that value by the unit value per right. The unit value was determined by calculating the 10 day volume weighted average closing price of API shares immediately after announcement of the 2016 full year results, which was \$1.90.</p>
2017-2020 Tranche (Tranche 2)	<p>402,264 performance rights, with a performance period from 1 September 2017 to 31 August 2020.</p> <p>Half the Tranche 2 performance rights are subject to the Return on Equity performance condition and the other half are subject to the Earnings Per Share performance condition (as described below). The number of performance rights to be granted was derived by calculating a value representing 60% of Mr Vincent's fixed remuneration, and dividing that value by the unit value per right. The unit value was determined by calculating the 10 day volume weighted average closing price of API shares immediately after announcement of the 2017 full year results, which was \$1.59.</p>

No amount is payable by Mr Vincent for the grant of the performance rights or on exercise of the performance rights.

Performance conditions

Mr Vincent will only be entitled to receive API shares if at least threshold performance is achieved under either or both of the performance conditions. One half of the performance rights are dependent on satisfaction of the Return on Equity performance condition, and the other half of the performance rights are dependent on satisfaction of the Earnings Per Share performance condition. The performance conditions are assessed once only after the end of the relevant performance period (set out above). No re-testing will occur. If a performance condition is not satisfied, the performance rights subject to that performance condition will lapse.

ROE performance condition

The Return on Equity (**ROE**) performance condition compares the actual return on equity achieved by the API Group during the three year performance period, against the target ROE set by the Board for the same period (**Target ROE**). The ROE is expressed as a percentage created by dividing net profit after tax for the relevant financial year by total shareholder equity at the end of each relevant financial year (as reported in the Statement of Financial Position in the Annual Report for the relevant financial year). The Target ROE may be varied by the Board in its absolute discretion, to adjust for unforeseen circumstances having regard to shareholder best interests, relevant circumstances at the time and appropriate independent advice, to ensure that Mr Vincent is neither penalised nor provided with a windfall benefit arising from unusual items which inappropriately impact ROE.

The ROE performance requirement and associated vesting scale for Tranche 1 is set out below.

ROE achieved over the three year performance period	% of performance rights the subject of the ROE performance condition that will vest (being one half of the total performance rights granted)
Less than 26.96%	0%
Equal to 26.96%	20%
Between 26.96% and 43.81%	On a straight line basis between 20% and 100%
Greater than or equal to 43.81%	100%

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The ROE performance requirement and associated vesting scale for Tranche 2 is set out below.

ROE achieved over the three year performance period	% of performance rights the subject of the ROE performance condition that will vest (being one half of the total performance rights granted)
Less than 24.32%	0%
Equal to 24.32%	20%
Between 24.32% and 39.52%	On a straight line basis between 20% and 100%
Greater than or equal to 39.52%	100%

EPS performance condition

The earnings per share performance condition compares the compound annual growth rate (**CAGR**) in earnings per share (**EPS**) achieved by the API Group during the three year performance period commencing on 1 September 2016 for Tranche 1, and 1 September 2017 for Tranche 2, against the Target EPS CAGR set by the Board for the same period (**Target EPS**). The EPS is the basic earnings per share disclosed in the Income Statement of the Financial Statements of API for each financial year during the performance period. The Target EPS may be varied by the Board in its absolute discretion, to adjust for unforeseen circumstances having regard to shareholder best interests, relevant circumstances at the time and appropriate advice.

For Tranche 1, the basic EPS to serve as the initial benchmark to measure CAGR will be an EPS based on reported NPAT, as at 31 August 2016. This was 10.5 cents per share. For Tranche 2, the basic EPS to serve as the initial benchmark to measure CAGR will be an EPS based on reported NPAT, as at 31 August 2017. This was 10.7 cents per share.

The EPS performance requirement and associated vesting scale for both Tranche 1 and Tranche 2 is set out below.

EPS CAGR achieved over the three year performance period	% of performance rights the subject of the EPS performance condition that will vest (being one half of the total performance rights granted)
Less than 7.5%	0%
Equal to 7.5%	20%
Between 7.5% and 10%	On a straight line basis between 20% and 100%
Greater than or equal to 10%	100%

Leaving Employment

If Mr Vincent leaves the employment of the Company before the end of a relevant performance period, the treatment of the performance rights will depend on the reasons for departure.

If Mr Vincent resigns or is dismissed for cause, his performance rights will lapse.

If Mr Vincent leaves the employment of the Company as a result of redundancy, death, permanent disability or illness, the treatment of the performance rights is set out below.

In each case, if Mr Vincent ceases employment within one year of the start of the relevant performance period, the relevant performance rights lapse.

If Mr Vincent leaves the employment of the Company after the first year of the performance period as a result of redundancy, death, permanent disability or illness, the number of performance rights will be reduced pro rata to reflect the length of time during the performance period Mr Vincent has been employed. The Board may determine to test the performance conditions (over a shortened period) at the time Mr Vincent leaves employment with API or at the end of the performance period. If the performance conditions are satisfied at the time of testing, the number of performance rights that vest can be exercised by Mr Vincent. Upon exercise of the performance rights, the Board retains a discretion to provide the participant with either API shares or a cash payment equal to the value of shares the participant would have received calculated by reference to the closing price of API shares on ASX on the last trading day before the end of the performance period.

The Board retains a discretion to vary the above, depending on the circumstances at the relevant time.

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Change of Control

On a change of control of the Company, the Board has a discretion to assess the performance conditions at that time. In doing so, the Board will have regard to shareholder best interests, the relevant circumstances at the time and appropriate independent advice. If the Board determines that the performance conditions measured and assessed at that date have been satisfied (in respect of some or all of the performance rights), those performance rights will vest and can be exercised at that time.

Variations of Share Capital

Under the rules of the Plan, the Board may (having regard to the ASX Listing Rules) make adjustments to the number of shares to be provided to a participant upon the exercise of performance rights if there are changes in the capital structure through, for example, a rights issue or bonus entitlement.

Additional Information

The following information is provided in relation to the performance rights to be granted to Mr Vincent under the Plan:

- As a performance right entitles Mr Vincent to one fully paid ordinary share, assuming the maximum number of performance rights vest, the maximum number of securities to be acquired by Mr Vincent in respect of this item is 580,159.
- Apart from Mr Vincent, no Director is entitled to participate in the Long Term Incentive Plan and no Director has previously participated in the Long Term Incentive Plan (other than previous Managing Director and Chief Executive Officer Mr Stephen Roche).
- No loans are provided under the Long Term Incentive Plan.
- The performance rights the subject of this approval will be confirmed as being granted to Mr Vincent as soon as practicable after shareholder approval at the 2017 Annual General Meeting, or in any event no later than 12 months after the date of the meeting.
- Hedging of unvested performance rights is not permitted.
- No voting rights or entitlements to dividends are received on performance rights. After the vesting of any performance rights into shares, a cash payment may be paid equivalent to the value of any declared and paid interim and full year dividend during the performance period and calculated by reference to the number of shares received by Mr Vincent upon vesting of the performance rights.
- If approval is given under Listing Rule 10.14 for the issue of securities to Mr Vincent, approval is not required under Listing Rule 7.1.

For completeness, shareholders should note that Mr Vincent may also earn a right to receive shares in API through API's Short Term Incentive Plan. This is detailed in the Company's Remuneration Report. Any such shares are intended to be acquired on-market and, therefore, shareholder approval is not required.

Board Recommendation

The Directors consider that the proposed award of performance rights described above, aligns Mr Vincent's long term incentive with the interests of shareholders as the performance conditions set challenging hurdles before Mr Vincent can receive shares. The Board (excluding Mr Vincent because of his interest), recommends that the shareholders vote in favour of item 7.