



api

2018

Corporate
Governance
Statement

Australian
Pharmaceutical
Industries
Limited

Peter
Pharmacist



priceline
pharmacy





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CORPORATE GOVERNANCE STATEMENT

This statement has been approved by the Board and is current as at 4 December 2018.

The Board recognises the importance of a strong governance framework and culture throughout the organisation. During the year ended 31 August 2018, the Board continued to build on and enhance the established corporate governance framework.

The roles and responsibilities of the Board are set out in the Board Charter. This is located in the corporate governance section of the Company's website (www.api.net.au). To assist with the execution of its responsibilities, the Board has established a Remuneration Committee, an Audit and Risk Committee and a Nomination Committee. All committees have documented charters, which are also available through the Company's website.

The Directors have implemented internal control processes for identifying, evaluating and managing significant risks to the achievement of the Company's objectives. These internal control processes cover financial, operating and compliance risks.

The Directors have received and considered the annual control certification by the Chief Executive Officer and the Chief Financial Officer in accordance with the principles relating to financial and operating risks.

Throughout the reporting period, Australian Pharmaceutical Industries Limited (the Company) was in compliance with the principles in all material respects. The Board comprises a majority of independent Directors. All Board Committees have independent Chairpersons and a majority of independent Directors as members.

Also available on the Company's website are the following policies:

- Code of Conduct and Ethics;
- Continuous Disclosure;
- Securities Trading;
- Shareholder Communication;
- Diversity;
- Compliance; and
- Privacy.

The key initiatives completed, or in progress during the current year, include:

- Financial policies and procedures being continually reviewed and updated where appropriate by management, prior to review and approval by the Audit and Risk Committee.
- An employee Code of Conduct and Ethics policy being in place and available on the Company's website. This is reviewed and re-communicated to all employees as required;
- An on-going review of all Board charters;
- The launching of a range of on-line training compliance modules covering Human Resources, Legal and Risk, IT and Safety;
- The appointment and succession of a new Chairman; and
- Consolidation of a Sustainability Report in the Annual Report.

The table below is provided to facilitate an understanding of the Company's compliance with the ASX Corporate Governance Council's Principles and Recommendations Third Edition.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

Principle 1 – Lay solid foundations for management and oversight

RECOMMENDATION	COMMENTARY
Recommendation 1.1:	
Roles and responsibilities of Board and management	<p>The Board's primary role is the protection and enhancement of long-term shareholder value.</p> <p>To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including:</p> <ul style="list-style-type: none"> – formulating its strategic direction; – approving and monitoring capital expenditure; – setting remuneration, appointing, removing and creating succession policies for Directors and senior executives; – establishing and monitoring measurable objectives for achieving diversity; – establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems; and – approving and monitoring financial and other reporting. <p>The Board has delegated responsibility for operation and administration of the consolidated entity to the Managing Director and executive management. Responsibilities are delineated by formal authority delegations.</p> <p>The Board has adopted a formal Board Charter which outlines the Board's key roles and responsibilities. This charter is available on the Company's website. There are other specific powers reserved to the Board including but not limited to:</p> <ul style="list-style-type: none"> – Appointment and removal of the Managing Director, Chief Financial Officer and Company Secretary; – Authorising the issue of any shares, options, equity instruments or other securities; – Authorising expenditure in excess of discretionary limits delegated at any time to the Managing Director; – Appointing additional or replacement directors; – Establishing procedures which ensure that the Board is in a position to exercise its powers as set out in the Board Charter; and – Approving: <ul style="list-style-type: none"> – The strategic plan (at least annually); – Budgets (at least annually); – Appointment and removal of executives who report to the Managing Director; – Design of any short term and long term incentive plans; – Senior management succession plans and significant organisational changes; – Acquisition establishment, disposal or cessation of any significant business of the Company; – Appointment of the external auditor; – Approval of annual and half year financial reports; – Information for disclosure to the market; – Borrowings other than in the ordinary course of business; – Any changes to the authority delegated to the Managing Director; and – Policies of Company-wide or general application. <p>Except as reserved by the provisions of the Board Charter, the Board has delegated responsibility for the management of the Company's business and affairs to the Managing Director. Specific delegations of authority to the Managing Director and other senior executives are reviewed as required, documented and approved by the Board.</p>

CORPORATE GOVERNANCE STATEMENT

CONTINUED

RECOMMENDATION	COMMENTARY
Recommendation 1.1: (continued)	<p>Other matters that are set out in the Board Charter include but are not limited to:</p> <ul style="list-style-type: none"> – Chairman's responsibilities; – Board's responsibilities; – Delegation to Committees (being the Audit and Risk Committee, the Remuneration Committee and the Nomination Committee); – Board composition; – Board and Director processes; – Meetings; – Board Committees; and – Board performance. <p>To assist in the execution of its responsibilities, the Board has established a Remuneration Committee, an Audit and Risk Committee and a Nomination Committee. These committees have written charters. The Board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.</p> <p>The Board currently holds at least eleven scheduled meetings each year, as well as other meetings to address any special matters that may arise.</p> <p>The agenda for meetings is prepared in conjunction with the Chairman, the Managing Director and the Company Secretary. Standing items include the Managing Director's report (which includes updates on key projects), financial reports, strategic matters, governance and compliance. Papers are circulated in advance. Executives are regularly involved in Board discussions, by invitation.</p>
Recommendation 1.2: Checks and Information about directors	<p>In the exercise of its powers under the Board Charter, the Board undertakes appropriate checks before appointing a person, or putting forward to shareholders a candidate for election as a director. The Board also ensures that shareholders are provided with material information in its possession relevant to a decision on whether or not to elect or re-elect a director. As appropriate, the Board will use an external search firm to assist in the identification and assessment of candidates before appointment to the Board.</p> <p>The biographical details of each director (including relevant qualifications, experience, skills and other material directorships) are set out in the Directors' Report of the Annual Report at pages 6 and 7 and in each Notice of Annual General Meeting when a director is being put forward (with the support of the Nomination Committee and the Board) for election or re-election as the case may be.</p>
Recommendation 1.3: Agreements with directors and senior executives	<p>The Company has written agreements with each director and senior executive setting out the terms of their appointment. The terms and conditions of appointment of Non-executive Directors are set out in an offer letter which incorporates information regarding entitlements, details of the Director's Access, Insurance and Indemnity Deed and general duties and obligations.</p> <p>In addition, new directors receive an information pack containing copies of important documents including the Company Constitution, the Board Charter, all Committee charters, and key Company policies. The terms and conditions of employment with senior executives are set out in Executive Service Agreements.</p>
Recommendation 1.4: Company Secretary	<p>The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. In this role, the Company Secretary provides advice on governance matters, the application of relevant policies and procedures, and the timely provision of information to the Board.</p>

CORPORATE GOVERNANCE STATEMENT

CONTINUED

RECOMMENDATION

COMMENTARY

Recommendation 1.5:

Diversity

The Company has a Diversity Policy which is designed to clarify the Company's commitment to an inclusive workforce that embraces and promotes diversity in all respects, including gender, age, race, ethnicity, disability and culture.

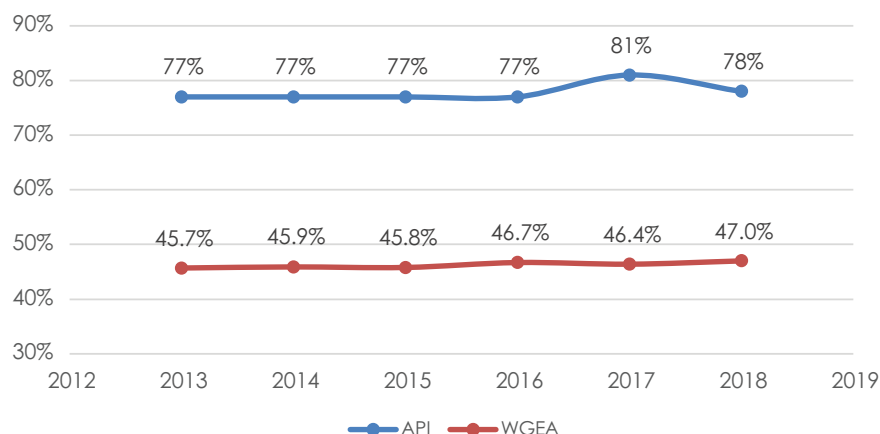
The Board believes that diversity will strengthen the Company's capacity to meet its objectives. The Company is committed to rewarding performance and providing opportunities that allow all individuals to reach their full potential irrespective of background, difference or gender, and the Company's strong commitment to gender diversity is demonstrated at all levels of the Company.

The Diversity Policy is promoted to all Directors, officers and employees through publication on the Company's intranet and website. It is to be read in conjunction with other relevant Company policies.

API Female Representation

Representation of women at all levels in API* continues to be higher than that of the total Australian labour force**.

Female Workforce Composition API to Australian Workforce



* Women employees includes both employees and contractors engaged by API

** Source: WGEA Gender workplace statistics 2012-2018

CORPORATE GOVERNANCE STATEMENT

CONTINUED

RECOMMENDATION

COMMENTARY

Recommendation 1.5: (continued)

API is required to annually report its female participation and compliance with gender equity indicators to the Workplace Gender Equality Agency (WGEA). A copy of the Company's current report to the Workplace Gender Agency (WGEA) can be found on the Company's website under Corporate Governance.

Set out below is a breakdown of gender across levels in the organisation as reported on 31 May 2018:

API Employees	Female	Male	Total
Non-executive Directors	2	5	7
CEO & KMPs	0	1	1
Other Executives	2	6	8
Senior Managers	2	8	10
Other Managers	245	128	373
Professionals	110	100	210
Clerical and administrative	169	19	188
Sales	1734	68	1802
Machinery operations and drivers	0	2	2
Labourers	378	387	765
Others ¹	0	0	0
Total Employees²	2642	724	3366

1 Others includes positions that could not be classified against the WGEA classifications

2 Including full time, part time and casual employees – head count numbers

CORPORATE GOVERNANCE STATEMENT

CONTINUED

RECOMMENDATION

Recommendation 1.5: (continued)

COMMENTARY

Measurable Objectives and Progress

The Board has the responsibility of establishing and reviewing measurable objectives for achieving diversity. The measurable objectives are reviewed regularly and performance against those objectives will be measured at least annually.

The measurable objectives and progress on performance against achieving these objectives for the year ending 31 August 2018 are as follows:

OBJECTIVES	PROGRESS REVIEW
Continue to aim for female representation in all areas of API's workforce to be higher than that of the total Australian labour force and ASX 200 companies.	<p>API continues to have higher female participation compared to the Australian labour force and ASX 200 companies.</p> <p>API is committed to increasing the % of females on its Board. API will continue to maintain its focus on attracting and retaining female talent, including in respect of any Board vacancies. API continues to have higher female participation in the Senior and Other Manager categories. API's challenge is to look at retaining and developing these females to increase female presence in the Other Executive category in the future.</p>
Continue to ensure that API identifies, attracts and retains female talent for Board and senior management vacancies. To support this objective, ensure that for all Board and senior management vacancies the long list of applicants includes at least a 50% female representation.	<p>API's diversity objectives will be taken into consideration when looking to permanently fill any senior management and/or Board vacancies.</p>
To support the development of women into senior roles by ensuring all women in the leadership pipeline are invited to participate in API's Leadership Development Program (LDP).	<p>52% of promotions in the last WGEA reporting period were awarded to women and 48% were awarded to men, with 48.5% of all manager promotions awarded to women. With a continued focus on the participation of women in API's Leadership Development Program we would expect this % to increase over coming years.</p>
Continue to use an objective process in valuing roles and setting of comparative male and female remuneration for salaried positions.	<p>API continues to use an objective process in the valuing of roles and setting of remuneration. API's remuneration philosophy and policy includes gender equity principles which are achieved by using the gender neutral Hay Group Job Evaluation methodology.</p>
Continue to promote holistic working practices, including, but not limited to, continuing to offer employee assistance programs (EAP), childcare and eldercare kits, supporting parental leave return to work arrangements and producing a parental leave return to work kit.	<p>API continues to promote flexibility in work practices and a focus on employee well-being, including the provision of an employee assistance program (EAP) to all employees and their families and access to detailed childcare and eldercare kits.</p>
Conduct a diversity review to determine whether diversity discrepancies exist within API's business units/functions.	<p>Work on this objective continues, and will remain as an objective for 2018/2019.</p>
Implement sourcing, recruitment and selection principles to further support diversity.	<p>Work on this objective continues, and will remain as an objective for 2018/2019.</p>

CORPORATE GOVERNANCE STATEMENT

CONTINUED

RECOMMENDATION

COMMENTARY

Recommendation 1.6:

Evaluating Board, Committee and director performance

The Board undertakes an evaluation of its performance with the assistance of an external consultant as required. In October 2014, the Board engaged an independent consultant to conduct two surveys based on confidential interviews with all Directors and senior executives who regularly attend Board meetings. The first survey focussed on the effectiveness of the Board, including its composition, strategy and risk focus, processes, relationships and communication, and behaviour and dynamics. Respondents to the survey were also able to undertake a brief self-assessment of that person's contribution to the Board. The second survey focussed on the operation of the Board committees. Respondents to both surveys were also able to provide confidential comments. The external consultant lead a group discussion based on results of these surveys. The evaluation indicated that the Board has the right mix of skills, is working effectively and provided an insight into areas of focus to allow the Board to continually improve its effectiveness. The Board intends to commission a further performance review in 2019.

Recommendation 1.7:

Evaluating senior executive performance

The Company has a comprehensive process for evaluating, at least annually, the performance of senior executives. A performance planning and review process is commenced in September of each year and is structured to measure personal performance against agreed key result areas (including but not limited to safety, compliance, budget and other measures relevant to the responsibilities of the senior executive) and performance against a range capabilities required to perform the relevant role (including but not limited to personal leadership, team leadership, business leadership and community leadership). This process was most recently undertaken in September 2018.

Principle 2 – Structure the Board to add value

RECOMMENDATION

COMMENTARY

Recommendation 2.1:

Nomination Committee

The Board has established a Nomination Committee which has a documented Charter approved by the Board. The Charter which is available on the Company's website sets out purpose, committee membership and structure, duties and responsibilities, committee meeting procedure, access to information and independent advice and committee performance. The members of the Nomination Committee during the year ended 31 August 2018 were:

Ms L Ausburn – Independent Non-executive Director.
Appointed 15 August 2012. Appointed Chair of the Committee 8 April 2015;

Mr G J Masters – Independent Non-executive Director.
Appointed 15 August 2012; and

Mr R D Millner – Non-executive Director.
Appointed 15 August 2012.

The Nomination Committee monitors and advises the Board on:

- Board composition, competencies and diversity;
- Board succession plans, director induction programs and continuing development;
- The process for evaluating the performance of the Board, the Committees of the Board and individual Directors;
- Board appointments, re-elections and terminations; and
- Other matters referred to the Committee by the Board.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

RECOMMENDATION	COMMENTARY
Recommendation 2.1: (continued)	<p>The skills, experience and expertise relevant to each member of the Nomination Committee is included in the Directors' Report of the Annual Report at pages 6 to 8, along with the number of meetings held and attended during the year.</p> <p>The Nomination Committee, and ultimately the Board, is responsible for succession planning, identification and appointment of new Board members and regular reviews of Board membership. The Nomination Committee oversees the appointment and induction process for Directors and committee members, and the Board oversees the selection, appointment and succession planning process of the Company's Managing Director.</p> <p>The Nomination Committee considers the appropriate skill mix, personal qualities, expertise and diversity of Board and committee positions, based on the broad criteria outlined in the response to Recommendation 2.2 below. The Nomination Committee identifies potential candidates with advice from an external consultant from time to time. Directors appointed by the Board must stand for election by shareholders at the Company's next annual general meeting.</p>
Recommendation 2.2:	
Board skills matrix	<p>The names of the Directors of the Company in office at the date of this statement are set out at the beginning of the Directors' Report at pages 6 and 7.</p> <p>The composition of the Board is determined using the following principles:</p> <ul style="list-style-type: none"> – A minimum of three Directors, with a broad range of expertise in the industries in which the Company operates and government regulation of those industries, and in significant aspects of accounting and finance and risk management; – A majority of Non-executive Directors; – A Non-executive Director as Chairman; – Enough Directors to serve on various committees without compromising their ability to discharge their responsibilities; and – Re-election of Directors every three years (with the exception of the Managing Director). <p>The Board and the Nomination Committee has regard to the necessary balance of skills and diversity the Board has or is needed for succession purposes. The Board Charter requires Board composition to be reviewed annually to ensure the Non-executive Directors between them bring the range of skills, knowledge and experience necessary to direct the Company going forward.</p>

CORPORATE GOVERNANCE STATEMENT

CONTINUED

RECOMMENDATION

Recommendation 2.2:
(continued)

COMMENTARY

The Board and the Nomination Committee have established a skills matrix as set out below.

DIRECTOR SKILLS

Risk & Compliance	Ability to identify, monitor and manage risks. Knowledge of legal and regulatory requirements.
Financial & Audit	Ability to analyse financial statements and funding arrangements, assess financial viability, provide input into and monitor budgets.
Strategy	Ability to input into strategy development and to monitor strategy implementation.
Policy Development	Ability to develop appropriate policy parameters within which the organisation should operate.
Technology	Knowledge of IT Governance, risk management and the emerging digital environment.
Talent Management	Knowledge of performance management of key executives, succession planning, development of a high performing organisation. Knowledge of change management and industrial relations.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

RECOMMENDATION	COMMENTARY
Recommendation 2.2: (continued)	INDUSTRY SPECIFIC SKILLS
	Wholesaling/Distribution
	Retail/franchising
	Pharmaceutical
	INTERPERSONAL/BEHAVIOURAL SKILLS
	Leadership Make decisions and take necessary actions in the best interest of the organisation, and represent the organisation favourably. Analyse issues and contribute at board level to solutions.
	Ethics and Integrity Acts ethically and with integrity. Understands role as director and continue to self-educate on legal responsibility, ability to maintain board confidentiality, declare any conflicts.
	Contribution Ability to constructively contribute to board discussions and communicate effectively with management and other directors.
	Diversity Promote equal gender diversity and age diversity to bring different perspectives to the Board.
	Previous Board Experience Previous experience and formal governance training.
<p>Having regard to the above matrix, the membership of the current Board has a mix of skills, qualifications and experience (as disclosed in the Directors' Report at pages 6 and 7 which as a whole, the Board believes, will enable it to successfully discharge its responsibilities.</p> <p>The Board and the Nomination Committee will continue to evaluate if additional candidates are required to further enhance the mix of skills on the Board having regard to the skills matrix and the strategic direction of the Company.</p>	

CORPORATE GOVERNANCE STATEMENT

CONTINUED

RECOMMENDATION

COMMENTARY

Recommendation 2.3:

Independent directors

The Board's definition of independence is based on the definition in the Principles and for this purpose an independent director is a director who is not a member of management (a Non-executive Director) and who:

- Is not a substantial shareholder of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder;
- Has not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
- Is not and has not within the last three years been a partner, director or senior employee of a provider of material professional services to the Company or another group member;
- Is not and has not within the last three years, been in a material business relationship (e.g. as a supplier or customer) with the Company or another group member, or an officer of, or otherwise associated with, someone with such a relationship;
- Has no material contractual relationship with the Company or another group member other than as a director of the Company; and
- Does not have close family ties with any person who falls within any of the categories described above; and
- Has not been a director for such a period that his or her independence may have been compromised.

The Board considers 'material' in this context, where any director-related business relationship has represented, or is likely in future to represent the lesser of at least 10% of the relevant segment's or the director-related business revenue. The Board considered the nature of the Company's competition, alternative available services or supplies and the size and nature of each director-related business relationship, in arriving at this threshold.

All current Non-executive Directors meet the stated requirements for independence except for one Company director. Mr Millner is currently a Director of the Company's major shareholder (Washington H Soul Pattinson and Company Limited). The Board does not consider that this current relationship has or will impact on his ability to bring an independent mind and judgement to the Board, and to the extent there is any conflict that Director would be excused from any relevant decision making where necessary.

The Board recognises that length of tenure is considered to be a factor that may influence independence of a director. The term of office held by each Non-executive Director in office at the date of this statement is as follows:

Mr R D Millner – 18.5 years (appointed 5 May 2000)

Ms L Ausburn – 10 years (appointed 7 October 2008)

Mr G J Masters – 8 years (appointed 7 September 2010)

Mr K W Gunderson-Briggs – 4.5 years (appointed 6 May 2014)

Mr M Smith – 1 year (appointed 6 September 2017), appointed Chairman 24 January 2018

Ms Jennifer Macdonald - 1 year (appointed 9 November 2017)

Attendance at Board meetings is set out at page 8 of the Directors' Report.

CORPORATE GOVERNANCE STATEMENT

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RECOMMENDATION	COMMENTARY
Recommendation 2.3: (continued)	<p>The Board notes that Mr Millner has been a member of the Board for over 18 years. However, the Board is unanimously of the view that this length of tenure does not of itself compromise his independence but instead allows him to bring to the Board a deep understanding of the Company and the complexities of its business.</p> <p>Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures that assist Directors to disclose potential conflicts of interest.</p> <p>Where the Board believes that a conflict exists for a Director on a Board matter, the Director concerned does not receive the relevant Board papers and is excused from attending a meeting whilst the item is considered.</p>
Recommendation 2.4: Majority of independent directors	<p>As required under the Board Charter, it is intended that the majority of the Board should be independent Non-executive Directors. All Board members should bring an independent mind and judgement to bear in decision making.</p> <p>The Board is committed to regularly assessing the independence of each director in light of interests disclosed by them. The Board currently has a majority of independent directors. Non-executive Directors periodically confer with themselves and the Company auditors without the executive director or other senior executives present.</p> <p>Each director has the right of access to all relevant Group information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Company's expense. A copy of the advice received by the Director is to be made available to all other members of the Board.</p>
Recommendation 2.5: Chairman of the Board	<p>The Chairman of the Board (Mr Mark Smith) has occupied this position since 24 January 2018.</p> <p>The Board has appointed Mr Ken Gunderson-Briggs as Senior Independent Director. In this role, the role of Chairman can be assumed if there is any conflict, and can otherwise provide a separate channel of communication for shareholders.</p>
Recommendation 2.6: Director induction	<p>The Company has an established process to educate new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning the performance of Directors.</p> <p>Directors also have the opportunity to visit business operations and meet with management, employees and other stakeholders, to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.</p>

CORPORATE GOVERNANCE STATEMENT

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Principle 3 – Act ethically and responsibly

RECOMMENDATION

COMMENTARY

Recommendation 3.1:

Code of conduct

The Company has advised each Director, manager and employee that they must comply with the Code of Conduct and Ethics. The Code, which is available on the Company's intranet and website, covers the following:

- Aligning the behaviour of the Board and management with the Code of Conduct and Ethics by maintaining appropriate core Company values and objectives;
- Usefulness of financial information by maintaining appropriate accounting policies, practices and disclosure;
- Fulfilling responsibilities to customers and consumers by maintaining high standards of product quality, service standards, commitments to fair value, and safety of goods produced;
- Employment practices such as occupational health and safety, employment opportunity, the level and structure of remuneration, and conflict resolution;
- Responsibilities to community, such as environmental protection policies, supporting the community activities and sponsorships and donations;
- Responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;
- Fair dealing; and
- Compliance with laws and reporting suspected breaches of laws.

The Company also has a Securities Trading Policy. The key elements of that policy are:

- Identification of those restricted from trading. Directors, officers and employees may acquire shares in the Company:
 - during the period of fourteen days after the Annual General Meeting;
 - during the period of 60 days following the issue of the annual results and half yearly results;
 - during the period of 60 days following the release of a prospectus by the Company relating to the issue of shares in the Company; and
 - provided they are not in possession of price sensitive information not yet released to the market.
- Raising the awareness of legal prohibitions;
- Requiring details to be provided of intended trading in the Company's shares; and
- Identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

Directors, officers and employees are prohibited from using margin loans to finance the purchase of shares in the Company or from trading in any financial product issued or created over the Company's shares.

The policy also details the insider trading provisions of the Corporations Act. The Company's policy is promoted to all Directors, officers and employees through publication on the Company's intranet and website.

CORPORATE GOVERNANCE STATEMENT

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Principle 4 – Safeguard integrity in corporate reporting

RECOMMENDATION

COMMENTARY

Recommendation 4.1:

Audit Committee

The Audit and Risk Committee has a documented Charter, approved by the Board which is available on the Company's website. The Committee's objective is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit and Risk Committee as at the date of this statement are:

Mr K W Gunderson-Briggs – Senior independent Non-executive Director.
Appointed 6 May 2014. Appointed Chair of the Committee on 25 January 2017;

Ms L Ausburn – Independent Non-executive Director.
Appointed 7 October 2008;

Ms J. Macdonald – Independent Non-executive Director. Appointed 9 November 2017.

The external auditor, Managing Director, Chief Financial Officer and Group Manager Audit Risk and Compliance are invited to the Audit and Risk Committee meetings at the discretion of the Committee.

The Audit and Risk Committee's charter provides procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.

The responsibilities of the Audit and Risk Committee include reporting to the Board on:

- Reviewing the annual and half-year financial reports and other financial information distributed externally. This includes considering the appropriateness of new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Assessing corporate risk assessment processes;
- Monitoring non-audit services provided by the external auditor for consistency with maintaining the external auditor's independence. Each reporting period, the external auditor provides an independence declaration in relation to the year-end audit or half year review;
- Providing advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;
- Reviewing remuneration and effectiveness of performance of the external auditor;
- Assessing the adequacy of the internal control framework and the Company's Code of Conduct and Ethics Policy;
- Assessment of compliance with internal controls to ensure prompt and appropriate rectification of any deficiencies or breakdowns identified; and
- Monitoring the procedures to ensure compliance with the Corporations Act 2001, the ASX Listing Rules and all other regulatory requirements.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

RECOMMENDATION	COMMENTARY
Recommendation 4.1: (continued)	<p>The Audit and Risk Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:</p> <ul style="list-style-type: none"> – Discuss the external audit plans, identifying any significant changes in structure, operations, and internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed; – Review the annual, half-year and preliminary final reports prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results; and – As required, organise, review and report on any special reviews or investigations deemed necessary by the Board. <p>Attendance at Committee meetings is set out at page 8 of the Directors' Report.</p>
Recommendation 4.2:	
CEO and CFO declarations	The Board receives certifications from the CEO and CFO in connection with the half year and full year financial statements of the Company. The certifications are in compliance with Section 295A Corporations Act as to the integrity of the financial statements and also state that the CEO and CFO opinions are founded on the basis of a sound system of risk management and internal control which is operating effectively.
Recommendation 4.3:	
Auditor attending AGM	The Company's auditor attends all AGM's and is available to answer questions from shareholders relevant to the audit.

Principle 5 – Make timely and balanced disclosure

RECOMMENDATION	COMMENTARY
Recommendation 5.1:	
Continuous disclosure policy	<p>The Company has a Continuous Disclosure policy which is available on the Company's website. The purpose of the policy is to seek to ensure the Company meets all of its legal obligations under ASX Listing Rules to keep the market fully informed of balanced information which may have a material effect on the price or value of the Company's shares.</p> <p>It is Company policy to strictly comply with such requirements and does so by releasing information to the ASX in various forms (letters, media releases, Annual Reports and results announcements) after appropriate vetting and authorisation. Between the end of a reporting period and the announcements of that period's financial results, the Company recognises a "blackout period" in relation to price sensitive financial information.</p>

CORPORATE GOVERNANCE STATEMENT

CONTINUED

Principle 6 – Respect the rights of shareholders

RECOMMENDATION

COMMENTARY

Recommendation 6.1:

Company information on website

The Company website www.api.net.au has been enhanced to provide improved information to investors and other stakeholders of Company information and governance. An "investor relations" tab directs the investor to a range of current and historical information including Annual Reports, ASX announcements, Presentations, Corporate Governance (Charters and Policies), Share Registrar details, Board of Director information and archive. In addition, there is a facility for investors to "contact us" for any enquiries.

Recommendation 6.2:

Investor relations program

The Company has a broad investor relations program which allows for shareholders to engage with the Board and senior executives at the Annual General Meeting. Shareholders also have the ability to contact the Company directly with any enquiries. At appropriate times after half year and full year results to the market, briefings are held with investors and analysts and the media.

Recommendation 6.3:

Facilitating participation at shareholder meetings

The Company has a Shareholder Communication Policy which is available on the Company's website. The policy is designed to:

- Promote effective communication with both existing and potential shareholders;
- Ensure ready access to understandable information about the Company including the existence of this policy; and
- Encourage shareholders to participate at AGM's.

Shareholders who are unable to attend an AGM are able to access an audio webcast of proceedings and relevant presentations. Audio webcasts are also made available for half year and full year results presentations.

Recommendation 6.4:

Electronic shareholder communications

The Company (through its share registry) actively promotes the benefits of shareholders receiving electronic communications from the Company. This includes Company information (Annual Reports, Notices of Meeting, letters from the Chairman) and dividend payments and confirmations. Shareholders are invited to subscribe online to these services where they have the facility or desire to do so. In addition, there is a facility on the Company website for investors to "contact us" for any enquiries.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

Principle 7 – Recognise and manage risk

RECOMMENDATION

COMMENTARY

Recommendation 7.1:

Risk committee

The Audit and Risk Committee (refer Recommendation 4.1) is charged with the responsibility to assist the Board in the oversight of risk.

Recommendation 7.2:

Review of risk management framework

The Board oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing all risks, including material business risks for the consolidated entity.

The Managing Director and Chief Financial Officer provide an assurance to the Board in respect of the annual and half yearly financial reports. The Managing Director and the Chief Financial Officer give assurance with respect to:

- The financial reporting risk management and associated compliance and controls;
- The operational and other compliance risk management processes;
- The Company's books and records; and
- The Company's financial statements and notes compliance with accounting standards (and any further requirements in the Corporations Law), and applicable ASIC Class Orders.

Material risks to the operations of the consolidated entity arise from matters including actions by existing and emerging competitors, government policy changes, compliance with government regulation, environment, occupational health and safety, property, pharmacists or pharmacy groups failing to honour contractual obligations including trading terms, and the purchase, development and use of information systems.

The Board has the overall responsibility for the consolidated entity's risk management and internal control framework. This is delegated to the Audit and Risk Committee to oversee the process and then report back to the Board the status of material risks. The Company's internal compliance and control systems are designed to ensure effective and efficient operations, including financial reporting and compliance with laws and regulations, with a view to identifying, assessing and managing risk across the consolidated entity's business activities. The internal control systems which have been adopted by the consolidated entity aim to develop a culture which is able to identify, communicate and manage material risk.

The Company has a full time Group Manager – Audit, Risk and Compliance to continuously review risk management and compliance with internal controls. This role may be supplemented with assistance from an external accounting firm specialising in risk management as necessary.

KPMG assists the Board by providing the external audit service.

Monthly results are reported against budgets approved by the Directors and revised forecasts for the year are prepared as required.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

RECOMMENDATION	COMMENTARY
Recommendation 7.3:	
Internal audit function	The Company has an internal audit function headed by the Group Manager – Audit Risk and Compliance. The manager reports to the Chief Financial Officer and the Chairman of the Audit and Risk Committee. The internal audit function provides independent and objective assurance on the adequacy and effectiveness of the Company's internal controls and risk environment.
Recommendation 7.4:	
Material exposure to economic, environmental and sustainability risks	<p>Having regard to the nature of its operations, the Board considers that it does not have any material exposure to economic, environmental social and sustainability risks that are not being effectively managed. More information can be found in the Operating and Financial Review section of the Directors' Report at pages 9 to 13 and the Sustainability Report section of the Directors' Report at pages 14 to 20.</p> <p>The Company's risk management process continues to develop into a more strategically integrated, ongoing risk monitoring and update regime.</p> <p>The risk assessment process involves identifying a 'risk universe' and documenting those factors which contribute to the inherent risk environment. Key risks identified and monitored include regulatory reform, customer insolvency, competitor activity, disaster recovery and industrial relations.</p> <p>An 'inherent risk rating' is calculated by combining 'likelihood' and 'consequence' assessments determined in the absence of any controls in the business. The current controls to manage risks are then identified to determine a 'control effectiveness rating'. Depending on the nature of the risk and the control effectiveness rating, treatment plans are then developed.</p>

CORPORATE GOVERNANCE STATEMENT

CONTINUED

Principle 8 – Remunerate fairly and responsibly

RECOMMENDATION

COMMENTARY

Recommendation 8.1:

Remuneration committee

The Remuneration Committee has a documented Charter approved by the Board, which is available on the Company website. The Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, senior executives and Non-executive Directors. It is also responsible for share schemes, senior executive incentive programs and a range of employment related matters.

The members of the Remuneration Committee during the year ended 31 August 2018 were:

Mr G J Masters (Chair) – Independent Non-executive Director.
Appointed 30 January 2014;

Mr R D Millner – Non-executive Director.
Appointed 2 October 2007; and

Mr K W Gunderson-Briggs – Senior independent Non-executive Director.
Appointed 8 April 2015.

The Managing Director is invited to Remuneration Committee meetings, as required, to discuss senior executives' performance and remuneration packages.

The Company recognises the importance of training and development, appropriate remuneration and incentives, and regular performance reviews. It also encourages an environment of co-operation and constructive dialogue with employees and senior management. A formal succession process is in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur. Succession planning is supported by a Leadership Development Program which identifies high calibre employees and prepares them for future leadership roles.

The Remuneration Committee formally meets twice a year and otherwise as required. Attendance at Committee meetings is set out at page 8 of the Directors' Report.

Recommendation 8.2:

Remuneration of directors and senior executives

The Remuneration Committee is responsible for recommending to the Board remuneration for Directors, the Managing Director and senior executives. It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and senior executive team by remunerating directors and senior executives fairly and appropriately with reference to relevant employment market conditions. As required, advice from independent remuneration consultants is obtained. A full disclosure of the Company's remuneration philosophy and framework and remuneration received by Directors and KMP's in the current period is incorporated in the Remuneration Report which is incorporated in the Annual Report commencing at page 22.

Recommendation 8.3:

Equity based remuneration

The Company has a Securities Trading Policy which is available on the Company's website. That policy prohibits among other things, employees who receive equity based remuneration from dealing in financial products issued or created over or in respect of Company securities (e.g. hedges or derivatives) which have the effect of reducing or eliminating the risk associated with any equity incentives that the Company may offer from time to time.



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