

Australian Pharmaceutical Industries Limited



NOTICE OF MEETING 2015

Notice is given that the 2015 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 Thursday 28 January 2016 at 2.00pm (AEDT).

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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 2015.
2. Adoption of the Remuneration Report.
To adopt the Remuneration Report for the year ended 31 August 2015.

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

Election of Director

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

Grant of Performance Rights to Mr Stephen Roche, Managing Director and Chief Executive Officer

4. To consider and, if thought fit, to pass the following resolution:
"That, for the purposes of Listing Rule 10.14, sections 200B and 200E of the Corporations Act 2001 (Cth) 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 Stephen Roche, on the terms set out in the Explanatory Notes to the Notice of 2015 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 4

In accordance with the ASX Listing Rules and the Corporations Act, the Company will disregard any votes cast on item 4;

- by Mr Roche 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.

The Chairman intends to vote undirected proxies (where the Chairman 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 Tuesday 26 January 2016.

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 2.00pm (AEDT) on Tuesday 26 January 2016 (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

4 December 2015

EXPLANATORY NOTES ON ITEMS OF BUSINESS

ITEM 1 – ANNUAL REPORTS

A copy of the Company's 2015 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 2015) 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 2015 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 2015 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.

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.

ITEMS 3 – 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 Robert Millner having been last re-elected in 2012, will retire at the end of the Meeting. Being eligible, Mr Robert Millner offers himself for re-election as a Director.

The profile of Mr Millner is set out below.

Mr Robert D. Millner, FAICD

Non-executive director.

Director since 5 May 2000.

Appointed member of the Remuneration Committee on 2 October 2007.

Appointed member of the Nomination Committee on 15 August 2012.

Mr Millner has had extensive management and public company experience across a number of industries.

Other current listed company directorships:

- Brickworks Limited
- BKI Investment Company Limited
- Milton Corporation Limited
- New Hope Corporation Limited
- TPG Telecom Ltd
- Washington H Soul Pattinson and Company Limited

The Board has considered Mr Millner's length of service as a Director of the Company. At the date of the Meeting, he will have been a Director for more than 15 years. The Board considers this length of service has not compromised his ability as a Director to bring an independent judgement to issues coming before the Board and to act in the best interests of the Company. The current Board comprises Directors with a mix of length of service on the Board. The Board believes this provides for an effective mix of Directors with some Directors having a deep knowledge of the business acquired through many years of acting as a Director. New perspectives are provided by those Directors who have more recently joined the Board. Mr Millner's deep understanding of the business and the industry in which it operates is seen as an asset to the Board and to the Company.

The Board will regularly assess the tenure of all Non-executive directors to ensure that their independence from management is not compromised and that the Board continues to have a majority of independent Non-executive directors.

Board recommendation

The Board (excluding Mr Robert Millner because of his interest) supports the re-election of Mr Robert Millner as a Director.

ITEM 4 – GRANT OF PERFORMANCE RIGHTS TO MR STEPHEN ROCHE, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

It is proposed that Mr Stephen Roche, the Company's Managing Director and Chief Executive Officer, be granted performance rights under API's Long Term Incentive Plan.

Number of performance rights to be granted to Mr Roche

Subject to shareholder approval, it is intended that Mr Roche be granted a total of 321,608 performance rights under API's Long Term Incentive Plan. Upon vesting, the performance rights will provide him with the right to be provided with up to 321,608 fully paid ordinary shares. The number of performance rights granted was derived by calculating a value representing 60% of Mr Roche's fixed remuneration, and dividing that value by the unit value per right. This unit value was determined by calculating the 10 day volume weighted average closing price of API shares immediately after announcement of the 2015 full year results which is \$1.83.

The terms and conditions on which the performance rights are granted are set out below.

API's Long Term Incentive Plan

API's Long Term Incentive 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 API's Long Term Incentive 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 Roche, as well as other participants under the Plan. The key features are summarised below.

Changes to API's Long Term Incentive Plan

As a result of a review by the Board in 2015, the Board has decided to make certain changes to API's Long Term Incentive Plan with effect from 1 September 2015, which will apply to the grant of performance rights to Mr Roche under this item, as well as other participants under the Plan. The change is to remove the right to have the number of performance right entitlements increased by 10% as compensation for forgone dividends. No other compensation will be payable for forgone dividends.

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 on behalf of Mr Roche, or new shares issued by the Company.

If a performance right is satisfied through the achievement of a performance condition (as described below), the right vests and is automatically exercised at that time. Upon exercise, Mr Roche will be provided with one API share for each vested and exercised performance right. The sale of shares following the vesting of a performance right can occur only in accordance with the terms of the Company's Securities Trading Policy.

Award	Details
2015-2018 Tranche	<p>321,608 performance rights, with a performance period from 1 September 2015 to 31 August 2018.</p> <p>Half the performance rights are subject to the Return on Equity (ROE) performance condition. The other half are subject to the Earnings per Share (EPS) performance condition. Both conditions are described below. The number of performance rights granted was derived by calculating a value representing 60% of Mr Roche's fixed remuneration, and dividing that value by the unit value per right. This unit value was determined by calculating the 10 day volume weighted average closing price of API shares immediately after announcement of the 2015 full year results, which is \$1.83.</p>

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

Performance conditions

Mr Roche 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 ROE performance condition, and the other half of the performance rights are dependent on satisfaction of the EPS performance condition. The performance conditions are assessed once only after the end of the performance period (ie 31 August 2018). No re-testing will occur. If a performance condition is not satisfied, the performance rights subject to that performance condition will lapse.

EXPLANATORY NOTES ON ITEMS OF BUSINESS

continued

ROE performance condition

The Return on Equity performance condition compares the actual Return On Equity (ROE) achieved by the API group during the three year performance period commencing on 1 September 2015, against the required ROE set by the Board for the same period (Required ROE). The ROE is expressed as a percentage created by dividing net profit after tax for the relevant financial years 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 Required 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 Roche is neither penalised nor provided with a windfall benefit arising from unusual items which inappropriately impact Return On Equity.

The ROE performance requirement and associated vesting scale 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 21.38%	0%
Equal to 21.38%	20%
Between 21.38% and 34.74%	On a straight line basis between 20% and 100%
Greater than or equal to 34.74%	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 2015, against the required EPS CAGR set by the Board for the same period (Required 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 Required 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 independent advice. For this grant, the basic EPS to serve as the initial benchmark to measure CAGR will be an EPS based on the underlying NPAT, which is NPAT before impairments, as at 31 August 2015. This is 8.9 cents per share.

The EPS performance requirement and associated vesting scale is set out as follows.

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 Roche leaves the employment of the Company before the end of the performance period, the treatment of the performance rights will depend on the reasons for departure.

If Mr Roche ceases employment before the end of the first year of the performance period, his performance rights lapse.

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

If Mr Roche 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 Roche has been employed. The Board may determine to test the performance conditions (over a shortened period) at the time Mr Roche 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 Roche. 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.

Potential termination benefits

As approved by shareholders at the January 2015 Annual General Meeting, this item also seeks shareholder approval of a termination benefit that may be provided to Mr Roche in the future where the Board exercises its discretion under the Long Term Incentive Plan in the event of Mr Roche ceasing employment with the Company due to redundancy, death, permanent disability or illness or other reason with the approval of the Board. This potential termination benefit is the early vesting of the performance rights (and the receipt of shares upon exercise of the performance rights) if approved by the Board at that time.

Under section 200B of the Corporations Act, a company may only give a person a benefit in connection with their ceasing to hold a managerial or executive office in the company or a related body corporate if it is approved by shareholders or an exemption applies. Section 200B of the Corporations Act applies to managerial or executive officers of the Company or any of its subsidiaries, which includes Mr Roche. The term "benefit" has a wide operation and could include the early vesting of the performance rights under the rules of the Long Term Incentive Plan.

It is proposed, therefore, that this resolution will approve, under section 200E of the Corporations Act, any "termination benefit" that may be provided to Mr Roche under the Long Term Incentive Plan in relation to the performance rights to be granted to him, in addition to any other termination benefits that may be provided to Mr Roche under the Corporations Act. The value of such benefits cannot presently be ascertained but matters, events and circumstances that will, or are likely to, affect the calculation of that value include:

- the number of performance rights held by Mr Roche prior to cessation of his employment;
- the number of performance rights that vest (which could be all of the performance rights held by Mr Roche). The Board's decision as to the number of performance rights that vest will depend on, among other things, the circumstances of Mr Roche's cessation of employment (for example, whether due to redundancy, death, permanent disability or illness), the Board's assessment of Mr Roche's performance in the period up to cessation of employment, the degree to which the performance conditions have been met at the relevant time, and the duration of Mr Roche's employment; and
- the market price of API's shares on ASX on the last ASX trading day before the date of calculation.

The number of performance rights that could vest upon Mr Roche ceasing employment, where the Board determines to permit performance rights to vest, will not exceed the maximum number of performance rights held by Mr Roche.

Change of control

On a change of control of the Company, the Board has a discretion to assess the performance condition 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 has 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 Roche under the Long Term Incentive Plan:

- As a performance right entitles Mr Roche to one fully paid ordinary share, assuming the maximum number of performance rights vest, the maximum number of securities to be acquired by Mr Roche in respect of this item is 321,608
- Apart from Mr Roche, no Director is entitled to participate in the Long Term Incentive Plan and no Director has previously participated in the Long Term Incentive Plan.
- Mr Roche last received 993,644 performance rights under the Long Term Incentive Plan, pursuant to shareholder approval on 29 January 2015. No amount was payable for those performance rights.
- 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 Roche as soon as practicable after shareholder approval at the 2015 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 dividends are received on performance rights.
- If approval is given under Listing Rule 10.14 for the issue of securities to Mr Roche, approval is not required under Listing Rule 7.1.

Board recommendation

The Directors consider that the proposed award of performance rights described above aligns Mr Roche's long term incentive with the interests of shareholders as the performance conditions set challenging hurdles that must be met before Mr Roche can receive shares. The Directors, other than Mr Roche, recommend that the shareholders vote in favour of item 4. (Given his interest, it is not appropriate for Mr Roche to make a recommendation on this item).



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Australian Pharmaceutical Industries Limited