



**ASX ANNOUNCEMENT**

**7 OCTOBER 2004**

**Australian Pharmaceutical Industries Limited (API) advises completion of the acquisition of New Price Retail (NPR)**

Integrated healthcare services company Australian Pharmaceutical Industries Limited (API) (ASX Code: API), today advised that the acquisition of New Price Retail (NPR) had been completed upon the satisfaction of a number of conditions precedent. The details of the acquisition of NPR were advised on 6 September 2004.

As announced at the Annual General Meeting on 7 September 2004, API's Group Leader, Jeff Sher, is presently conducting a strategic review of all of API's business units. The review to date has confirmed the significant on-going problems within the Healthcare Manufacturing Group as it reports further delays in implementing its product validation process. These delays continue to impact on the profitability of this business. It is currently anticipated that Mr Sher will announce the results of the strategic review of all business units in November 2004.

In conjunction with the acquisition, API confirms the appointment of Mr Jeff Sher as Group Leader and Executive Director, and Mr John Murphy, Managing Director of Investec Wentworth Private Equity, as a Director. Mr Greg Robertson, Executive Director, Investec Wentworth Private Equity, has been appointed as an alternate Director to Mr John Murphy.

**Summary of the Executive Service Agreement for Mr Jeff Sher, Group Leader**

**Term**

Mr Sher's appointment is effective 7 October 2004 for 3 years. The appointment may, at the Board's discretion, be extended for a further 2 years.

**Remuneration**

There are 3 components to Mr Sher's remuneration. They are:

*Fixed salary*

Mr Sher will be paid a fixed annual remuneration amount of \$747,000 (inclusive of superannuation and fringe benefits tax). Mr Sher's remuneration will be reviewed on 1 July each year with the first review on 1 July 2005.

*Short term incentive payments*

There are 2 potential short term incentive payments. For the period ending 30 April 2005 Mr Sher will be entitled to a short term incentive payment of up to \$302,000. This will be measured through the achievement of Economic Value Added growth over a 1 year period based upon an EVA expected performance being met. API will review the existing STI Plans utilised by both API and NPR to commence a unified STI Plan with effect from 1 May 2005.

There is a further potential payment to be made to Mr Sher being 200,000 times the amount by which the 3 day volume weighted average price of API shares traded on ASX in the 3 days ending on 30 June 2005 exceeds \$2.53, being the API share price prior to Mr Sher's appointment as Group Leader.

*Long term incentive payments*

Mr Sher will be entitled to participate in API's existing long term incentive (LTI) scheme, namely the API Executive Share Plan (Share Plan). His participation is subject to shareholder approval.

The first grant of options will, subject to shareholder approval, be made on 1 July 2005. The shareholder approval for this grant will be sought at API's 2005 Annual General Meeting.

Participation by Mr Sher in the Share Plan will be in accordance with the principles of the Share Plan which also apply to other Senior Executives of API. Details of current offers under the Share Plan are included in the Company's Annual Financial Report which can be accessed at [www.api.net.au](http://www.api.net.au).

Exercise of performance options issued under the Share Plan is subject to the satisfaction of time and performance hurdles. Performance options cannot be exercised by Mr Sher before the third anniversary of

the date of the grant and must be exercised before the fifth anniversary. The performance hurdle in respect of the initial grant of 200,000 options will be calculated as a compound percentage increase in the earnings per share growth during the three year period to the exercise date. The percentage will be 5.5%, 6.5% and 7.5% in each successive year on a compound basis. The base for the calculation of the growth will be the earnings per share as at 30 April 2005 as reported and adjusted for goodwill amortisation. If the performance hurdle has not been achieved at the commencement of the exercise period the performance hurdle will continue to be calculated during the two year exercise period, using a rolling average based on the latest three year period.

This initial grant will be for 200,000 options having an exercise price equal to the 3 day volume weighted average price of API shares traded on ASX in the period ending 30 June 2005.

On the first of July each year, after the initial grant of options, an annual grant of 200,000 options will be made to Mr Sher under the Company's Share Plan, subject to shareholder approval at the next Annual General Meeting. The condition of each further grant will be made in accordance with the rules of the API Executive Share Plan, as determined by the Board.

#### Arrangements upon Termination

Mr Sher's entitlements have been agreed in advance and are disclosed below:

#### Resignation by Mr Sher

Mr Sher may resign from API by giving six months written notice. If resignation occurs after eighteen months, the performance options will transfer to Mr Sher on a pro-rata basis from the effective date of the employment agreement but will remain subject to the achievement of the performance hurdles.

#### Summary termination by API

API may summarily terminate Mr Sher's employment agreement in specified circumstances (eg unremedied material breach) with immediate effect. All performance options will be forfeited by Mr Sher.

#### Termination on notice/material change of circumstances

API may terminate Mr Sher's employment agreement by giving twelve months' written notice and may make a termination payment in lieu of notice of up to twelve months' fixed remuneration. Should the Company terminate Mr Sher's employment, through no fault of the executive, during the first twelve months of the employment term API will make a termination payment to Mr Sher of the remainder of the three year term of the fixed remuneration and the performance options will transfer to Mr Sher but remain subject to the achievement of the performance hurdles.

#### Restrictive Covenant

Mr Sher will be subject to a 12 month non-compete restriction after cessation of his employment. Mr Sher cannot solicit or entice from API any employees or customers of API or participate in a business that is in direct competition with API in Australia or New Zealand during the 12 month period.

This is a summary of the main terms of Mr Sher's Executive Service Agreement which he and API have signed.

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#### FOR FURTHER

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