



**ASX ANNOUNCEMENT**

**27 SEPTEMBER 2006**

**Australian Pharmaceutical Industries Limited (API) advises details of Executive Service Agreement with Mr Stephen Roche**

**Summary of the Executive Service Agreement for Mr Stephen Roche, Managing Director and Chief Executive Officer**

**Term**

Mr Roche's appointment was effective 14 August 2006 and continues until the employment is terminated in accordance with the Agreement.

**Remuneration**

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

*Fixed salary*

Mr Roche will be paid a fixed annual remuneration amount of \$700,000 (inclusive of superannuation and fringe benefits tax). Mr Roche's remuneration will be reviewed on 1 March 2007 and thereafter 1 July each year with the next review on 1 July 2008.

*Short term incentive payments*

Mr Roche may receive a short term incentive payment of up to \$250,000 for the period ending 30 April 2007. The Short Term Incentive is subject to the achievement of a number of key performance measures which are being set by the Board.

Commencing from 1 May 2007, Mr Roche will participate in the API Short Term Incentive Program. The Company performance hurdles and key performance indicators are to be approved by the Board at the beginning of the performance period. Each key performance indicator will have a target performance level and an outstanding performance level defined.

The Short Term incentive target reward, if all performance targets are met, is set at 25% of fixed annual remuneration. Performance in excess of targets will be determined by a straight line calculation up to a maximum reward of 50% of fixed annual remuneration.

*Long Term Incentive Payments*

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

The first grant of performance rights will, subject to shareholder approval, be made during October 2006. The shareholder approval for this grant will be sought at API's 2007 Annual General Meeting.

Participation by Mr Roche 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).

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

If a performance right is satisfied through the achievement of a performance condition (as described below), a participant has approximately 2 years from that time to exercise it and be provided with a share in API.

The performance conditions for the exercise of performance rights will be assessed after [3] years from the date they are granted. Performance conditions will be tested only once, and any performance rights that do not meet the performance conditions will lapse and will not be re-tested.

The performance conditions for the performance rights are designed to take account of absolute and relative measures, being;

- \* the Company's total shareholder return (TSR) performance relative to the total shareholder return performance of a comparator group of ASX-listed companies (the applicable comparative group will be finalised before any awards are made under the Plan); and

- \* the Company's earnings per share (EPS) relative to an EPS growth target determined by the Board.

For any participant, one half of the total performance rights granted will be assessed against the TSR measure and the other half will be assessed against the EPS measure.

The TSR performance condition has the effect that:

- \* none of the performance rights subject to the TSR performance condition may be exercised at the end of the performance period, unless API's TSR performance is at least above the median level when compared against the comparative group; and
- \* if API's TSR is at or above the 75<sup>th</sup> percentile, all the performance rights subject to this condition can be exercised.

The EPS performance condition has the effect that:

- \* none of the performance rights subject to the EPS performance condition may be exercised unless API's actual EPS performance over the performance period results in aggregate EPS that is equivalent to at least 10% per annum compound EPS growth over the 3 year period; and
- \* if API's actual EPS performance results in aggregate EPS over the performance period that is equivalent to being at or above 15% per annum, compound EPS growth over the same period, all the performance rights subject to this condition can be exercised.

The Board will review the performance conditions and the term before making an initial grant to Mr Roche of performance rights in October 2006.

On 1 July each year, after the initial grant of performance rights, an annual grant of performance rights will be made to Mr Roche 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 Long Term Incentive Plan (Share Plan), as determined by the Board.

#### *Arrangements upon Termination*

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

#### *Resignation by Mr Roche*

Mr Roche may resign from API by giving three (3) months written notice. Upon resignation, the performance rights will only transfer to Mr Roche if he has fully qualified for the performance rights as per the API Long Term Incentive Plan (Share Plan).

#### *Summary termination by API*

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

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

API may terminate Mr Roche's employment agreement by giving twelve (12) months' written notice and may make a termination payment in lieu of notice of up to twelve (12) months' fixed remuneration. Mr Roche will be eligible to receive any performance rights he has fully qualified for as per the API Long Term Incentive Plan (Share Plan).

#### *Restrictive Covenant*

Mr Roche will be subject to a twelve (12) month non-compete restriction after cessation of his employment. Mr Roche 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 during the twelve (12) month period.

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

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**FOR FURTHER  
INFORMATION: MR ROBERT TASSIE: TEL 03 8720 3130**