

AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

BOARD CHARTER

1. Role

1.1 *Central role*

The central roles of the Board are to set the strategic direction for the Company, to select and appoint the Managing Director and Chief Executive Officer (**Managing Director**), and to oversee the Company's management and business activities.

1.2 *Interests for the Board to consider*

The Board should be mindful that:

- (a) although the primary objective of the Company is to create, and maintain, sustainable value for shareholders, where it is consistent with that objective, the legitimate interests of other interested or affected parties should be taken into account; and
- (b) shareholders and other parties who may have an interest in or be affected by the activities of the Company expect that the Directors will undertake their responsibilities with honesty, integrity, care and diligence, in accordance with the law and in a manner which reflects the highest standards of governance.

2. Powers

2.1 *Powers reserved to the Board*

In addition to matters required by law to be approved by the Board, the following powers are reserved to the Board:

- (a) to appoint, and to remove, the Managing Director and to determine the Managing Director's remuneration and conditions of service, including any financial incentives;
- (b) authorising the appointment of Chief Financial Officer and Company Secretary;
- (c) to authorise the issue of any shares, options, equity instruments or other securities;
- (d) to authorise expenditure in excess of discretionary limits delegated at any time to the Managing Director;
- (e) to approve:
 - (i) the strategic plan, at least annually;
 - (ii) the budgets, at least annually;
 - (iii) the appointment, and, where appropriate, the removal, of executives who report directly to the Managing Director;

- (iv) recruitment, retention and termination policies and procedures for the Managing Director and group executives and other executives who report directly to the Managing Director;
 - (v) the design of any long term incentive plans for executives and employees;
 - (vi) all senior management succession plans and significant changes to organisational structure;
 - (vii) the acquisition, establishment, disposal or cessation of any significant business of the Company;
 - (viii) appointment of the external auditor;
 - (ix) the annual and half year financial reports;
 - (x) any other information for disclosure to the market that contains or relates to financial projections, statements as to future financial performance or changes to the policy or strategy of the Group;
 - (xi) borrowings, other than in the ordinary course of business, and the granting of security over, or interests in, the undertaking of the Company or any of its assets, including the policy for pharmacy guarantees;
 - (xii) any changes to the authority delegated to the Managing Director by the Board; and
 - (xiii) policies of Company-wide or general application;
- (f) to appoint additional or replacement non-executive Directors; and
- (g) to establish procedures which ensure that the Board is in a position to exercise its powers and to discharge its responsibilities as set out in this Charter.

2.2 *Delegation to the Managing Director*

Except as reserved by Section 2.1, the Board has delegated responsibility for the management of the Company's business and affairs to the Managing Director.

3. **Responsibilities**

3.1 *Chairman's responsibilities*

The Chairman's responsibilities include:

- (a) leadership and effective performance of the Board;
- (b) setting the agenda for Board meetings, in conjunction with the Managing Director and Company Secretary;
- (c) overseeing the provision by management to Directors of accurate, timely and clear information;

- (d) arranging regular evaluation of the performance of the Board and its Committees and of individual Directors;
- (e) ensuring that Directors have adequate opportunity to contribute;
- (f) seeking to develop and maintain relations between Directors and management, particularly the Managing Director, that are open, cordial and conducive to productive cooperation;
- (g) providing counsel to the Managing Director, and being available for consultation with the Managing Director; and
- (h) establishing a protocol to take effect on occasions when the Chairman is absent from meetings of the Board.

3.2 *Board's responsibilities*

The Board's collective responsibilities include:

- (a) to monitor and to assess management's performance in carrying out strategies, achieving objectives and observing budgets, and to ensure that appropriate resources are available to management for those purposes;
- (b) to set criteria for and to evaluate the performance of the Managing Director, with a formal review at least annually;
- (c) to encourage a culture that promotes ethical and responsible decision-making, compliance with legal responsibilities and transparency through effective reporting;
- (d) to review and ratify systems of risk management, compliance and control and codes of conduct governing ethical business behaviour;
- (e) to contribute to management's development of corporate strategy and performance objectives;
- (f) to formulate and adopt appropriate Board policies;
- (g) to review procedures and practices employed in relation to health, safety, and the environment and to assess their adequacy;
- (h) to satisfy itself, on a reasonable basis, that the financial statements and other financial disclosures of the Company are appropriately presented;
- (i) to satisfy itself, on a reasonable basis, that appropriate internal and external audit arrangements are in place and operating effectively;
- (j) to adopt a continuous disclosure policy and monitor its operation;
- (k) to review on a regular and continuing basis:
 - (i) executive succession planning; and
 - (ii) executive development activities;

- (l) to review the outcomes of the Company's decisions and strategies and ensure that valuable lessons are identified and absorbed into the framework for making future decisions;
- (m) to satisfy itself that processes and plans are in place to maintain an orderly succession of appointments of non-executive Directors with an appropriate balance of skills to the Board; and
- (n) to satisfy itself that appropriate mechanisms are in place for the governance of subsidiary companies and the oversight of activities of subsidiary companies.

3.3 *Delegation to Committees*

The Board may delegate responsibility for discharge of its responsibilities to Committees of the Board, in accordance with Section 7 below.

4. **Board Composition**

4.1 *Minimum Composition*

The Board should be composed of a minimum of three directors.

4.2 *Independent majority*

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.

The Board should regularly assess the independence of each Director in light of interests disclosed by them. As well as their other attributes, the members of the Board should possess among them a range of qualifications, experience, skills and expertise considered of benefit to the Company.

4.3 *Chairman*

The Directors should appoint a Director with significant experience in the industry in which the Company operates, with demonstrated skills outlined in Section 3.1 relevant to the Company's position at the time and who will maintain an independent mind and judgement in the Board's decision-making activities.

4.4 *Review of Board composition*

Board composition should be reviewed annually by the Board to ensure that the non-executive Directors between them bring the range of skills, knowledge and experience necessary to direct the Company going forward.

4.5 *Selection of New Directors*

In reviewing its composition, the Board will address the following in the selection of new Directors:

- (a) The overall skills, knowledge and experience that a candidate will bring, as well as time commitment and independence; and
- (b) An appropriate induction process, as outlined in this Charter.

As appropriate, the Board will use an external search firm to assist in the identification and assessment of candidates for appointment to the Board.

5. Board and Director Processes

5.1 *Collective role of non-executive Directors*

Non-executive Directors collectively should:

- (a) challenge and contribute to the development of strategy;
- (b) scrutinise the performance of management against agreed objectives, and monitor the reporting of performance;
- (c) review and, where appropriate, challenge proposals presented by management;
- (d) request additional information where they consider that information necessary to support informed decision-making; and
- (e) take reasonable and proper steps to satisfy themselves that there are adequate and proper financial controls and systems of risk management and internal compliance, and that the controls are maintained and the systems robust.

5.2 *Individual role of non-executive Directors*

Non-executive Directors individually should:

- (a) inform themselves diligently about the subject matter of all decisions they are called upon to make as Directors; and
- (b) keep their own performance under review, taking into account their other commitments, state of health and personal situation, to determine whether they have an ongoing capacity to meet their obligations as a Director.

5.3 *Disclosure of appointments and activities*

Before appointment, non-executive Directors must disclose to the Chairman the nature and extent of their other appointments and activities. When advising their willingness to accept appointment, they must demonstrate that they understand what is expected of them and confirm that they are willing to make the necessary commitments to discharge their responsibilities.

5.4 *Chairman's consent to external appointments*

Before acceptance of any relevant external appointments, non-executive Directors should obtain the Chairman's consent. Relevant appointments include any appointment with potential to:

- (a) cause a conflict of interest for the Director;
- (b) affect the Director's independence;
- (c) have reputational consequences for the Company; or
- (d) place demands on the Director's time that could hinder their ability to attend Board meetings and discharge their responsibilities to the Company.

5.5 *Briefing new Directors*

On appointment, non-executive Directors should be informed in writing what is expected of them, including time commitment, being a member of Committees and participating in activities, and should be given briefing materials setting out the Company's business activities, financial position and forward plans.

New Directors should also be offered management briefings on strategic, financial and other matters.

5.6 *Continuing professional education*

Directors are expected to maintain their skills required to discharge their obligations to the Company. For this purpose, they should undertake continuing professional education to the extent necessary. Request for approval of professional education courses may be made to the Company Secretary and where a request is approved, the cost of the course will be met by the Company.

5.7 *Conflicts*

A Director must inform the Board or the Chairman, as soon as the Director is aware of any conflict or potential conflict of interest which that Director may have in relation to any particular item of business.

Unless decided otherwise by the other members of the Board, the Director should be absent from discussion and decision on that matter.

5.8 *Periodic site visits*

Periodic site visits, by all Directors, to aid and maintain their understanding of the business of the Company, should be scheduled and co-ordinated by management. Directors are expected to give priority to attendance at these visits.

5.9 *Access to company information*

Directors have direct access to members of Company management and to Company information in the possession of management. Members of management contacted by a Director may, but are not required to, notify the Managing Director of the contact. All Directors have direct access to the Company Secretary.

5.10 *Access to independent advisers*

The Board may have access to independent advisers, where the Board considers appropriate.

6. **Meetings**

6.1 *Board meetings*

The Board should hold scheduled meetings at least eleven times each year. Unscheduled Board meetings may be held to deal with matters arising between scheduled meetings.

Urgent decisions, where it is not practical to convene a meeting, may be made by resolution circulated in writing, in accordance with the Company's Constitution.

Additional days should be allocated each year for reviewing the Company's strategy with management.

6.2 *Board agendas*

Board agendas should be settled by the Chairman in conjunction with the Managing Director and Company Secretary and should allow for a discussion period by non-executive Directors in the absence of management.

7. **Board Committees**

7.1 *Board may establish committees*

The Board may from time to time establish standing and ad hoc Committees to assist it in carrying out its responsibilities.

For each standing Committee, the Board should adopt a Charter setting out its role, composition, powers, responsibilities, structure, resourcing and administration, and any other relevant matters. The appointment of a Chairman and of the members of any Board committee will be made by the Board.

7.2 *Standing committees*

The Board will establish and maintain as standing committees:

- (a) an Audit and Risk Committee;
- (b) a Board Remuneration Committee.

7.3 *Audit and Risk Committee*

The Audit and Risk Committee should consist of:

- (a) only non-executive Directors;
- (b) a majority of independent Directors;
- (c) an independent Chairman who is not Chairman of the Board; and

- (d) at least three members.

7.4 *Board Remuneration Committee*

The Board Remuneration Committee should consist of:

- (a) only non-executive Directors;
- (b) a majority of independent Directors;
- (c) an independent Chairman who is not Chairman of the Board; and
- (d) at least three members.

7.5 *Committee powers*

Any decision-making power delegated to a Committee must be specified by the Board. All policy decisions should be matters reserved for the Board.

7.6 *Reporting to the Board*

Each Committee should report to the Board at least annually on all matters relevant to the discharge by the Committee of its role and responsibilities. In addition, each Committee should report to the Board on specific issues as required under its Charter and on the proceedings of each meeting of that Committee to the next following Board meeting.

Except in cases which involve conflict of interest, the minutes of all Committee meetings should be made available to all Directors as soon as practicable.

8. **Board Performance**

8.1 *Annual performance evaluation*

The Board will undertake an annual performance evaluation that:

- (a) reviews the performance of the Board against the requirements of this Charter;
- (b) reviews the performance of the Board Committees against the requirements of their respective Charters;
- (c) sets out the goals and objectives of the Board for the upcoming year;
- (d) reviews this Charter, Committee Charters and the procedures of the Board with a view to continuous improvement.

8.2 *Scope of performance evaluation*

The Board will determine the scope of the performance evaluation and how it is carried out, in order to achieve the objectives in Section 8.1.

Approved by the Board on: 03 April 2007