Australian Pharmaceutical Industries Limited

ACN 000 004 320

Scheme Booklet

In relation to a proposal from WFM Investments Pty Ltd (a wholly-owned Subsidiary of Wesfarmers Limited) to acquire all of the remaining API Shares that WFM Investments does not already own by way of a scheme of arrangement.

VOTE IN FAVOUR

The Independent Expert has concluded that the Scheme is fair and reasonable and accordingly is in the best interests of API Shareholders, in the absence of a superior proposal.

Your API Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of API Shareholders.

This is an important document and requires your immediate attention.

You should read it in its entirety before deciding whether or not to vote in favour of the Scheme Resolution required to implement the Scheme. If you are in any doubt about what to do, you should consult your legal, financial, taxation or other professional adviser immediately.

If you have any questions about this Scheme Booklet or the Scheme, please contact the API Shareholder Information Line on 1300 103 401 (within Australia) or +61 2 9066 4063 (outside Australia) between 8.30 am and 5.00 pm (Melbourne time) Monday to Saturday, excluding public holidays.

Financial adviser

MACQUARIE

Legal adviser

ashurst

IMPORTANT NOTICES

Glossary

This Scheme Booklet is important. API Shareholders should carefully read this Scheme Booklet in its entirety before deciding whether or not to vote in favour of the Scheme Resolution required to implement the Scheme.

Nature of this document

This Scheme Booklet includes the explanatory statement for the Scheme for the purposes of section 412(1) of the Corporations Act.

This Scheme Booklet explains the terms of the proposed acquisition of all of the Scheme Shares by Wesfarmers by way of a scheme of arrangement between API and API Shareholders under Part 5.1 of the Corporations Act.

This Scheme Booklet also sets out the manner in which the Scheme will be considered and implemented (if all of the conditions to the Scheme are satisfied or (if permitted) waived) and provides such information as is prescribed by law or is otherwise material to the decision of API Shareholders whether to vote in favour of the Scheme.

This Scheme Booklet does not constitute or contain an offer to API Shareholders, or a solicitation of an offer from API Shareholders, in any jurisdiction.

This Scheme Booklet is not a disclosure document required by Chapter 6D of the Corporations Act. Subsection 708(17) of the Corporations Act provides that Chapter 6D of the Corporations Act does not apply in relation to arrangements under Part 5.1 of the Corporations Act approved at a meeting held as a result of an order under subsection 411(1).

If you have sold all of your API Shares, please disregard this Scheme Booklet.

Responsibility for information

API has prepared, and is solely responsible for, the API Information. None of Wesfarmers or its Related Bodies Corporate or their respective directors, officers, employees and advisers have verified any API Information and none of them assumes any responsibility for the accuracy or completeness of any API Information.

Wesfarmers has prepared, and is solely responsible for, the Wesfarmers Information. None of API or its Related Bodies Corporate, or their respective directors, officers, employees and advisers have verified any of the Wesfarmers Information, and none of them assumes any responsibility for the accuracy or completeness of any the Wesfarmers Information.

The Independent Expert, Grant Thornton, has prepared the Independent Expert's Report contained in Annexure A of this Scheme Booklet and takes sole responsibility for that report. None of API, Wesfarmers, or their respective Related Bodies Corporate, or any of their respective directors, officers, employees or advisers takes any responsibility for the Independent Expert's Report.

API's legal adviser, Ashurst, has prepared Section 8 of this Scheme Booklet and takes sole responsibility for that Section. None of API, Wesfarmers, or their respective Related Bodies Corporate, or any of their respective directors, officers, employees or advisers takes any responsibility for that Section.

No consenting party has withdrawn their consent to be named before the date of this Scheme Booklet.

ASIC and ASX

A copy of this Scheme Booklet was provided to ASIC in accordance with section 411(2) and 633 of the Corporations Act and has been registered by ASIC under section 412(6) of the Corporations Act. ASIC has been given the opportunity to comment on this Booklet in accordance with section 411(2) of the Corporations Act.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that it has no objection to the Scheme. ASIC's policy in relation to statements under section 411(17)(b) of the Corporations Act is that it will not provide such a statement until the Second Court Date. This is because ASIC will not be in a position to advise the Court until it has had an opportunity to observe the entire Scheme process. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been lodged with ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Forward looking statements and intentions

Some of the statements appearing in this Scheme Booklet (including in the Independent Expert's Report) may be in the nature of forward looking statements. Forward looking statements or statements of intent in relation to future events in this Scheme Booklet (including in the Independent Expert's Report) should not be taken to be forecasts or predictions that those events will occur. Forward looking statements generally may be identified by the use of forward looking words such as 'believe', 'aim', 'expect', 'anticipate', 'intend', 'foresee', 'likely', 'should', 'planned', 'may', 'estimate', 'potential', or other similar words. Similarly, statements that describe the objectives, plans, goals, intentions or expectations of API or Wesfarmers are or may be forward looking statements. You should be aware that such statements are only opinions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to API or Wesfarmers and / or the industries in which they operate, as well as general economic conditions, prevailing exchange rates and interest rates and conditions in financial markets.

Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and deviations are both normal and to be expected.

IMPORTANT NOTICES
continued

None of API, Wesfarmers, or their respective officers, directors, employees or advisers or any person named in this Scheme Booklet or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. Accordingly, you are cautioned not to place undue reliance on those statements.

Any forward looking statements in this Scheme Booklet reflect views held at the date of this Scheme Booklet. Subject to any continuing obligations under the Listing Rules or the Corporations Act, API and Wesfarmers and their respective officers, directors, employees and advisers, disclaim any obligation or undertaking to distribute after the date of this Scheme Booklet any updates or revisions to any forward looking statements to reflect (a) any change in expectations in relation to such statements; or (b) any change in events, conditions or circumstances on which any such statement is based.

Not investment advice

The information contained in this Scheme Booklet does not contain or constitute financial product advice and does not take into account the investment objectives, financial situation, taxation position or particular needs of any individual API Shareholder or any other person. Before making any decision (including a decision in relation to the Scheme or in relation to API generally), you should consider, with or without the assistance of an independent securities or other adviser, whether that decision is appropriate in light of your particular investment needs, objectives and financial circumstances. This Scheme Booklet should be read in its entirety before making a decision on whether or not to vote in favour of the Scheme. In particular, it is important that API Shareholders consider the risks as set out in section 7, and the views of the Independent Expert set out in the Independent Expert's Report contained in Annexure A of this Scheme Booklet.

Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside Australia who come into possession of this Scheme Booklet should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. API disclaims all liabilities for such violations.

API Shareholders who are resident outside of Australia, or who are nominees, trustees or custodians for beneficial holders resident outside Australia, are encouraged to seek independent advice as to how they should proceed (including specific taxation advice in relation to the Australian and overseas tax implications of their participation in the Scheme).

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations of jurisdictions other than Australia. No action has been taken to register or qualify this Scheme Booklet or any aspect of the Scheme in any jurisdiction outside Australia.

Important notice associated with Court order

The fact that, under section 411(1) of the Corporations Act, the Court has ordered that the Scheme Meeting be convened, and has directed that the Scheme Booklet accompany the Notices of Scheme Meeting, does not mean that the Court:

– has formed any view as to the merits of the proposed Scheme or as to how API Shareholders should vote (on this matter API Shareholders must reach their own decision); or
– has prepared, or is responsible for the content of, the Scheme Booklet.

The order of the Court that the Scheme Meeting be convened is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

Notice of Scheme Meeting

The Notice of Scheme Meeting is set out in Annexure D of this Scheme Booklet.

Notice of Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the votes at the Scheme Meeting.

Any API Shareholder may appear at the Second Court Hearing, which is expected to be held at 10.15am on Monday, 21 March 2022 at the Federal Court of Australia (305 William Street, Melbourne, Victoria 3000). It is possible that the Second Court Hearing will be held either virtually (online only) or by telephone conference. Details on how to attend the Second Court Hearing will be released by API to ASX if the Scheme has been approved at the Scheme Meeting. API Shareholders should note that the protocols for attendance at the Second Court Hearing may change at short notice in light of developments relating to the COVID-19 pandemic. Any such change will be announced by API to ASX.

Any API Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on API a notice of appearance in the prescribed form, together with any affidavit on which the API Shareholder proposes to rely. The notice of appearance and affidavit must be

IMPORTANT NOTICES

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served on API at its address for service at least one day before the Second Court Hearing.

The address for service is Level 5, 250 Camberwell Road, Camberwell, Victoria 3124.

Taxation implications of the Scheme

If the Scheme becomes Effective and is implemented, there will be taxation consequences for Scheme Shareholders which may include taxation being payable on any gain on disposal of API Shares. For further detail about the general Australian taxation consequences of the Scheme, refer to Section 8 of this Scheme Booklet.

The taxation treatment may vary depending on the nature and characteristics of each API Shareholder and the specific circumstances that apply to that API Shareholder. Accordingly, API Shareholders should seek professional taxation advice in relation to their particular circumstances.

Privacy

API and Wesfarmers may need to collect personal information in connection with the Scheme.

The personal information may include the names, contact details and details of API Share holdings of API Shareholders, together with contact details of individuals appointed as proxies, attorneys or corporate representatives for the Scheme Meeting. The collection of some of this information is required or authorised by the Corporations Act.

The primary purpose of the collection of personal information is to assist API and Wesfarmers to conduct the Scheme Meeting and to implement the Scheme.

This information may be disclosed to API, Wesfarmers and their respective Related Bodies Corporate and advisers, print and mail service providers, share registries, securities brokers and any other service provider to the extent necessary to effect the Scheme, and also where disclosure is otherwise required or allowed by law.

API Shareholders who are individuals, and other individuals in respect of whom personal information is collected, have certain rights to access the personal information collected about them. API Shareholders may contact the Share Registry if they wish to exercise these rights.

If the information outlined above were not collected, API may be hindered in, or prevented from, conducting the Scheme Meeting or implementing the Scheme. API Shareholders who appoint an individual as their proxy, attorney or corporate representative to vote at the applicable Scheme Meeting should inform that individual of the matters relating to their personal information which are outlined above. Further information about how API collects, uses and discloses personal information is contained in the API privacy policy which can be found on the API Group's website at www.api.net.au.

External websites

Unless expressly stated otherwise, the content of API's website and Wesfarmers' website do not form part of this Scheme Booklet and API Shareholders should not rely on any such content.

Interpretation

Capitalised terms used in this Scheme Booklet are defined in the Glossary in Section 10 of this Scheme Booklet, or otherwise in the sections in which they are used. Section 10 of this Scheme Booklet also sets out rules of interpretation which apply to this Scheme Booklet. Some of the documents reproduced in the Annexures to this Scheme Booklet have their own defined terms, which are sometimes different from those in the Glossary.

Charts and diagrams

Any diagrams, charts, graphs and tables appearing in this Scheme Booklet are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in diagrams, charts, graphs and tables is based on information available at the date of this document. All numbers are rounded, unless otherwise indicated.

Rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to rounding. Accordingly, the actual calculation of figures, amounts, percentages, prices, estimates, calculations of value and fractions may differ from the figures, amounts, percentages, prices, estimates, calculations of value and fractions set out in this Scheme Booklet. Any discrepancies between totals in tables or in financial information, or in calculations, graphs or charts are due to rounding.

Financial amounts and exchange

The financial amounts in this Scheme Booklet are expressed in Australian currency, unless otherwise stated.

Times and dates

All times referred to in this Scheme Booklet are references to times in Melbourne, Australia, unless otherwise stated.

All dates following the Scheme Meeting referred to in this Scheme Booklet are indicative only and, among other things, are subject to the satisfaction or (if permitted) waiver of the conditions precedent to the Scheme.

Date of this Scheme Booklet

This Scheme Booklet is dated 14 February 2022.

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LETTER FROM THE CHAIR OF API

14 February 2022

Dear API Shareholders,

On behalf of your API Directors, I am pleased to provide you with this Scheme Booklet, which contains information in relation to the proposed acquisition of API by Wesfarmers, through its wholly-owned Subsidiary WFM Investments (collectively, **Wesfarmers** unless specified).

On 8 November 2021, API announced that it had entered into the Scheme Implementation Deed under which Wesfarmers would acquire the shares in API which Wesfarmers does not already own, by way of a scheme of arrangement (which is a commonly used legal procedure in Australia to enable one company to acquire another company) (**Scheme**), subject to the satisfaction of API Shareholder and Court approval, and certain other Conditions.

Prior to entry into the Scheme Implementation Deed, API announced it had received an unsolicited non-binding indicative offer from Sigma Healthcare Limited (**Sigma**) on 27 September 2021, however Sigma announced it had withdrawn this non-binding offer on 5 November 2021. After entry into the Scheme Implementation Deed, API announced it had received an unsolicited non-binding indicative offer from Woolworths Group Limited (**Woolworths**) on 2 December 2021, however Woolworths announced it had withdrawn this non-binding offer on 7 January 2022.

Your API Directors consider that the Scheme represents an opportunity for API Shareholders to realise the value of their investment in API, in the absence of a Superior Proposal.

Total Cash Value

Under the Scheme Implementation Deed, Wesfarmers has agreed to offer API Shareholders a cash price of $1.55 per API Share, less the cash amount of the Ordinary Dividend and any Special Dividend paid by API before the Implementation Date.

On 28 October 2021, the API Board announced it had decided to pay the Ordinary Dividend, being fully franked final dividend of $0.02 (2 cents) per API Share in relation to the financial year ended 31 August 2021. The Ordinary Dividend was paid on 15 December 2021 to those API Shareholders on the Register on 12 November 2021. The Ordinary Dividend was not conditional on the Scheme and was paid irrespective of whether the Scheme proceeds.

Accordingly, the Scheme Consideration per API Share payable by Wesfarmers to Scheme Shareholders will be $1.53 per API Share, less the amount of any Special Dividend that the API Board decided to pay and pays before the Implementation Date.

The API Board currently intends to pay a fully franked Special Dividend of $0.03 per API Share prior to implementation of the Scheme, if the Scheme is approved by API Shareholders and the Court. The final decision on whether or not to pay a Special Dividend will be made by the API Directors and will depend upon a number of factors, including the availability of franking credits, the requirements of the Corporations Act and API having obtained a draft Class Ruling from the ATO in relation to the tax implications of the Scheme, including availability of franking credits attached to the Special Dividend. The decision of your API Directors in relation to a Special Dividend will be communicated to API Shareholders by way of an ASX announcement before the Second Court Hearing.

If the Scheme becomes Effective, those Scheme Shareholders who received the Ordinary Dividend, any Special Dividend that the API Board decides to pay and the Scheme Consideration will, in aggregate, receive $1.55 per API Share (**Total Cash Value**). Any API Shareholder that acquired API Shares after the Ordinary Dividend Record Date will receive $1.53 per API Share if the Scheme becomes Effective. If the Scheme becomes Effective, any API Shareholder that is registered as the holder of an API Share on the Special Dividend Record Date, but ceases to be registered as the holder of that API Share on the Scheme Record Date, will receive the Special Dividend but will not receive the Scheme Consideration in respect of that API Share.

1. Implied fully diluted equity value derived from $1.55 per API Share multiplied by 499.3 million shares (includes 492.7 million API Shares on issue and 6.6 million API Performance Rights on issue). Enterprise value includes API net debt of $100.0 million, minority interests of $1.7 million and lease liabilities of $175.4 million as at 31 August 2021.

LETTER FROM THE CHAIR OF API

continued

The Total Cash Value of $1.55 per API Share represents a premium over trading prices of API Shares on ASX prior to the announcement of the Wesfarmers Initial Proposal on 12 July 2021:

– 35.4% premium to the closing price of API Shares as at 9 July 2021 of $1.145 (being the last trading day before the announcement of the Wesfarmers Initial Proposal).
– 36.9% premium to the one-month VWAP of API Shares to and including 9 July 2021 of $1.132 per API Share; and
– 33.3% premium to the three-month VWAP of API Shares to and including 9 July 2021 of $1.163.

The Total Cash Value implies:

– a fully diluted equity value for API of approximately $773.9 million; and
– the enterprise value gross of the lease liabilities at 31 August 2021 for API of approximately $1,051.0 million.[1]

Franking credits

The franking credits attached to the Special Dividend are potentially worth up to approximately $0.013 per API Share (ie $0.03 x (30/70) in relation to any Special Dividend of $0.03 per API Share that the API Board decided to pay) for those Scheme Shareholders who are able to realise the full benefit of franking credits. The Scheme Consideration will not be reduced by the value of any franking credits. Whether a Scheme Shareholder is able to obtain the full benefit of the franking credits depends on their personal tax circumstances. In assessing the value of any Special Dividend, Scheme Shareholders should seek independent professional taxation advice as to whether or not the receipt of any Special Dividend and any entitlement to franking credits attached thereto is beneficial to them based on their own particular circumstances. In particular, Scheme Shareholders should note that, depending on the timing of and price at which they acquired their API Shares, the tax consequences for that Scheme Shareholder may differ. Refer to Section 8 of this Scheme Booklet for further details.

API Directors' recommendation

Your API Directors have carefully considered the Scheme, taking into account API's current position and medium and longer term potential, and believe that the Scheme is in the best interests of API Shareholders (in the absence of a Superior Proposal).

Accordingly, your API Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of API Shareholders.

Furthermore, each of your API Directors intends to vote all the API Shares held or controlled by them in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of API Shareholders.

In reaching their recommendation, your API Directors had regard to a range of factors (which are explained in more detail in Section 1.2 of this Scheme Booklet) including that:

– The Independent Expert has concluded that the Scheme is fair and reasonable and therefore, is in the best interests of API Shareholders, in the absence of a superior proposal.
– The Total Cash Value represents a premium relative to recent historical trading prices of API Shares prior to the announcement of the Wesfarmers Initial Proposal.
– The all cash consideration provides Scheme Shareholders with certainty of value and the opportunity to realise their investment for cash.
– Those API Shareholders that are eligible may receive an additional benefit from the value of franking credits attached to any Special Dividend that that API Shareholder has or may receive.[2]
– As at the Last Practicable Date, the Board is not aware of any Superior Proposal that is likely to emerge.
– The Scheme has limited conditionality, being subject only to customary conditions (including API Shareholder approval, Court approval and the Independent Expert continuing to conclude that the Scheme is in the best

2. In assessing the value of any Special Dividend, API Shareholders should seek independent professional taxation advice as to whether or not the receipt of any Special Dividend and any entitlement to franking credits attached thereto is beneficial to them based on their own particular circumstances. In particular, API Shareholders should note that, depending on the timing of and price at which they acquired their API Shares, there may be differences in the tax consequences for them. Refer to section 8 of this Scheme Booklet for further details.

LETTER FROM THE CHAIR OF API

continued

interests of API Shareholders) and is not subject to any financing conditions or further due diligence. As API announced to the ASX, the ACCC Condition was satisfied on 11 February 2022.

- If the Scheme does not proceed, API Shareholders will continue to be exposed to risks associated with API's business, rather than realising certain value for their API Shares within a certain timeframe.

In forming the view that the Scheme is in the best interests of API Shareholders, and in determining to unanimously recommend the Scheme to API Shareholders, your API Directors also considered the disadvantages of the Scheme proceeding, and reasons why API Shareholders may (in pursuit of their own individual investment objectives, or otherwise) consider voting against the Scheme; as set out in Section 1.3 of this Scheme Booklet, you may consider voting against the Scheme for the following reasons:

- You may disagree with your API Directors' recommendation and the Independent Expert's conclusion;
- You may prefer to participate in the future financial performance of API's business;
- You may believe it is in your best interests to maintain your current investment and risk profile;
- You may consider that there is potential for a proposal you consider to be a Superior Proposal in the foreseeable future; or
- The tax consequences of the Scheme may not be suitable for your circumstances.

However, your API Directors consider that the advantages of the Scheme proceeding for API Shareholders outweigh the disadvantages.

The interests of the API CEO and Managing Director, Mr Richard Vincent, and the other API Directors are disclosed in section 9 of this Scheme Booklet. API Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Vincent's recommendation on the Scheme, which appears throughout this Scheme Booklet.[3]

Further information to assist you in determining whether to vote in favour of the Scheme is set out in this Scheme Booklet, particularly in Sections 1.2 and 1.3.

Independent Expert

Your API Directors appointed Grant Thornton as the Independent Expert to assess the merits of the Scheme. The Independent Expert has concluded that the Scheme is fair and reasonable, and therefore your API Directors have determined that it is in the best interests of API Shareholders, in the absence of a superior proposal.

The Independent Expert has assessed the value of an API Share before the Scheme to be in the range of $1.48 to $1.78 on a 100% controlling interest basis. The Total Cash Value of $1.55 per API Share falls within the Independent Expert's assessed valuation range on a 100% controlling interest basis.

A complete copy of the Independent Expert's Report is included in Annexure A of this Scheme Booklet and I encourage you to read it in full.

How to vote

Your vote is important and will determine the future ownership of API. I encourage you to vote on the Scheme Resolution by attending the Scheme Meeting or by completing the relevant proxy form.

If you wish the Scheme to proceed, it is important that you vote in favour of the Scheme Resolution.

In response to the potential health risks arising from the COVID-19 pandemic, the Scheme Meeting will be held virtually. There will be no physical meeting.

The Scheme Meeting is to be held online at 2.00 pm on Thursday, 17 March 2022.

API Shareholders can participate in the Scheme Meeting online via https://web.lumiagm.com/395-861-053. The online platform will allow API Shareholders to view the Scheme Meeting. API Shareholders can ask questions and vote during the Scheme Meeting separately via https://www.votingonline.com.au/apisoa2022.

3. Following the exercise of the API Board's (excluding Mr Vincent) discretion, subject to the Scheme becoming Effective, the API CEO and Managing Director, Mr Richard Vincent, will be entitled to receive up to $3,431,298.55 in connection with the cancellation of his unvested API Performance Rights. The API Board (excluding Mr Vincent) considers that, despite these arrangements, it is appropriate for Mr Vincent to make a recommendation on the Scheme given his role in the operation and management of API and that API Shareholders would wish to know Mr Vincent's views in relation to the Scheme. Mr Vincent also considers that it is appropriate for him to make a recommendation on the Scheme.

LETTER FROM THE CHAIR OF API

continued

To participate and vote online, API Shareholders will need their username, which is their Voting Access Code (VAC) (which is shown on the front of their proxy form) and their password, which is the postcode registered to their holding if they are Australian Shareholders. Overseas shareholders should refer to the Virtual Meeting User Guide on the API website for their password details. Proxyholders will need their proxy code, which Boardroom Pty Limited will provide via email (where requested) no later than 48 hours prior to the Scheme Meeting. Further information on the online platform can be found at the API website https://www.api.net.au/investor/share-registry.

Even if you plan to attend the Scheme Meeting online, we encourage you to submit a directed proxy vote as early as possible by completing and returning a proxy form by post, email, hand delivery or fax to the Share Registry or by lodging your proxy form online at https://www.votingonline.com.au/apisoa2022, in accordance with the instructions on that form.

API Shareholders can lodge questions prior to the Scheme Meeting by submitting questions via https://www.votingonline.com.au/apisoa2022 by no later than 5.00 pm on 15 March 2022.

Further information

This Scheme Booklet sets out important information regarding the Scheme, including the reasons for your API Directors' recommendation and the Independent Expert's Report. It also sets out some of the reasons why you may not wish to vote in favour of the Scheme.

Please read this Scheme Booklet carefully and in its entirety as it will assist you in making an informed decision as to how to vote. I would also encourage you to seek independent financial, legal, taxation or other professional advice before making any voting or investment decision in relation to your API Shares.

If you require any further information, please contact the API Shareholder Information Line on 1300 103 401 (inside Australia) or +61 2 9066 4063 (outside Australia) between 8.30 am and 5.00 pm (Melbourne time) Monday to Saturday, excluding public holidays.

On behalf of your API Directors, I would like to take this opportunity to thank you for your ongoing support of API. I look forward to your participation at the Scheme Meeting and encourage you to vote in favour of the Scheme which your API Directors believe is in the best interests of API Shareholders, and which the Independent Expert has concluded is in the best interests of API Shareholders.

Yours sincerely

Ken Gunderson - Briggs

Kenneth W Gunderson-Briggs
Chairman

IMPORTANT DATES AND EXPECTED TIMETABLE FOR THE SCHEME

KEY DATES

Date of this Scheme Booklet	**Monday, 14 February 2022**
Latest time and date for receipt of completed proxy forms for Scheme Meeting	**Tuesday, 15 March 2022, at: 2.00 pm**
Time for determining eligibility to vote at the Scheme Meeting	**Tuesday, 15 March 2022, at: 7.00 pm**
Scheme Meeting In light of the Coronavirus (COVID-19), the Scheme Meeting will be held virtually. There will not be a physical meeting. Further details relating to the Scheme Meeting are set out in the Notice of Scheme Meeting set out at Annexure D to this Scheme Booklet.	**Thursday, 17 March 2022, at: 2.00 pm**

IF THE SCHEME RESOLUTION IS PASSED BY API SHAREHOLDERS

Second Court Date for approval of the Scheme	**10.15am on Monday, 21 March 2022**
Effective Date Scheme Order lodged with ASIC and lodgement is announced on ASX Last day of trading in API Shares on ASX (with API Shares suspended from trading on ASX from close of trading)	**Tuesday, 22 March 2022**
Special Dividend Record Date for determining entitlements to the Special Dividend (if API Directors decide to pay a Special Dividend)	**7.00 pm on Sunday, 27 March 2022**
Scheme Record Date for determining entitlements to Scheme Consideration	**7.00 pm on Tuesday, 29 March 2022**
Special Dividend Payment Date (if API Directors decide to pay a Special Dividend)	**Tuesday, 29 March 2022**
Implementation Date Payment of Scheme Consideration and transfer of Scheme Shares to Wesfarmers	**Thursday, 31 March 2022**

All times and dates in the above timetable are references to the time and date in Melbourne, Australia. All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and any other conditions to the Scheme having been satisfied or, if applicable, waived. API reserves the right to vary the times and dates set out above. Any changes to the above timetable will be announced on ASX and notified on API's website at www.api.net.au.

1. CONSIDERATIONS RELEVANT TO YOUR VOTE

1.1 Summary

Reasons to vote in favour of the Scheme

- Your API Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of API Shareholders[4]
- The Independent Expert has concluded that the Scheme is fair and reasonable and therefore, is in the best interests of API Shareholders in the absence of a superior proposal
- The Total Cash Value represents a premium for your API Shares on ASX prior to the announcement of the Wesfarmers Initial Proposal
- The all cash consideration provides Scheme Shareholders with certainty of value and the opportunity to realise their investment for cash
- Those API Shareholders that are eligible may receive an additional benefit from the value of franking credits attached to any Special Dividend that that API Shareholder has or may receive
- No proposal exists that the API Board considers to be a Superior Proposal
- The Scheme has limited conditionality
- The API Share price may fall in the near-term if the Scheme is not implemented and no Superior Proposal emerges
- If the Scheme does not proceed, API Shareholders will continue to be exposed to risks associated with API's business, rather than realising certain value for their API Shares in a certain timeframe

These reasons are discussed in more detail in Section 1.2 of this Scheme Booklet.

Reasons why you may choose to vote against the Scheme

- You may disagree with your API Directors' recommendation and the Independent Expert's conclusion
- You may prefer to participate in the future financial performance of API's business
- You may believe it is in your best interests to maintain your current investment and risk profile
- You may consider that there is potential for a proposal to emerge that you consider to be a Superior Proposal in the foreseeable future
- The tax consequence of the Scheme may not be suitable for your circumstances

These reasons are discussed in more detail in Section 1.3 of this Scheme Booklet.

1.2 Reasons to vote in favour of the Scheme

(a) Your API Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of API Shareholders

In reaching their recommendation, your API Directors have assessed the Scheme having regard to the reasons to vote in favour of, or against, the Scheme, as set out in this Scheme Booklet.

Your API Directors believe the Scheme Consideration recognises the value of both API's existing business and its medium and longer term potential. The Scheme also provides certain cash proceeds in the near term which may not be achieved if the Scheme does not proceed.

Prior to entry into the Scheme Implementation Deed, API announced it had received an unsolicited non-binding indicative offer from Sigma on 27 September 2021, however Sigma announced it had withdrawn this non-binding offer on 5 November 2021. After entry into the Scheme Implementation Deed, API announced it had received an unsolicited non-binding indicative offer from Woolworths on 2 December 2021, however Woolworths announced it had withdrawn this non-binding offer on 7 January 2022.

4. Following the exercise of the API Board's (excluding Mr Vincent) discretion, subject to the Scheme becoming Effective, the API CEO and Managing Director, Mr Richard Vincent, will be entitled to receive up to $3,431,298.55 in connection with the cancellation of his unvested API Performance Rights. The API Board (excluding Mr Vincent) considers that, despite these arrangements, it is appropriate for Mr Vincent to make a recommendation on the Scheme given his role in the operation and management of API and that API Shareholders would wish to know Mr Vincent's views in relation to the Scheme. Mr Vincent also considers that it is appropriate for him to make a recommendation on the Scheme.

1. CONSIDERATIONS RELEVANT TO YOUR VOTE

continued

In the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of API Shareholders, each of your API Directors intends to vote all API Shares held or controlled by them in favour of the Scheme.

The interests of the API CEO and Managing Director, Mr Richard Vincent, and the other API Directors are disclosed in section 9 of this Scheme Booklet. API Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Vincent's recommendation on the Scheme, which appears throughout this Scheme Booklet.[5]

(b) The Independent Expert has concluded that the Scheme is fair and reasonable and therefore, is in the best interests of API Shareholders in the absence of a superior proposal

Your API Directors appointed Grant Thornton to prepare an Independent Expert's Report, including an opinion as to whether the Scheme is fair and reasonable and in the best interests of API Shareholders. The Independent Expert has concluded that the Scheme is fair and reasonable, and therefore, is in the best interests of API Shareholders, in the absence of a superior proposal.

The Independent Expert has assessed the value of an API Share to be in the range of $1.48 to $1.78 on a 100% controlling interest basis. The Total Cash Value falls within the Independent Expert's assessed valuation range on a 100% controlling interest basis.

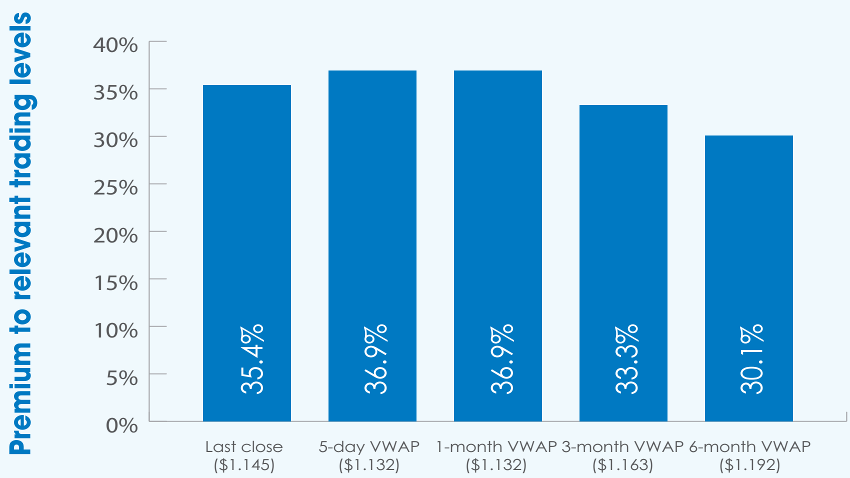
Your API Directors encourage you to read the Independent Expert's Report, which is set out in Annexure A of this Scheme Booklet.

(c) The Total Cash Value represents a premium for your API Shares on ASX prior to the announcement of the Wesfarmers Initial Proposal

The Total Cash Value of $1.55 per API Share represents a premium of:

- 35.4% premium to the closing price of API Shares on and including 9 July 2021 of $1.145 (being the last trading day before the announcement of the Wesfarmers Initial Proposal).
- 36.9% premium to the one-month VWAP of API Shares to and including 9 July 2021 of $1.132 per API Share; and
- 33.3% premium to the three-month VWAP of API Shares to and including 9 July 2021 of $1.163.

As shown in the chart below.



5. Following the exercise of the API Board's (excluding Mr Vincent) discretion, subject to the Scheme becoming Effective, the API CEO and Managing Director, Mr Richard Vincent, will be entitled to receive up to $3,431,298.55 in connection with the cancellation of his unvested API Performance Rights. The API Board (excluding Mr Vincent) considers that, despite these arrangements, it is appropriate for Mr Vincent to make a recommendation on the Scheme given his role in the operation and management of API and that API Shareholders would wish to know Mr Vincent's views in relation to the Scheme. Mr Vincent also considers that it is appropriate for him to make a recommendation on the Scheme.

1. CONSIDERATIONS RELEVANT TO YOUR VOTE

continued

(d) The all cash consideration provides Scheme Shareholders with certainty of value and the opportunity to realise their investment for cash

The offer from Wesfarmers is a 100% cash offer. More specifically, if the Scheme is implemented, Scheme Shareholders will receive the Scheme Consideration (payable by Wesfarmers) of $1.53 per API Share, less any Special Dividend paid by API prior to the Implementation Date. API Shareholders that held API Shares on the Ordinary Dividend Record Date will have also received $0.02 cash per API Share by way of the Ordinary Dividend, resulting in such Scheme Shareholders receiving the Total Cash Value of $1.55 per API Share.

The Scheme also provides you with an opportunity to dispose of 100% of your API Shares in a single transaction:

- without incurring brokerage; and
- in circumstances where you may (depending on the size of your shareholding) presently face limited opportunities (other than under the Scheme) to achieve full liquidity in respect of your API Shares, or may only do so at a discount to the applicable prevailing share price.

This certainty should be compared with the risks and the uncertainties of remaining an API Shareholder, which include, but are not limited to, the risks set out in Section 7 of this Scheme Booklet.

(e) Those API Shareholders that are eligible may receive an additional benefit from the value of franking credits attached to any Special Dividend that that API Shareholder may receive

The franking credits attached to the Special Dividend are potentially worth up to approximately $0.013 per API Share (ie $0.03 x (30/70), in relation to any Special Dividend paid of up to $0.03 per API Share paid) for those API Shareholders who are able to realise the full benefit of franking credits. The Scheme Consideration will not be reduced by the value of any franking credits. Whether an API Shareholder is able to obtain the full benefit of the franking credits depends on their personal tax circumstances. In assessing the value of any Special Dividend, API Shareholders should seek independent professional taxation advice as to whether or not the receipt of any Special Dividend and any entitlement to franking credits attached thereto is beneficial to them based on their own particular circumstances. In particular, API Shareholders should note that, depending on the timing of and price at which they acquired their API Shares, there may be differences in the tax consequences for them. Refer to Section 8 of this Scheme Booklet for further details.

The API Board currently intends to pay a fully franked Special Dividend of $0.03 per API Share prior to implementation of the Scheme, if the Scheme is approved by API Shareholders and the Court. The final decision on whether or not to decide to pay a Special Dividend will be made by your API Directors and will depend upon a number of factors, including the availability of franking credits, the requirements of the Corporations Act and API having obtained a draft Class Ruling from the ATO in relation to the tax implications of the Scheme, including the availability of franking credits attached to the Special Dividend. The final decision of your API Directors will be communicated to API Shareholders by way of an ASX announcement before the Second Court Hearing.

(f) Since the announcement of the Scheme, no proposal exists that the API Board considers to be a Superior Proposal

The Scheme Implementation Deed prohibits API from soliciting a Competing Proposal. However, the API Board is permitted to respond to a genuine Competing Proposal that it determines in good faith, after consultation with API's legal and financial advisers, is (or would be reasonably likely to lead to) a Superior Proposal if it were proposed, and after receiving written advice from API's legal advisers that failing to respond would, or would be reasonably likely to, constitute a breach of the fiduciary duties or statutory obligations of any API Director. Refer to Section 9.4(j) of this Scheme Booklet for further information on these arrangements.

1. CONSIDERATIONS RELEVANT TO YOUR VOTE

continued

API announced it had received an unsolicited non-binding indicative offer from Woolworths on 2 December 2021. At that time, API considered that, if completed substantially in accordance with its terms, this Woolworths' proposal was reasonably capable of being valued, implemented and completed in accordance with its terms, and, if completed substantially in accordance with its terms, be more favourable to API Shareholders as a whole than the Scheme. However, Woolworths announced it had withdrawn this non-binding offer on 7 January 2022 and therefore as at the date of this Scheme Booklet, no Superior Proposal exists and the API Directors are not aware of any Superior Proposal that is likely to emerge.

(g) The Scheme has limited conditionality

The Scheme is not subject to any financing conditions or further due diligence and the ACCC Condition was satisfied on 11 February 2022. The Scheme is only subject to customary conditions consistent with schemes of arrangement (including API Shareholder approval, Court approval and the Independent Expert continuing to conclude that the Scheme is in the best interests of API Shareholders). Further information relating to the Conditions can be found in section 3.5 of this Scheme Booklet.

(h) The API Share price may fall in the near-term if the Scheme is not implemented and no Superior Proposal emerges

Your API Directors believe that the API Share price may fall in the near-term if the Scheme is not implemented and no Superior Proposal emerges price at which it has traded since the Wesfarmers Initial Proposal was announced.

(i) If the Scheme does not proceed, API Shareholders will continue to be exposed to risks associated with API's business, rather than realising certain value for their API Shares in a certain timeframe

If the Scheme does not proceed, the value that API Shareholders will be able to realise from their API Shares (in terms of the price of those API Shares and any future dividends paid in respect of them) will be uncertain and subject to a number of risks outlined in Section 7 in this Scheme Booklet.

Among other things, those uncertainties and risks relate to the performance of API's business from time to time (in particular, the uncertainties associated with API's outlook as described in Section 7.2 of this Scheme Booklet), general economic conditions and movements in the securities markets.

The Scheme removes these risks and uncertainties for API Shareholders and the Board considers that it allows API Shareholders to realise their investment in API at a certain price. If the Scheme is approved and implemented, these risks and uncertainties will be assumed by Wesfarmers, as the sole shareholder of API following implementation of the Scheme.

1. CONSIDERATIONS RELEVANT TO YOUR VOTE

continued

1.3 Reasons why you may choose to vote against the scheme

Your API Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal provided that the Independent Expert continues to conclude that the Scheme is in the best interests of API Shareholders.[6] The Independent Expert has concluded that the Scheme is fair and reasonable and therefore, is in the best interests of API Shareholders in the absence of a superior proposal. However, there may be reasons which lead you to consider voting against the Scheme, including those set out below.

(a) You may disagree with your API Directors' recommendation and the Independent Expert's conclusion

In concluding that the Scheme is in the best interests of API Shareholders, absent a Superior Proposal, your API Directors and the Independent Expert are making judgements based on future trading conditions and events which cannot be predicted with certainty and which may prove to be inaccurate (either positively or negatively).

You may hold a different view from, and are not obliged to follow the recommendation of, your API Directors, and may not agree with the Independent Expert's conclusion.

(b) You may prefer to participate in the future financial performance of API's business

If the Scheme is implemented, you will no longer be an API Shareholder and will forgo any benefits that may result from being an API Shareholder.

This will mean that you will not participate in the future performance of API, retain any exposure to API's business or assets, or have the potential to share in the value that could be generated by API in the future. However, there is no guarantee as to API's future performance, as is the case with all investments.

(c) You may believe it is in your best interests to maintain your current investment and risk profile

You may prefer to keep your API Shares to preserve your investment in a listed company with the specific characteristics of API.

In particular, you may consider that, despite the risk factors relevant to API's potential future operations (including those set out in Section 7 of this Scheme Booklet), API may be able to return greater value from its assets by remaining a standalone entity or by seeking alternative corporate transactions in the future.

You may also consider that it would be difficult to identify or invest in alternative investments that have a similar investment profile to that of API or may incur transaction costs in undertaking any new investment.

(d) You may consider that there is potential for a proposal you consider to be a Superior Proposal in the foreseeable future

It is possible that a more attractive proposal for API Shareholders could materialise in the future, such as a change of control transaction with a higher offer price than the Scheme Consideration.

On 27 September 2021, API announced it had received an unsolicited non-binding indicative offer from Sigma, however Sigma announced it had withdrawn this non-binding offer on 5 November 2021

On 2 December 2021, API announced it had received an unsolicited non-binding indicative offer from Woolworths, however, Woolworths announced it had withdrawn this non-binding offer on 7 January 2022.

While the API board considered that each of the non-binding indicative offers which were received from Sigma and Woolworths were capable of being more favourable to API shareholders than the Scheme if they were completed, neither Sigma nor Woolworths proceeded with a binding proposal which was capable of being completed and as noted above, each withdrew its non-binding offer. Accordingly, as at the date of this Scheme Booklet, no Superior Proposal exists and the API Directors are not aware of any Superior Proposal that is likely to emerge.

6. Following the exercise of the API Board's (excluding Mr Vincent) discretion, subject to the Scheme becoming Effective, the API CEO and Managing Director, Mr Richard Vincent, will be entitled to receive up to $3,431,298.55 in connection with the cancellation of his unvested API Performance Rights. The API Board (excluding Mr Vincent) considers that, despite these arrangements, it is appropriate for Mr Vincent to make a recommendation on the Scheme given his role in the operation and management of API and that API Shareholders would wish to know Mr Vincent's views in relation to the Scheme. Mr Vincent also considers that it is appropriate for him to make a recommendation on the Scheme.

1. CONSIDERATIONS RELEVANT TO YOUR VOTE

continued

(e) The tax consequences of the Scheme may not be suitable for your circumstances

The tax consequences of the Scheme will depend on your personal situation. You may consider that the tax consequences of transferring your API Shares to WFM Investments pursuant to the Scheme are not suitable to you. A general guide to the Australian taxation implications of the Scheme is set out in Section 8 of this Scheme Booklet. However, the outline in Section 8 is expressed in general terms only, and API Shareholders are advised to seek independent tax advice from a tax advisor about their particular circumstances including, for foreign resident API Shareholders, any foreign tax implications associated with the Scheme.

2. FREQUENTLY ASKED QUESTIONS

This section 2 provides summary answers to some questions you may have about the Scheme. It is not intended to address all relevant issues for API Shareholders. This section should be read together with all other parts of this Scheme Booklet.

Question	Answer	More information
OVERVIEW OF THE SCHEME		
Why have I received this Scheme Booklet?	This Scheme Booklet has been sent to you because you are an API Shareholder and API Shareholders are being asked to vote on the Scheme which, if approved, will result in Wesfarmers acquiring all API Shares which it does not already own for the Scheme Consideration. This Scheme Booklet is intended to help you consider and decide on how to vote on the Scheme at the Scheme Meeting. If you have transferred all of your API Shares please disregard this Scheme Booklet as you will not be entitled to vote at the Scheme Meeting.	**Letter from the Chair of API and Section 4**
What is the Scheme?	The Scheme is a scheme of arrangement between API and the Scheme Shareholders. A "scheme of arrangement" is a statutory procedure in the Corporations Act that is commonly used in transactions in Australia that may result in a change of ownership or control of a company. In addition to requiring Court approval, schemes of arrangement require a shareholder vote in favour of a resolution to implement the scheme of arrangement by the Requisite Majorities. If the Scheme becomes Effective, Wesfarmers (via its wholly-owned Subsidiary WFM Investments) will acquire all of the Scheme Shares for the Scheme Consideration. API will be delisted from the ASX and become a wholly owned Subsidiary of WFM Investments.	**Section 3 and Annexure B**
Who is WFM Investments?	WFM Investments is a newly incorporated Australian company established for the purpose of acquiring API. WFM Investments was incorporated on 25 June 2021 and is a wholly owned Subsidiary of Wesfarmers. WFM Investments is the company that is offering the Scheme Consideration for your API Shares.	**Section 6**
Who is Wesfarmers?	Wesfarmers is one of the largest listed companies and private sector employers in Australia, with a corporate office in Perth, Western Australia. Wesfarmers has diverse business operations; it is a retailer of home improvement, outdoor living and building materials, general merchandise and apparel, and technology products (through its Bunnings, Kmart Group and Officeworks retail divisions respectively), a manufacturer and distributor of chemicals and fertilisers, and a producer and distributor of gas (through its Wesfarmers Chemicals, Energy and Fertilisers (WesCEF) division) and a distributor of industrial and safety products (through its Industrial and Safety division).	**Section 6**
Does WFM Investments own API Shares?	Yes. As at the date of this Scheme Booklet, WFM Investments owns and has a Relevant Interest in approximately 19.3% of API Shares on issue, and has voting power of 19.3% of API Shares on issue (as those terms are defined in the Corporations Act).	**Section 6.8**

2. FREQUENTLY ASKED QUESTIONS

continued

Question	Answer	More information
What API Shareholder approvals are required at the Scheme Meeting?	The Scheme can only proceed if, at the Scheme Meeting, the Scheme Resolution is passed. For this to occur, the Scheme Resolution must be approved by: – unless the Court orders otherwise, a majority in number (more than 50%) of API Shareholders (other than Excluded Shareholders) present and voting at the Scheme Meeting (either in person, or by proxy, attorney or, in the case of corporate API Shareholders, body corporate representative); and – at least 75% of the total number of votes cast on the Scheme Resolution by API Shareholders (other than Excluded Shareholders) present and voting at the Scheme Meeting (either in person, or by proxy, attorney or, in the case of corporate API Shareholders, body corporate representative). In this Scheme Booklet, approval of this nature is described as the **Requisite Majorities**.	**Section 3.10**
THE SCHEME CONSIDERATION AND THE TOTAL CASH VALUE		
What payment will I receive if the Scheme is implemented?	The Scheme Consideration payable by Wesfarmers under the Scheme is \$1.53 per API Share, less the amount of any Special Dividend paid by API before the Implementation Date. If the Scheme becomes Effective, those Scheme Shareholders who received the Ordinary Dividend, the Special Dividend (if the API Directors decide to pay one) and the Scheme Consideration will, in aggregate, receive \$1.55 per API Share (**Total Cash Value**). Any Scheme Shareholder that acquired API Shares after the Ordinary Dividend Record Date will receive \$1.53 per API Share if the Scheme becomes Effective. If the Scheme becomes Effective, any API Shareholder that is registered as the holder of an API Share on the Special Dividend Record Date, but ceases to be registered as the holder of that API Share on the Scheme Record Date, will receive the Special Dividend but will not receive the Scheme Consideration in respect of that API Share.	**Letter from the Chair of API and Section 3.2**
What premium is being offered to API Shareholders?	The Total Cash Value of \$1.55 cash per API Share represents a premium of: – 35.4% premium to the closing price of API Shares on and including 9 July 2021 of \$1.145 (being the last trading day before the announcement of the Wesfarmers Initial Proposal). – 36.9% premium to the one-month VWAP of API Shares to and including 9 July 2021 of \$1.132 per API Share; and – 33.3% premium to the three-month VWAP of API Shares to and including 9 July 2021 of \$1.163.	**Letter from the Chair of API and Section 1.2(c)**

2. FREQUENTLY ASKED QUESTIONS

continued

Question	Answer	More information
How is WFM Investments funding the Scheme Consideration?	WFM Investments has entered into the Deed Poll to covenant in favour of the Scheme Shareholders to perform its obligations in relation to the Scheme. Those obligations include providing the Scheme Consideration to the Scheme Shareholders in accordance with the Scheme. On the basis of the arrangements described in section 6.6, each of Wesfarmers and WFM Investments believes that it will be able to satisfy its obligation to provide the Scheme Consideration as and when it is due under the terms of the Scheme.	**Section 6.6 and Annexure C**
When and how will I receive my Scheme Consideration?	If the Scheme becomes Effective: – If the API Directors decide to pay a Special Dividend, API Shareholders on the Register as at the Special Dividend Record Date will be paid the Special Dividend on the Special Dividend Payment Date (currently expected to be 29 March 2022); and – Scheme Shareholders will be sent the Scheme Consideration on the Implementation Date (currently expected to be 31 March 2022). All payments will be made by direct deposit into your nominated bank account, as advised to the Share Registry as at the Scheme Record Date. If you have not nominated a bank account, payment will be made by Australian dollar cheque sent by post to your Registered Address.	**Section 3.4**
What are the tax implications of the Scheme?	The general Australian taxation implications of the Scheme are set out in Section 8 of this Scheme Booklet. The outline in Section 8 is general in nature and should not be relied upon as advice. The tax consequences for each API Shareholder may vary depending upon individual circumstances. Accordingly, you are encouraged to seek your own professional taxation advice as to the Australian, and if applicable, foreign tax implications, before making a decision as to whether or not to vote in favour of the Scheme. A class ruling is being sought in relation to the taxation implications of the Scheme, including the availability of franking credits attached to the Special Dividend. As at the date of this Scheme Booklet, the ATO has not made a determination in respect to API's Class Ruling application. However, API expects that the ATO will issue a draft of the Class Ruling prior to the Scheme Meeting When the final Class Ruling is published by the ATO, it will be available on the ATO's website at www.ato.gov.au and will also be published on API's website at www.api.net.au.	**Section 8**

2. FREQUENTLY ASKED QUESTIONS

continued

Question	Answer	More information
THE SPECIAL DIVIDEND		
What is the Special Dividend?	The API Board currently intends to pay a fully franked Special Dividend of $0.03 per API Share prior to implementation of the Scheme, if the Scheme is approved by API Shareholders and the Court. The final decision on whether or not to pay a Special Dividend will be made by the API Directors and will depend upon a number of factors, including the availability of franking credits, the requirements of the Corporations Act and API having obtained a draft Class Ruling from the ATO in relation to the tax implications of the Scheme, including the availability of franking credits attached to any Special Dividend. The final decision of the API Directors will be communicated to API Shareholders by way of an ASX announcement before the Second Court Hearing.	**Sections 3.3 and 8**
Will any Special Dividend be franked?	The API Directors currently intend that, if any Special Dividend is to be paid, it will be fully franked. Assuming a fully franked Special Dividend of $0.03 is paid, API Shareholders who can capture the full benefit of the franking credits associated with such a Special Dividend may receive an additional benefit valued at up to approximately $0.013 (ie $0.03 x (30/70)) per API Share. The value of the franking credits attached to any Special Dividend will not be the same for all API Shareholders. Whether an API Shareholder is able to capture the full benefit of the franking credits will depend on their personal tax circumstances. In assessing the value to you of any Special Dividend or franking credits, you should seek independent professional taxation advice as to whether or not the receipt of any Special Dividend and any entitlement to franking credits attached thereto is beneficial to you based on your own particular circumstances. In particular, you should note that, depending on the timing of and price at which you acquired your API Shares, there may be differences in the tax consequences for you.	**Sections 3.3 and 8**
THE SCHEME MEETING AND VOTING DETAILS		
When and where will the Scheme Meeting be held?	The Scheme Meeting is to be held online at 2.00 pm on Thursday, 17 March 2022. In response to the potential health risks arising from the COVID-19 pandemic, the Scheme Meeting will be held virtually. There will be no physical meeting. See the Notice of Scheme Meeting in Annexure C of this Scheme Booklet for further details relating to the conduct of the Scheme Meeting.	**Letter from the Chair of API, Section 4.3 and Annexure D**
What am I being asked to vote on?	You are being asked to vote on whether to approve the Scheme by voting on the Scheme Resolution. The text of the Scheme Resolution is set out in the Notice of Scheme Meeting in Annexure C of this Scheme Booklet.	**Annexure D**

2. FREQUENTLY ASKED QUESTIONS

continued

Question	Answer	More information
What vote is required to approve the Scheme?	For the Scheme to proceed, the Scheme Resolution must be passed by the applicable Requisite Majorities.	**Section 3.10 and Annexure D**
Who is entitled to vote at the Scheme Meeting?	Each API Shareholder who is registered on the Register at 7.00 pm on 15 March 2022 is entitled to attend and vote at the Scheme Meeting.	**Section 4.4 and Annexure D**
How do I vote?	You may vote on the Scheme Resolution: – in person, by attending the virtual Scheme Meeting; – by proxy or attorney, by completing and lodging a proxy form, or a duly executed power of attorney, as applicable so that it is received by 2.00 pm on 15 March 2022; or – by a corporate representative (in the case of an API Shareholder which is a body corporate). Voting is not compulsory. However, your vote is important and the Scheme may be implemented even if you do not vote on the relevant Scheme Resolution required to implement the Scheme.	**Section 4.5 and Annexure D**
How will voting at the Scheme Meeting be conducted?	Voting at the Scheme Meeting will be conducted by way of a poll. This means that every API Shareholder, at the Scheme Meeting, who is present in person or by proxy, representative or attorney will have one vote for each API Share held by them.	**Annexure D**
What will happen to my API Shares if I do not vote, or vote against the Scheme, and the Scheme becomes Effective?	If you do not vote on, or you vote against, the Scheme, and the Scheme becomes Effective: – any API Shares held by you on the Scheme Record Date (expected to be 7.00 pm (Melbourne time) on 29 March 2022) will be Scheme Shares and will be transferred to WFM Investments on the Implementation Date; and – you will receive the Scheme Consideration and any Special Dividend that the API Directors decide to pay (provided you are registered as an API Shareholder on the Scheme Record Date and the Special Dividend Record Date).	**Section 3.9**
When will the result of the Scheme Meeting be available?	The results of the Scheme Meeting will be announced to ASX shortly after conclusion of the Scheme Meeting and will be available on API's website at www.api.net.au.	
VOTING CONSIDERATIONS		
What do the API Directors recommend and how do the API Directors intend to vote?	Your API Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of API Shareholders. Section 1.2 of this Scheme Booklet provides a summary of the reasons why your API Directors consider that you should vote in favour of the Scheme, again in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of API Shareholders.	**Letter from the Chair of API and Section 1.2**

2. FREQUENTLY ASKED QUESTIONS

continued

Question	Answer	More information
	On 27 September 2021, API announced it had received an unsolicited non-binding indicative offer from Sigma, however Sigma announced it had withdrawn this non-binding offer on 5 November 2021 On 2 December 2021, API announced it had received an unsolicited non-binding indicative offer from Woolworths, however, Woolworths announced it had withdrawn this non-binding offer on 7 January 2022. As at the date of this Scheme Booklet, no Superior Proposal exists and the API Directors are not aware of any Superior Proposal that is likely to emerge. Each API Director who holds or controls API Shares intends to vote all API Shares held or controlled by them in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of API Shareholders. Details of the API Directors' interests in API Shares are set out in Section 9.1 of this Scheme Booklet. The interests of the API CEO and Managing Director, Mr Richard Vincent, and the other API Directors are disclosed in section 9 of this Scheme Booklet. API Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Vincent's recommendation on the Scheme, which appears throughout this Scheme Booklet.[7] In considering whether to vote in favour of the Scheme, your API Directors encourage you to: – carefully read all of this Scheme Booklet (including the Independent Expert's Report); – have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances; and – obtain advice from your legal, financial, tax or other professional advisers on the effect of the Scheme becoming Effective.	
What is the Independent Expert's conclusion?	The Independent Expert has concluded in the Independent Expert's Report that the Scheme is fair and reasonable and, therefore, is in the best interests of API Shareholders, in the absence of a superior proposal.	**Letter from the Chair of API and Annexure A**
Why might I vote in favour of the Scheme?	Reasons why you might vote in favour of the Scheme are set out in Section 1.2 of this Scheme Booklet.	**Section 1.2**
Why might I vote against the Scheme?	Reasons why you might vote against the Scheme are set out in Section 1.3 of this Scheme Booklet.	**Section 1.3**

7. Following the exercise of the API Board's (excluding Mr Vincent) discretion, subject to the Scheme becoming Effective, the API CEO and Managing Director, Mr Richard Vincent, will be entitled to receive up to $3,431,298.55 in connection with the cancellation of his unvested API Performance Rights. The API Board (excluding Mr Vincent) considers that, despite these arrangements, it is appropriate for Mr Vincent to make a recommendation on the Scheme given his role in the operation and management of API and that API Shareholders would wish to know Mr Vincent's views in relation to the Scheme. Mr Vincent also considers that it is appropriate for him to make a recommendation on the Scheme.

2. FREQUENTLY ASKED QUESTIONS

continued

Question	Answer	More information
Is the API Board aware of a Superior Proposal?	On 27 September 2021, API announced it had received an unsolicited non-binding indicative offer from Sigma, however Sigma announced it had withdrawn this non-binding offer on 5 November 2021 On 2 December 2021, API announced it had received an unsolicited non-binding indicative offer from Woolworths, however, Woolworths announced it had withdrawn this non-binding offer on 7 January 2022. As at the date of this Scheme Booklet, no Superior Proposal exists and the API Directors are not aware of any Superior Proposal that is likely to emerge. In this regard, API Shareholders should also bear in mind the restrictions imposed on API under the Scheme Implementation Deed, which are summarised in the Frequently Asked Questions immediately below and in Section 9.4(j) of this Scheme Booklet, which may reduce the likelihood that a Superior Proposal emerges or is ultimately completed.	**Sections 1.2(f) and 9.4(j)**
What happens if a Competing Proposal emerges?	Until the Scheme is approved by the Court, there is nothing preventing Third Parties from making unsolicited acquisition proposals for API. During the Exclusivity Period, API must not: – solicit, encourage, initiate or invite any enquiries, negotiations, expressions of interest, offers, proposals or discussions with any person in relation to, or which could reasonably be expected to, encourage or lead to the making of an actual, proposed or potential Competing Proposal, or announce or communicate to any person any intention to do any of the aforementioned things (**no shop**); – negotiate or enter into any agreement, arrangement or understanding, or participate in or continue any negotiations or discussions with respect to any enquiry, expression of interest, offer, proposal or discussion by any person in relation to (or that may reasonably be expected to encourage or lead to) the making of an actual, proposed or potential Competing Proposal, or offer, agree, announce or communicate to any person any intention to do any of the aforementioned things (**no talk**); and – permit any Third Party to undertake due diligence investigations on the API Group in connection with the formulation of a Competing Proposal or offer, agree, announce or communicate to any person any intention to do so (**no due diligence**), noting that the no talk and no due diligence restrictions are subject to a fiduciary exception. These (and other) provisions of the Scheme Implementation Deed are summarised in greater detail in Section 9.4 of this Scheme Booklet. If a Competing Proposal for API emerges prior to the Second Court Hearing, the API Directors will carefully consider the proposal and determine whether it is a Superior Proposal. Your API Directors will keep you informed of any material developments.	**Section 9.4(j)**

2. FREQUENTLY ASKED QUESTIONS

continued

Question	Answer	More information
CONDITIONS AND IMPLEMENTATION OF THE SCHEME		
What are the conditions to the Scheme?	The Scheme is subject to various customary Conditions that must be satisfied or waived (if capable of waiver) in order for the Scheme to be implemented. A summary of the conditions to the Scheme is set out in Sections 3.5 and 9.4(d) of this Scheme Booklet and set out in full in clause 3.2 of the Scheme Implementation Deed. As API announced to the ASX, the ACCC Condition was satisfied on 11 February 2022. As at the date of this Scheme Booklet, API is not aware of any circumstances which would cause any outstanding Condition not to be satisfied or waived (if capable of waiver).	Sections 3.5 and 9.4(d)
When will the Scheme become Effective?	Subject to the satisfaction or (if applicable) waiver of the conditions to the Scheme, the Scheme will become Effective on the date on which the Court order approving the Scheme is lodged with ASIC (this is the **Effective Date**). This is expected to occur on 22 March 2022.	Section 3.8, Step 3
What happens on the Implementation Date?	On the Implementation Date: – Wesfarmers will acquire all the Scheme Shares; and – Scheme Shareholders will be paid the Scheme Consideration. The Implementation Date is currently expected to be 31 March 2022.	Section 3.8, Step 6
What happens if the Scheme is not implemented?	If the Scheme is not implemented: – you will not receive the Scheme Consideration or any Special Dividend; and – you will retain your API Shares and continue to have exposure to the benefits and risks associated with an investment in API. Details of these risks are set out in section 7, and, in the absence of a Competing Proposal: – API will continue to operate as a standalone entity and remain listed on ASX; and – the API Share price may fall in the near-term if no Superior Proposal emerges.	Section 3.8 and section 7
Can the Scheme Implementation Deed be terminated?	The Scheme Implementation Deed may be terminated by API or Wesfarmers (as applicable) in a limited number of circumstances. These are summarised in Section 9.4(f) of this Scheme Booklet. If the Scheme Implementation Deed is terminated, the Scheme will not proceed.	Section 9.4(f)
Is there a reimbursement or break fee payable?	Under the Scheme Implementation Deed, a Break Fee of $7,738,000 may become payable by API to Wesfarmers if certain events occur and the Scheme does not proceed. However, the failure to pass the Scheme Resolution by the Requisite Majorities will not trigger the payment of the Break Fee by API. The circumstances in which the Break Fee is payable by API are summarised in Section 9.4(k) of this Scheme Booklet.	Section 9.4(k)

2. FREQUENTLY ASKED QUESTIONS

continued

Question	Answer	More information
ADDITIONAL INFORMATION		
Can I sell my API Shares now?	You can sell your API Shares on market at any time before close of trading on ASX on the Effective Date at the then prevailing market price. API intends to apply to ASX for API Shares to be suspended from official quotation on ASX from close of trading on the Effective Date (which is currently expected to be 22 March 2022). You will not be able to sell your API Shares on market after this time. If you sell your API Shares on market, you may be required to pay brokerage.	Section 3.9
Will I need to pay brokerage or stamp duty?	No. Scheme Shareholders will not incur any brokerage or stamp duty on the transfer of their Scheme Shares under the Scheme.	Section 8.
Is there a number that I can call if I have further queries about the Scheme?	If, after reading this Scheme Booklet, you have any questions about the Scheme, please contact the API Shareholder Information Line on 1300 103 401 (inside Australia) or +61 2 9066 4063 (outside Australia) on Business Days between 8.30 am and 5.00 pm (Melbourne time).	

3. Summary of The Scheme

3.1 Introduction

On 8 November 2021, API entered into a Scheme Implementation Deed, under which the parties have agreed to implement the Scheme between API and the Scheme Shareholders. A full copy of the Scheme Implementation Deed is attached to API's announcement to the ASX relating to the Scheme on 8 November 2021.

A summary of the key terms of the Scheme Implementation Deed is set out in Section 9.4.

3.2 Overview of the Total Cash Value

If the Scheme becomes Effective, API Shareholders who were registered as such on the Ordinary Dividend Record Date and are registered as such on both the Scheme Record Date and the Special Dividend Record Date will receive the Total Cash Value of $1.55 per API Share. This comprises, in aggregate:

- the amount of the Ordinary Dividend that was paid on 15 December 2021;
- the amount of any Special Dividend that your API Directors decide to pay and that is paid before the Implementation Date; and
- the Scheme Consideration, less the amount of any Special Dividend paid by API before the Implementation Date.

Any API Shareholder that acquired API Shares after the Ordinary Dividend Record Date will receive $1.53 per API Share if the Scheme becomes Effective. Any API Shareholder that is registered as the holder of an API Share on the Special Dividend Record Date, but ceases to be registered as the holder of that API Share on the Scheme Record Date will receive the Special Dividend but will not receive the Scheme Consideration in respect of that API Share, subject to the Scheme becoming Effective.

See Section 3.8 of this Scheme Booklet for more information.

3.3 Special Dividend

Subject to the Scheme becoming Effective the API Board currently intends to pay a fully franked Special Dividend of $0.03 per API Share prior to implementation of the Scheme. The final decision on whether or not to decide to pay and to pay a Special Dividend will be made by the API Directors and will depend upon a number of factors, including the availability of franking credits, the requirements of the Corporations Act and API having obtained a draft Class Ruling from the ATO in relation to the tax implications of the Scheme, including availability of franking credits attached to the Special Dividend will be available to API Shareholders. The final decision of the API Directors will be communicated to API Shareholders by way of an ASX announcement before the Second Court Hearing.

3.4 Provision of Scheme Consideration

The Scheme Consideration will be sent to Scheme Shareholders on the Implementation Date (currently expected to be 31 March 2022).

It is important to note that you will only receive the Scheme Consideration if you are a Scheme Shareholder. You will be a Scheme Shareholder if you hold API Shares at the Scheme Record Date (currently expected to be 7.00 pm (Melbourne time) on 29 March 2022) or such other time and date as API and Wesfarmers agree in writing).

If the API Directors decide to pay a Special Dividend, Scheme Shareholders on the Register as at the Special Dividend Record Date will be paid the Special Dividend on the Special Dividend Payment Date (currently expected to be 29 March 2022), subject to the Scheme becoming Effective.

All payments will be made by direct deposit into your nominated bank account as advised to the Share Registry as at the Scheme Record Date. If you have not nominated a bank account, payment will be made by Australian dollar cheque sent by post to your Registered Address.

3. SUMMARY OF THE SCHEME

continued

3.5 Conditions to the Scheme

Pursuant to the Scheme Implementation Deed, a number of outstanding conditions need to be satisfied or (if permitted) waived before the Scheme can be implemented. Some of these conditions include (but are not limited to) the following.

a. **ACCC Condition:** API and Wesfarmers receive from the ACCC confirmation that it will not intervene into or seek to prevent the Scheme before 8.00 am on the Approval Date,
b. **API Shareholder approval:** The Scheme Resolution is passed by the Requisite Majorities at the Scheme Meeting;
c. **Court approval:** the Court approves the Scheme;
d. **No regulatory intervention:** No court or other regulatory authority takes any action to restrain or prohibit the Scheme between 8 November 2021 and 8.00 am on the Second Court Date;
e. **No Material Adverse Change:** No Material Adverse Change occurs between 8 November 2021 and 8.00 am on the Second Court Date;
f. **No API Prescribed Event:** No API Prescribed Event has occurred between 8 November 2021 and 8.00 am on the Second Court Date; and
g. **Representations and warranties:** The representations and warranties given by API and Wesfarmers under the Scheme Implementation Deed are true and correct as at the time given.

The conditions precedent to the Scheme are summarised in Section 9.4 of this Scheme Booklet. The Scheme will not proceed unless all of the conditions precedent are satisfied or (if permitted) waived in accordance with the Scheme Implementation Deed.

As announced by API to the ASX, the ACCC Condition was satisfied on 11 February 2022.

3.6 API Directors' unanimous recommendation and voting intentions

Your API Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal, and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of API Shareholders.

Each API Director intends to vote all the API Shares held or controlled by them in favour of the Scheme, in the absence of a Superior Proposal, and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of API Shareholders. As at the Last Practicable Date, the API Directors held Relevant Interests in an aggregate of 670,167 API Shares, comprising approximately 0.136% of the issued capital in API.

The interests of the API CEO and Managing Director, Mr Richard Vincent, and the other API Directors are disclosed in section 9 of this Scheme Booklet. API Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Vincent's recommendation on the Scheme, which appears throughout this Scheme Booklet.[8]

Your API Directors believe that the reasons for you to vote in favour of the Scheme outweigh the reasons to vote against the Scheme. These reasons and other relevant considerations for API Shareholders are set out in Section 1 of this Scheme Booklet.

3.7 Independent Expert's conclusion

Your API Directors appointed Grant Thornton as the Independent Expert to assess the merits of the Scheme. The Independent Expert has concluded that the Scheme is fair and reasonable, and therefore, is in the best interests of API Shareholders, in the absence of a superior proposal.

The Independent Expert has assessed the value of an API Share to be in the range of $1.48 to $1.78 on a 100% controlling interest basis. The Total Cash Value falls within the Independent Expert's assessed valuation range on a 100% controlling interest basis.

8. Following the exercise of the API Board's (excluding Mr Vincent) discretion, subject to the Scheme becoming Effective, the API CEO and Managing Director, Mr Richard Vincent, will be entitled to receive up to $3,431,298.55 in connection with the cancellation of his unvested API Performance Rights. The API Board (excluding Mr Vincent) considers that, despite these arrangements, it is appropriate for Mr Vincent to make a recommendation on the Scheme given his role in the operation and management of API and that API Shareholders would wish to know Mr Vincent's views in relation to the Scheme. Mr Vincent also considers that it is appropriate for him to make a recommendation on the Scheme.

3. SUMMARY OF THE SCHEME

continued

The reasons why the Independent Expert reached its conclusion are set out in the Independent Expert's Report, a copy of which is included in Annexure A of this Scheme Booklet. Your API Directors encourage you to read the Independent Expert's Report in full before deciding how to vote on the Scheme.

3.8 Implications if the Scheme is not implemented

If the Scheme is not implemented:

- API Shareholders will continue to hold their API Shares and will be exposed to general risks as well as risks specific to API, including those set out in Section 7 of this Scheme Booklet, and the benefits, of owning API Shares;
- Scheme Shareholders will not receive the Scheme Consideration or any Special Dividend;
- a Break Fee of $7,738,000 (excluding GST) may be payable by API to Wesfarmers under certain circumstances. Those circumstances do not include the failure by API Shareholders to approve the Scheme at the Scheme Meeting. Further information on the Break Fee is set out in Section 9.4(k) of this Scheme Booklet;
- API will continue to operate as a standalone, ASX-listed entity with management continuing to implement the business plan and financial and operating strategies it had in place prior to the Announcement Date (subject to any modifications or updates which are considered appropriate by the API Directors); and
- the API Directors are of the opinion that the API Share price may fall in the near-term if the Scheme is not implemented and no Superior Proposal emerges.

3.9 Your choices as an API Shareholder

As an API Shareholder, you have three choices currently available to you, which are as follows:

Vote in favour of the Scheme	This is the course of action unanimously recommended by the API Directors, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is fair and reasonable and in the best interests of API Shareholders. To follow the API Directors' unanimous recommendation, you should vote in favour of the Scheme at the Scheme Meeting. For a summary of how to vote on the Scheme, please refer to Section 4 and the Notice of Scheme Meeting contained in Annexure D of this Scheme Booklet. The interests of the API CEO and Managing Director, Mr Richard Vincent, and the other API Directors are disclosed in section 9 of this Scheme Booklet. API Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Vincent's recommendation on the Scheme, which appears throughout this Scheme Booklet.[9] The reasons why you may vote in favour of the Scheme are set out in detail in section 1.2 of this Scheme Booklet.
Vote against the Scheme	If, despite the API Directors' unanimous recommendation and the Independent Expert's conclusion that the Scheme is fair and reasonable and therefore, is in the best interests of API Shareholders, you do not support the Scheme, you may vote against the Scheme at the Scheme Meeting. The reasons why you might consider voting against the Scheme are set out in detail in section 1.3 of this Scheme Booklet. However, if all the Conditions for the Scheme are satisfied or waived (if capable of waiver) and the Scheme becomes Effective, the Scheme will bind all API Shareholders, including those who vote against the Scheme Resolution at the Scheme Meeting and those who do not vote at all.

9. Following the exercise of the API Board's (excluding Mr Vincent) discretion, subject to the Scheme becoming Effective, the API CEO and Managing Director, Mr Richard Vincent, will be entitled to receive up to $3,431,298.55 in connection with the cancellation of his unvested API Performance Rights. The API Board (excluding Mr Vincent) considers that, despite these arrangements, it is appropriate for Mr Vincent to make a recommendation on the Scheme given his role in the operation and management of API and that API Shareholders would wish to know Mr Vincent's views in relation to the Scheme. Mr Vincent also considers that it is appropriate for him to make a recommendation on the Scheme.

3. SUMMARY OF THE SCHEME

continued

Sell your API Shares on the ASX	The Scheme does not preclude you from selling some or all of your API Shares on market for cash, if you wish, provided you do so before close of trading on the ASX on the Effective Date (currently expected to be 22 March 2022), when trading in API Shares will end. If you are considering selling some or all of your API Shares: – you should have regard to the prevailing trading prices of API Shares and compare it to the Scheme Consideration and any Special Dividend that is paid. You may ascertain the current trading prices of API Shares through the ASX website (www.asx.com.au); and – you should contact your stockbroker for information on how to effect that sale, and you should also contact your financial, taxation, legal or other professional adviser. API Shareholders who sell some or all of their API Shares on market: – may receive payment (which may vary from the Scheme Consideration and any Special Dividend that the API Directors decide to pay) for the sale of their API Shares sooner than they would receive the Scheme Consideration and any Special Dividend that is paid under the Scheme; – may incur a brokerage charge; – will not be able to participate in the Scheme or, if one emerges, a Superior Proposal, in respect of those API Shares they have sold; and – may be liable for capital gains tax (CGT) on the disposal of their API Shares (as they also may be under the Scheme – see the Section 8 of this Scheme Booklet).

3.10 Keys steps to implement the Scheme

Each key step to implement the Scheme and relevant information concerning these steps are set out below. All dates following the Scheme Meeting are indicative only and may be subject to change. API will announce to ASX any change to the dates set out in the "Important Dates and Expected Timetable for the Scheme" on page 8 of this Scheme Booklet.

Step 1. Scheme Meeting and Scheme approval requirements

In accordance with an order of the Court dated 14 February 2022, API has convened the Scheme Meeting to be held at 2.00 pm on 17 March 2022. The Notice of Scheme Meeting is set out in Annexure D of this Scheme Booklet.

At the Scheme Meeting, the API Shareholders will be asked to approve the Scheme. The Requisite Majorities of API Shareholders to approve the Scheme are:

a. (**headcount test**) unless the Court orders otherwise, a majority in number (ie more than 50%) of API Shareholders (other than Excluded Shareholders) present and voting at the Scheme Meeting (either in person, or by proxy, attorney or, in the case of corporate API Shareholders, body corporate representative); and
b. (**voting test**) at least 75% of the total number of votes cast on the Scheme Resolution by API Shareholders (other than Excluded Shareholders) present and voting at the Scheme Meeting (either in person, or by proxy, attorney or, in the case of corporate API Shareholders, body corporate representative).

The Court has the power to waive the first requirement.

Instructions on how to vote at the Scheme Meeting are set out in Section 4 and the Notice of Scheme Meeting in Annexure D of this Scheme Booklet.

The results of the Scheme Meeting will be available as soon as possible after the conclusion of the Scheme Meeting and will be announced to the ASX (www.asx.com.au) once available.

Steps 2 to 6 described below will only occur if the Scheme Resolution is passed by the Requisite Majorities at the Scheme Meeting.

3. SUMMARY OF THE SCHEME

continued

Step 2. Court approval of the Scheme

In the event that:

a. the Scheme is approved by the Requisite Majorities; and
b. all of the other conditions precedent to the Scheme (other than Court approval) have been satisfied or (if permitted) waived,

API will apply to the Court for an order approving the Scheme.

The Second Court Hearing is expected to take place on Monday, 21 March 2022. Any API Shareholder and, with the Court's permission, any other interested person, has a right to appear at the Second Court Hearing.

Step 3. Effective Date

If the Court makes an order approving the Scheme at the Second Court Hearing (referred to in this Scheme Booklet as the **Scheme Order**), API will lodge an office copy of the Scheme Order with ASIC. Once lodged, the Scheme will become Effective and binding on Wesfarmers, API and each Scheme Shareholder (referred to in this Scheme Booklet as the **Effective Date**).

On the Effective Date, API will notify ASX that the Scheme has become Effective and lodge a copy of the Scheme Order with ASX. Trading in API Shares on ASX will be suspended from close of trading on the Effective Date. If the Scheme Order is made (and the Second Court Hearing occurs on the expected date), the Effective Date is expected to be Tuesday, 22 March 2022.

Once the Scheme becomes Effective, each Scheme Shareholder, without the need for any further act, irrevocably appoints API and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purposes of enforcing the Deed Poll against Wesfarmers and executing any document or doing any other act necessary, desirable or expedient to give full effect to the Scheme and the transactions contemplated by it. This includes executing a proper instrument of transfer in respect of a Scheme Shareholder's Scheme Shares.

Step 4. Special Dividend Record Date, entitlement to any Special Dividend and Special Dividend Payment Date

If the API Directors decide to pay a Special Dividend, those API Shareholders who are recorded on the Register on the Special Dividend Record Date (currently expected to be 7.00 pm (Melbourne time) on 27 March 2022) will be entitled to receive the Special Dividend in respect of the API Shares held at that time and will be paid the Special Dividend on the Special Dividend Payment Date (currently expected to be 29 March 2022), subject to the Scheme becoming Effective.

Step 5. Scheme Record Date and entitlement to Scheme Consideration

Those API Shareholders on the Register on the Scheme Record Date (currently expected to be 7.00 pm (Melbourne time) on 29 March 2022) (other than Excluded Shareholders), will be entitled to receive the Scheme Consideration in respect of the API Shares they hold at that time.

(a) Dealings in API Shares on or prior to the Scheme Record Date

For the purposes of determining who is a Scheme Shareholder (ie an API Shareholder on the Scheme Record Date), dealings in API Shares will only be recognised if:

i. in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant API Shares at or before 7.00 pm (Melbourne time) on the Scheme Record Date; and
ii. in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received by 2.00 pm (Melbourne time) on the Scheme Record Date at the place where the Register is kept.

API will not accept for registration or recognise for any purpose, any transfer or transmission application in respect of API Shares received after the Scheme Record Date.

3. SUMMARY OF THE SCHEME

continued

(b) Dealings in API Shares after the Scheme Record Date

For the purposes of determining entitlements to the Scheme Consideration, API will maintain the Register in its form as at the Scheme Record Date until the Scheme Consideration has been paid to the Scheme Shareholders. The Register in this form will solely determine entitlements to the Scheme Consideration.

After the Scheme Record Date:

i. all statements of holding for Scheme Shares will cease to have any effect as documents relating to title in respect of those shares; and

ii. each entry on the Register (other than entries on the Register in respect of WFM Investments or any Excluded Shareholders) will cease to have effect, other than as evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

Step 6. Implementation Date

Pursuant to the Deed Poll, Wesfarmers must, no later than the day that is the Business Day before the Implementation Date, pay or procure the payment into an Australian dollar denominated trust account, operated by API as trustee for the Scheme Shareholders for the purpose of paying the cash component of the Scheme Consideration to Scheme Shareholders, an amount equal to the aggregate amount of the Scheme Consideration payable to all Scheme Shareholders.

On the Implementation Date (which is expected to occur on Thursday, 31 March 2022):

a. each Scheme Shareholder will be paid the Scheme Consideration from the trust account operated by API; and

b. once the Scheme Consideration has been provided, the Scheme Shares will be transferred to Wesfarmers, without the Scheme Shareholders needing to take any further action, and the Register will be updated so that Wesfarmers is listed as the holder of all the Scheme Shares.

Details about the funding of the Scheme Consideration are set out in Section 6.6 of this Scheme Booklet.

3.11 Deemed warranties by Scheme Shareholders

The Scheme provides that each Scheme Shareholder is taken to have warranted to API and Wesfarmers, and appointed and authorised API as its attorney and agent to warrant to Wesfarmers, on the Implementation Date that:

a. all of the Scheme Shares they hold (including any rights and entitlements attaching to those Scheme Shares) which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all:

   i. mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise; and

   ii. restrictions on transfer of any kind; and

b. the Scheme Shareholder has full power and capacity to transfer the Scheme Shares they hold to Wesfarmers together with any rights attaching to those shares under the Scheme.

3.12 Delisting from ASX

On or after the Implementation Date, API will apply for termination of the official quotation of API Shares on ASX, and for API to be removed from the official list of ASX, with effect on the trading day immediately following the Implementation Date.

4. WHAT YOU SHOULD DO AND HOW TO VOTE AT THE SCHEME

4.1 What you should do

(a) Carefully read and consider this Scheme Booklet

You should carefully read this Scheme Booklet in its entirety before deciding whether to vote in favour of the Scheme.

If you have any questions about this Scheme Booklet or the Scheme, please contact the API Shareholder Information Line on 1300 103 401 (within Australia) or +61 2 9066 4063 (outside Australia) between 8.30 am and 5.00 pm (Melbourne time) Monday to Saturday, excluding public holidays.

As noted elsewhere in this document, this Scheme Booklet does not take into account the investment objectives, financial situation and particular needs of any individual API Shareholder.

If you require further advice in relation to the Scheme, contact your legal, financial, taxation or other professional adviser.

(b) Consider the reasons to vote for or against the Scheme

API Shareholders should refer to Sections 1.2 and 1.3 of this Scheme Booklet for further guidance on the reasons to vote for and against the Scheme.

Answers to various frequently asked questions about the Scheme are set out in Section 2 of this Scheme Booklet.

(c) Your shareholder details with the Share Registry

API Shareholders should ensure their personal contact and bank account details are up to date in the records held by the Share Registry or in their trading account.

4.2 Your vote is important

For the Scheme to proceed, the Scheme Resolution must be approved by the Requisite Majorities at the Scheme Meeting.

The API Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of API Shareholders.

The API Directors recommend that you complete and return a proxy form by post, email, hand delivery or fax to the Share Registry, or lodge your proxy form online at https://www.votingonline.com.au/apisoa2022, in accordance with the instructions on that form.

4.3 Details of the Scheme Meeting

The Scheme Meeting will be held at 2.00 pm (Melbourne time) on Thursday, 17 March 2022, online.

In response to the Government restrictions and potential health risks arising from the COVID-19 pandemic, the Scheme Meeting will be held virtually. There will be no physical meeting.

Details about the Scheme Meeting are set out in the Notice of Scheme Meeting contained in Annexure C of this Scheme Booklet.

4. WHAT YOU SHOULD DO AND HOW TO VOTE AT THE SCHEME

continued

4.4 Entitlement to vote

Each API Shareholder who is registered on the Register at 7.00 pm (Melbourne time) on 15 March 2022 is entitled to attend and vote at the Scheme Meeting.

In the case of jointly held API Shares, only one of the joint shareholders is entitled to vote. If more than one API Shareholder votes in respect of jointly held API Shares, only the vote of the API Shareholder whose name appears first in the Register will be counted.

Details about the permitted methods of voting are set out in Section 4.5 and in the Notice of Scheme Meeting contained in Annexure C of this Scheme Booklet.

4.5 How to vote

Voting on the Scheme Resolution will be conducted by way of a poll.

If you are an API Shareholder entitled to vote at the Scheme Meeting, you may vote:

- **in person:** by attending the Scheme Meeting and voting;
- **by proxy:** by appointing one or two proxies to attend the Scheme Meeting and vote on your behalf, by completing and returning a proxy form by post, email, hand delivery or fax, or by lodging your proxy form online at https://www.votingonline.com.au/apisoa2022 in accordance with the instructions on that form;
- **by attorney:** by appointing an attorney to attend the Scheme Meeting and vote on your behalf, using a duly executed power of attorney; or
- **by corporate representative:** in the case of a body corporate, appointing a body corporate representative to attend the Scheme Meeting and vote on your behalf, using a duly executed certificate of appointment of body corporate representative.

Further information on how to vote using each of these methods is contained in the Notice of Scheme Meeting attached as Annexure C to this Scheme Booklet.

If you are in favour of the Scheme, you should vote in favour of the Scheme.

The Scheme at the Scheme Meeting will not be implemented unless the Scheme is approved by the Requisite Majorities of API Shareholders.

5. INFORMATION RELATING TO API

5.1 Introduction and business overview

API is a leading Australian pharmaceutical distribution, health and beauty services company. API provides wholesale distribution of pharmaceutical, medical, health, beauty and lifestyle goods to pharmacies. API is one of a small number of pharmaceutical wholesalers who operate under the Government's "Community Service Obligation" framework.

API supplies health and beauty retail products and services to consumers. API operates a retail and franchise business through its Priceline and Priceline Pharmacy network which comprises franchised pharmacies and other partner pharmacies as well as company-owned and franchised non-pharmacy health and beauty stores. API also operates the Clear Skincare network of retail skincare clinics in Australia and New Zealand.

API currently operates a business manufacturing pharmaceutical and personal care brands in New Zealand. However as announced to ASX on 12 July 2021, API will cease manufacturing personal care and over-the-counter products and instead it will outsource their manufacture.

API separately provides a range of retail products, services and solutions to the Soul Pattinson and Pharmacist Advice banner groups, and to independent pharmacies through its Club Premium membership program.

Since API's establishment in 1910, API has grown from a small co-operative of three pharmacists to a multi-national organisation that is now one of Australia's leading health, beauty and wellbeing products and services companies.

With locations in all Australian states, as at 31 August 2021 the API network comprised 366 Priceline Pharmacy franchised stores, 95 company-owned Priceline stores, 3 franchised Priceline non-pharmacy stores, 46 independent Soul Pattinson Chemist, 46 independent Pharmacist Advice and 937 Club Premium pharmacy members. As at 31 August 2021, API also had a network of 86 Clear Skincare clinics in Australia and New Zealand.

API is listed on ASX (ASX: API). As at 10 February 2022, being the Last Practicable Date, API had a market capitalisation of approximately $749 million (based on a closing price of $1.52 per API Share).

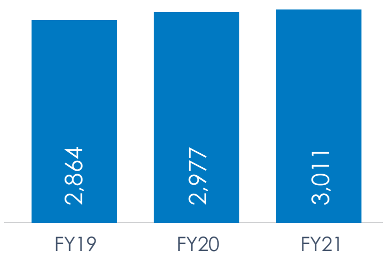
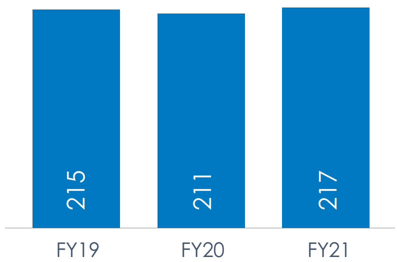
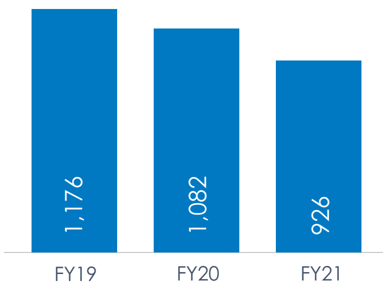
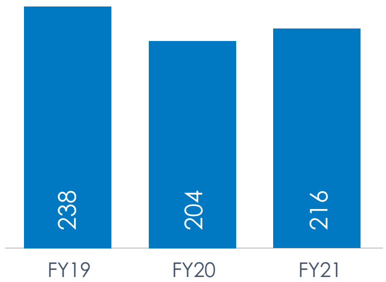
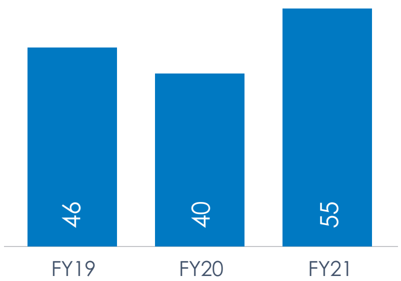
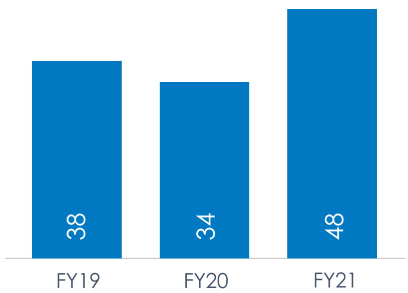
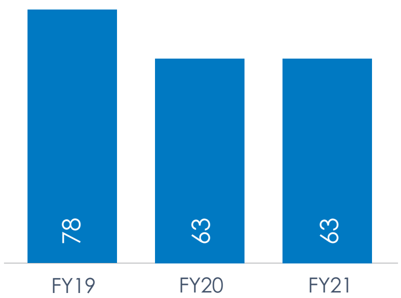
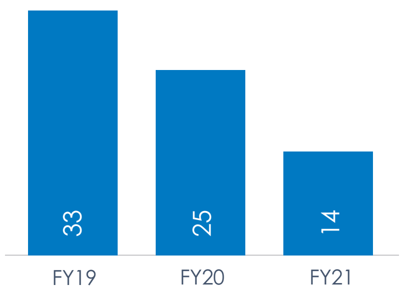
For the financial year ended 31 August 2021, API reported total revenue of $4.0 billion, underlying EBITDA of $158.4 million and underlying EBIT of $70.1 million.

5. INFORMATION RELATING TO API

continued

5.2 Overview of API's divisions and operations

API has four main businesses namely, Pharmacy Distribution, Priceline and its Priceline Pharmacy Retail Network, Clear Skincare and Consumer Brands.[10]

Business segment	Revenue* ($m FY19-FY21)	Gross profit ($m FY19-FY21)
Pharmacy Distribution		
Priceline Pharmacy*	 * Retail register revenue, being sales recorded at the register of all network stores (excluding dispensary sales). Note that register sales of franchisees do not form part of the result of the consolidated entity.	
Clear Skincare		
Consumer Brands		

10. Following a strategic review, API announced to the ASX on 12 July 2021 that it would cease the manufacture of personal care products and over-the-counter medicines and instead outsource their supply.

5. INFORMATION RELATING TO API

continued

(a) Priceline and Priceline Pharmacy Network

This division comprises (as at 31 August 2021):

- 353 franchised Priceline Pharmacies and a further 13 Priceline Pharmacies for which the API Group has granted trademark licences which allow the owners of those pharmacies to use the Priceline Pharmacy brand; and
- 95 Priceline (non-pharmacy) company owned stores and 3 Priceline (non-pharmacy) franchised stores; and
- operates an online store retailing health and beauty products at www.priceline.com.au.

For the year ending 31 August 2021, Priceline and Priceline Pharmacy recorded a reduction in total network register sales (including dispensary) of 3.3% to $2.0 billion.

(b) Pharmacy Distribution

This division distributes pharmaceutical, health, beauty, lifestyle and medical products to pharmacies and provides retail services to pharmacy customers including provision of rights to operate under the Soul Pattinson, Pharmacist Advice and Club Premium brands which are owned by API. The division distributes products to customers using its distribution network throughout Australia. API is in the process of building a replacement for its NSW distribution centre at Marsden Park, NSW, which is expected to open in approximately the middle of calendar year 2022.

(c) Clear Skincare

This division supplies non-invasive aesthetic beauty services and skincare products through a network of 86 Clear Skincare clinics in Australia and New Zealand as at 31 August 2021, and its online store.

Clinic numbers continue to grow across Australia and New Zealand with 19 new company-owned clinics in FY21. As a result of COVID-19 restrictions implemented across several states, 211 trading days (58%) were impacted across all Clear Skincare clinics. The new clinics are on average 1.2 years old and developing their customer base to generate future profit. In line with industry benchmark, Clear Skincare clinics take an estimated 2.5 years to become profitable.

(d) Consumer Brands

This division sources and manufactures personal care and pharmaceutical products that are sold by API divisions to a wide range of customers in Australia, New Zealand and internationally.

Its operations are located in Auckland, New Zealand. Following a strategic review, API announced to the ASX on 12 July 2021 that it would be closing its two New Zealand based manufacturing plants. It is proposed that both plants will cease manufacturing by mid-calendar year 2022.

The manufacturing businesses were impacted negatively by supply chain distributions caused by COVID-19, as sourcing of raw materials from China and India became difficult. The high cost of manufacturing in New Zealand meant API was able to source the same products it was manufacturing, at a lower cost. The closure of the manufacturing plants and the exit from low margin supply contracts will result in $5 million of incremental EBIT once finalised.

Consumer Brands will continue to source products for API owned brands but will no longer supply to the broader market. The new sourcing team has been established and is Australian based.

5. INFORMATION RELATING TO API

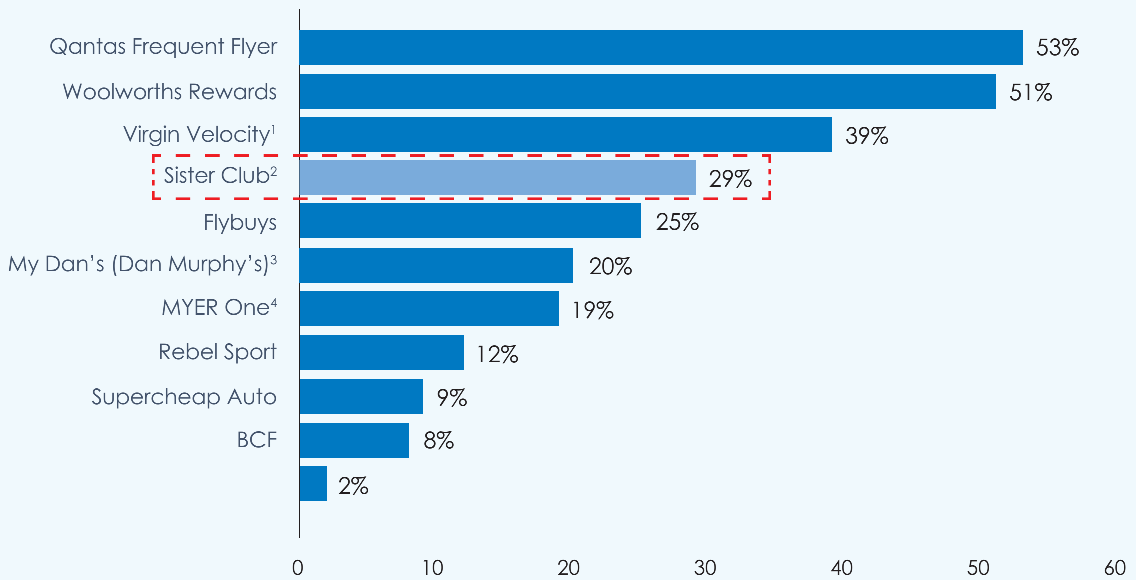
continued

5.3 Priceline Sister Club

The Priceline Sister Club loyalty program is one of the leading and largest health and beauty retail loyalty programs in Australia. The program was relaunched in October 2020 with a new structure and benefits for Sister Club members. API now have tiered member levels that reward loyal customers and are tracking customer behaviour closely with active customer management and targeted marketing.

Key SisterClub Statistics (as at 30 November 2021)	
7.5m	Members
56%	SisterClub member share of total retail sales
35%	Average basket size premium of a SisterClub member versus a non-member

Australian loyalty program penetration (% of population)



Source: Annual reports, Investor Presentations, ABS data, API data
Notes:
1. *Virgin Velocity members as of June 30 2019*
2. *Sister Club members as of January 2022*
3. *My Dan's members as of 3 January 2021*
4. *Myer One members as of June 30 2020*

5. INFORMATION RELATING TO API

continued

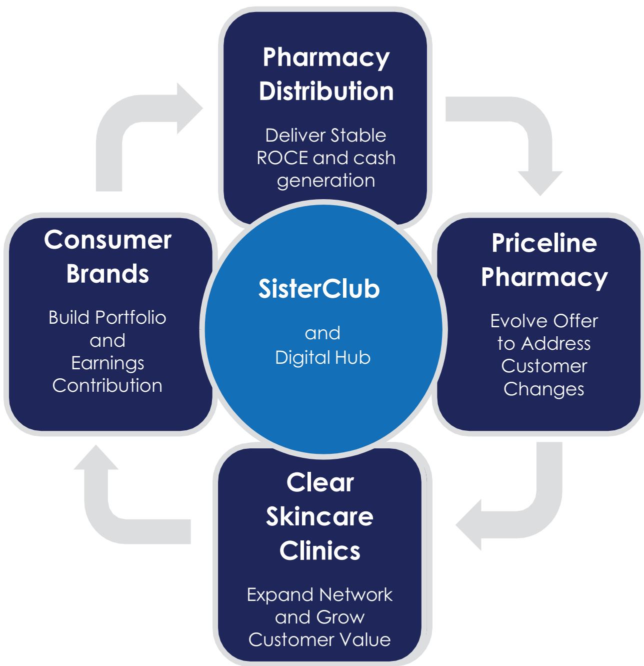
5.4 API Strategic Direction

API's vision is 'Enriching Life' and its ways of working are: *be well, show you care, make it better, act now*. The overall business strategies relating to this Vision, which are relevant to API's future financial position and performance are set out below.

Strategy Map

OUR PEOPLE	1. A safer place to work everyday 2. A highly engaged, capable & collaborative team
TRANSFORM WHAT WE DO	3. Digital event enabled customer insights 4. Excellence in execution on the things that matter 5. Innovation led
DELIGHT OUR CUSTOMERS & PARTNERS	6. A highly valued customer experience 7. The most compelling offer for ouR partners
BUILD REPUTATIONAL & FINANCIAL STRENGTH	8. Optimised portfolio creating value for our stakeholders

ENRICHING LIFE | Be **Well** | Show You **Care** | Make It **Better** | Act **Now**



API is focussing on a number of key strategic initiatives including, but not limited to:

- a digital transformation that will result in a data driven focus on API's customers and an elevation of the loyalty program;
- reviewing API key supplier and terms of engagement;
- an acceleration of the retail facing business with a focus on supporting and developing new franchise partners;
- expansion of API's Healthcare Products and Services that are offered across Pharmacy Brands and independent pharmacies;
- closure of the Consumer Brands manufacturing plants and exit from low margin supply contracts;
- continued focus on cost reduction and efficiency across supply chain and entire business; and
- a focus on wellbeing, engagement, performance excellence and sustainability.

5. INFORMATION RELATING TO API

continued

5.5 API Board and senior management

(a) API Board

As at the date of this Scheme Booklet, the API Board comprised:

Name	Position
Kenneth Gunderson-Briggs	Chair and Independent Non-Executive Director
Richard Vincent	Chief Executive Officer and Managing Director
Lee Ausburn	Independent Non-Executive Director
Jennifer Macdonald	Independent Non-Executive Director
Janine Allis	Independent Non-Executive Director
Clive Stiff	Independent Non-Executive Director
George Tambassis	Independent Non-Executive Director

Biographies of the API Board are available on API's website at: https://www.api.net.au/about-us/board-of-directors.

(b) Senior management

As at the date of this Scheme Booklet, API's executive key management personnel are:

Name	Position
Richard Vincent	Chief Executive Officer and Managing Director
Peter Mendo	Chief Financial Officer

5.6 API securities and capital structure

(a) API securities on issue

As at the Last Practicable Date, the capital structure of API comprises the following securities.

Type of security	Number on issue
API Shares	492,656,035
API Performance Rights	6,611,351 which comprises: – 1,487,711 performance rights (2019 – 2022 LTIP); – 2,483,900 performance rights (2020 – 2023 LTIP); – 2,287,230 performance rights (2021 – 2024 LTIP); and – 352,510 performance rights (2021 STIP).

No other securities in API were on issue as at the Last Practicable Date.

API does not anticipate that it will be required to issue any API Shares before the Implementation Date. See section 9.2 for the intended treatment of the API Performance Rights in connection with the Scheme. It is expected that, as at the Scheme Record Date, a maximum of 492,656,035 API Shares will be on issue.

(b) Substantial shareholders

Based on publicly available information, as at the Last Practicable Date, API had received notifications from the following substantial shareholders and their associates in accordance with section 671B of the Corporations Act.[11]

Name	Number of API Shares	Percentage shareholding[12]
Wesfarmers Ltd and each of its associates[13]	95,068,472	19.30%
First Sentier Investors Holdings Pty Limited / Mitsubishi UFJ Financial Group, Inc[14]	34,959,896	7.10%

11. The table below excludes any shareholdings held in a nominee or custodian capacity so far as is known to API.
12. % shareholding based on number of API Shares on issue on the Last Practicable Date.
13. As described in the Notice of initial substantial holder (Form 603) dated 12 July 2021.
14. As described in the Notice of change of interests of substantial holder (Form 604) dated 14 January 2022.

5. INFORMATION RELATING TO API

continued

The interests listed in this section 5.6(b) are as disclosed to API in substantial holding notices in accordance with the Corporations Act. Information in respect of substantial holdings arising, changing or ceasing after this time or in respect of which the relevant announcement is not available on ASX's website is not included in this section 5.6(b).

5.7 Historical financial information

This section 5.75.7 contains a summary of historical audited consolidated financial information relating to API for the financial years ended 31 August 2019, 31 August 2020 and 31 August 2021. This information has been prepared and extracted for the purposes of this Scheme Booklet only.

The historical audited consolidated financial information of API presented in this Scheme Booklet is in an abbreviated form and does not contain all the disclosures, presentation, statements or comparatives that are usually provided in an annual report prepared in accordance with the Corporations Act. Accordingly, API recommends that API Shareholders read the following in conjunction with the audited consolidated financial statements of API for the respective periods including the description of the significant accounting policies contained in those financial statements and the notes to those financial statements.

The full financial accounts of API, including all notes to those accounts, can be found in:

– the API Appendix 4E and audited financial report for the year ended 31 August 2019 (released to the ASX on 24 October 2019);
– the API Appendix 4E and audited financial report for the year ended 31 August 2020 (released to the ASX on 22 October 2020); and
– the API Appendix 4E and audited financial report for the year ended 31 August 2021 (released to the ASX on 28 October 2021).

These documents are available on API's website at www.api.net.au and on ASX's website at www.asx.com.au.

(a) Basis of preparation

The historical financial information of API has been prepared in accordance with the Australian Accounting Standards. The historical audited consolidated financial information in this Scheme Booklet is presented on a standalone basis and accordingly does not reflect any impact of the Scheme.

(b) Consolidated statement of profit or loss and other comprehensive income

The following table presents the historical consolidated statement of profit or loss and other comprehensive income for the financial years ended 31 August 2019, 31 August 2020 and 31 August 2021.

	Year ended 31 August		
In thousands of AUD	**2021**	**2020 (restated)[i]**	**2019**
Revenue	4,004,863	4,019,525	4,010,725
Cost of sales	(3,510,342)	(3,545,031)	(3,492,420)
Gross profit	**494,521**	**474,494**	**518,305**
Other income	5,993	14,470	27,525
Warehousing and distribution expenses	(143,071)	(145,553)	(141,557)
Marketing and sales expenses	(192,291)	(190,035)	(217,934)
Administration and general expenses	(137,311)	(110,257)	(92,293)
Impairment of brand name	–	(37,500)	–
Profit and operating activities (EBIT)	**27,841**	**5,619**	**94,046**
Finance income	4	67	395
Finance expenses	(15,382)	(19,146)	(20,701)
Net finance costs	**(15,378)**	**(19,079)**	**(20,306)**
Profit/(loss) before tax	**12,463**	**(13,460)**	**73,740**

5. INFORMATION RELATING TO API

continued

In thousands of AUD	Year ended 31 August 2021	2020 (restated)[(i)]	2019
Income tax (expense)/benefit	(11,317)	6,354	(17,163)
Profit/(loss) for the year	**1,146**	**(7,106)**	**56,577**
Attributable to:			
Ordinary shareholders of API	1,377	(7,564)	55,109
Non-controlling interest	(231)	458	1,468
Profit/(loss) for the year	**1,146**	**(7,106)**	**56,577**
Earnings per share for profit attributable to the ordinary shareholders of API:	**cents**	**cents**	**cents**
Basic earnings per share	0.3	(1.5)	11.2
Diluted earnings per share	0.3	(1.5)	11.1

API ASX Announcements & Presentations: Appendix 4E and FY21 Financial Report, https://www.api.net.au/investor/asx-announcements-presentations/

API Annual Reports 2019-20, https://www.api.net.au/investor/annual-reports/

(i) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to Software as a Service.

In thousands of AUD	Year ended 31 August 2021	2020 (restated)[(i)]	2019
Profit/(loss) for the year	1,146	(7,106)	56,577
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to the consolidated income statement			
Remeasurement of the defined benefit asset (post tax)	174	(1)	(93)
Changes in the fair value of financial assets at fair value through other comprehensive income (post tax)	–	(5,087)	1,364
Total items that will not be reclassified	**174**	**(5,088)**	**1,271**
Items that may be reclassified subsequently to the consolidated income statement			
Exchange fluctuations on translation of foreign operations (post tax)	1,709	(900)	621
Effective portion of changes in fair value of cash flow hedges (post tax)	765	(81)	(207)
Total items that may be reclassified	**2,474**	**(981)**	**414**
Total other comprehensive income/(loss) for the year	**2,648**	**(6,069)**	**1,685**
Total comprehensive income/(loss) for the year	**3,794**	**(13,175)**	**58,262**
Attributable to:			
Ordinary shareholders of API	4,025	(13,633)	56,794
Non-controlling interest	(231)	458	1,468
Total comprehensive income/(loss) for the year	**3,794**	**(13,175)**	**58,262**

API ASX Announcements & Presentations: Appendix 4E and FY21 Financial Report, https://www.api.net.au/investor/asx-announcements-presentations/

API Annual Reports 2019-20, https://www.api.net.au/investor/annual-reports/

(i) The 31 August 2020 balances have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service.

5. INFORMATION RELATING TO API

continued

(c) Commentary on FY21 financial information (as released to ASX on 28 October 2021)

Total revenue was $4.0 billion, slightly down by 0.4% on the prior corresponding period (pcp). Reported Earnings before Interest and Tax (EBIT) was $27.8 million, up $22.2 million on the pcp. Underlying EBIT was $70.1 million, up 15.3% on the pcp. Reported Net profit after Tax (NPAT) was $1.1 million, up $8.2 million on the pcp. Underlying NPAT was $39.3 million, up 25.0% on the pcp.

API's CEO & Managing Director, Richard Vincent said:

"These results reflect the ongoing impact of pandemic-related lockdown restrictions and lower CBD foot traffic on API's retail businesses in Australia and New Zealand compared to FY20, which was significantly less impacted by COVID. "However, the fact that we were able to exceed the profit guidance provided on 12 July, with underlying EBIT $7.0 million higher than anticipated at that time, reflects the impacts of a number of operational initiatives undertaken during the half and the strength of our business model.

"Both our retail businesses, Priceline Pharmacy and Clear Skincare are primed and ready for growth, which we are witnessing since restrictions began to ease. During the financial year, despite lockdowns, we added another 19 Clear Skincare clinics, taking the network to 86.

"At Priceline the focus was on repositioning the store network for growth, maximising our brand leverage introducing 59 new and exclusive brands over the year, and investing heavily in our digital capabilities and in-store health offerings. We closed 9 company owned stores that we deemed would be unprofitable moving forward due to the combination of unrealistic rental expectations and reduced foot traffic, whilst increasing our franchised Priceline Pharmacy network."

(d) Commentary on FY20 financial information (as released to ASX on 22 October 2020)

API today announced that underlying EBIT was $56.3 million to the year ending 31 August 2020, down 40.1% on the prior year. Underlying NPAT (excluding the impact of AASB 16) was $32.5 million, down 42.6% on the prior year due to the impact of COVID-19 on its retail businesses. Total Group revenue was $4.0 billion, an increase of 0.2% on the prior year despite the retail lockdowns in both our Priceline and Clear Skincare businesses.

"This result is testament to the strength of API's combined portfolio of businesses. Pharmacy Distribution revenue excluding Hepatitis C increased 6.1% which demonstrates the resilience of that business throughout COVID-19.

"With half of APIs revenue coming from its retail businesses, we were exposed to the impact of mandatory lockdowns to non-pharmacy Priceline stores and Clear Skincare clinics. Clear Skincare has performed very well in those states that have reopened and we continue the investment in new clinics."

(e) Commentary on FY19 financial information (as released to ASX on 24 October 2019)

API today reported growth in market share and contribution from each of its Priceline Pharmacy, Consumer Brands and Clear Skincare businesses and solid cash generation and stable market share from its Pharmacy Distribution business.

The Group's total revenue, excluding the impact of PBS reform and Hepatitis C Medicine1, was $4.0 billion, representing a 4.1% increase on the prior year.

API's CEO and Managing Director, Mr. Richard Vincent said that API continued to leverage its existing infrastructure and market expertise to deliver solid profit growth for shareholders in what remains a challenging market.

5. INFORMATION RELATING TO API

continued

(f) Consolidated statement of financial position

The following table presents the historical consolidated statement of financial position as at 31 August 2019, 31 August 2020 and 31 August 2021.

In thousands of AUD	As at 31 August 2021	2020 (restated)(i)	2019 (restated)(ii)
Current assets			
Cash and cash equivalents	38,794	60,713	30,181
Trade and other receivables	589,093	537,899	657,932
Inventories	352,949	368,180	413,258
Lease receivables	5,054	6,530	–
Assets held for sale	3,868	–	–
Total current assets	**989,758**	**973,322**	**1,101,371**
Non-current assets			
Trade and other receivables	10,947	22,534	57,544
Lease receivables	18,692	23,002	–
Financial assets at fair value through other comprehensive income	2,400	1,200	87,849
Deferred tax assets	22,051	20,641	–
Right-of-use assets	121,039	125,079	–
Property, plant and equipment	109,785	109,817	107,130
Intangible assets	255,270	264,401	301,901
Total non-current assets	**540,184**	**566,674**	**554,424**
Total assets	**1,529,942**	**1,539,996**	**1,655,795**
Current liabilities			
Trade and other payables	719,581	741,945	790,270
Loans and borrowings	20,866	8,260	59,596
Lease liabilities	46,457	40,404	–
Provisions	37,360	34,632	35,235
Income tax payable	1,211	7,441	2,380
Total current liabilities	**825,475**	**832,682**	**887,481**
Non-current liabilities			
Trade and other payables	–	33,431	80,079
Deferred tax liabilities	–	–	8,239
Loans and borrowings	117,874	70,423	169,683
Lease liabilities	128,976	141,790	–
Provisions	17,113	6,899	5,663
Total non-current liabilities	**263,963**	**252,543**	**263,664**
Total liabilities	**1,089,438**	**1,085,225**	**1,151,145**
Net assets	**440,504**	**454,771**	**504,650**

5. INFORMATION RELATING TO API

continued

In thousands of AUD	2021	2020 (restated)[i]	2019 (restated)[ii]
	As at 31 August		
Equity			
Share capital	566,461	566,461	566,461
Reserves	26,414	38,526	62,645
Accumulated losses	(154,065)	(154,065)	(127,847)
Total equity attributable to shareholders of API	**438,810**	**450,922**	**501,259**
Non-controlling interest in controlled entities	**1,694**	**3,849**	**3,391**
Total equity	**440,504**	**454,771**	**504,650**

API ASX Announcements & Presentations: Appendix 4E and FY21 Financial Report, https://www.api.net.au/investor/asx-announcements-presentations/

API Annual Reports 2019-20, https://www.api.net.au/investor/annual-reports/

(i) The 31 August 2020 balances have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service.

(ii) The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset.

(g) Consolidated statement of cash flows

The following table presents the historical consolidated statement of cash flows for the financial years ended 31 August 2019, 31 August 2020 and 31 August 2021.

In thousands of AUD	2021	2020	2019
	Year ended 31 August		
Cash flows from operating activities			
Cash receipts from customers (inclusive of GST)	4,361,243	4,575,669	4,359,494
Cash payments to suppliers and employees (inclusive of GST)	(4,260,368)	(4,336,241)	(4,301,329)
Cash inflow from operations	**100,875**	**239,428**	**58,165**
Interest received	4	67	396
Finance costs paid	(10,121)	(13,045)	(19,502)
Income taxes paid	(18,958)	(10,935)	(27,450)
Net cash inflows from operating activities	**71,800**	**215,515**	**11,609**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	3,678	–	1,533
Payments for property, plant and equipment and intangibles	(45,854)	(39,992)	(35,704)
Proceeds from/payments for) financial assets at fair value through other comprehensive income	(1,200)	80,978	(85,901)
Payments for minority interest acquired	(32,900)	–	–
Receipts from subleases	7,357	8,771	–
Dividends received	–	1,373	3,533
Net cash inflows/(outflows from investing activities)	**(68,919)**	**51,130**	**(116,539)**

5. INFORMATION RELATING TO API

continued

In thousands of AUD	Year ended 31 August 2021	2020	2019
Cash flows from financing activities			
Proceeds from borrowings	6,631,539	4,034,050	2,722,269
Repayment of borrowings	(6,583,458)	(4,182,794)	(2,585,935)
Lease payments during the period	(67,615)	(70,400)	–
Payment of finance lease liabilities	–	–	(891)
Dividends paid	(17,243)	(19,706)	(38,171)
Net cash (outflows)/inflows from financing activities	**(36,777)**	**(238,850)**	**97,272**
Net increase/(decrease) in cash and cash equivalents	(33,896)	27,795	(7,658)
Cash and cash equivalents at the beginning of the year	56,061	28,237	35,948
Effect of exchange rate fluctuations on cash held	(117)	29	(53)
Cash and cash equivalents at the end of the year	**22,048**	**56,061**	**28,237**

In thousands of AUD	Year ended 31 August 2021	2020	2019
Cash and cash equivalents in the Consolidated balance sheet	**38,794**	**60,713**	**30,181**
Bank overdrafts repayable on demand and used for cash management purposes	(16,746)	(4,652)	(1,944)
Cash and cash equivalents in the Consolidated statement of cash flows	**22,048**	**56,061**	**28,237**

API ASX Announcements & Presentations: Appendix 4E and FY21 Financial Report, https://www.api.net.au/investor/asx-announcements-presentations/

API Annual Reports 2019-20, https://www.api.net.au/investor/annual-reports/

5.8 Material changes in API's financial position

Other than:

- the accumulation of profits in the ordinary course of trading;
- as disclosed in this Scheme Booklet; or
- as disclosed to ASX by API,

to the knowledge of the API Directors, the financial position of API has not changed materially since 31 August 2021, being the last date of the period to which the financial statements for the financial year ended 31 August 2021 relate.

Copies of API's periodic reports (including the API Appendix 4E and audited financial report for the year ended 31 August 2021) can be obtained from API's website at www.api.net.au, ASX's website at www.asx.com.au.

5. INFORMATION RELATING TO API

continued

5.9 Intentions regarding the continuation of API's business

The Corporations Regulations require a statement by the API Directors of their intentions regarding API's business. If the Scheme is implemented, Wesfarmers has stated that it intends to reconstitute the API Board as appropriate for an entity which is a wholly owned subsidiary of Wesfarmers.

It is for the reconstituted API Board to determine its intentions as to:

a. the continuation of the business of API or how the existing business will be conducted;
b. any major changes to be made to the business of API; or
c. the future employment of the present employees of API,

and, accordingly, it is not possible for the API Directors to provide such a statement.

Wesfarmers' intentions if the Scheme is implemented are set out in section 6.7 of this Scheme Booklet.

5.10 Recent API Share price performance

API Shares are listed on ASX under the ASX code 'API'.

As at 9 July 2021, being the last trading day for API Shares prior to the announcement of the Wesfarmers Initial Proposal on 12 July 2021:

- the closing price for API Shares on ASX was $1.145;
- the highest recorded daily closing price for API Shares on ASX in the previous three months was $1.360 on 21 April 2021; and
- the lowest recorded daily closing price for API Shares on ASX in the previous three months was $1.085 on 13 May 2021.

On 5 November 2021, being the last trading day for API Shares prior to the announcement of entry into the Scheme Implementation Deed, the closing price for API Shares on ASX was $1.485. From announcement of entry into the Scheme Implementation Deed to 10 February 2022 (being the Last Practicable Date), the closing API Share price on ASX has ranged from 1.495 to $1.755.

In the three months up to the Announcement Date (being 6 August 2021 up to 5 November 2021):

- the highest recorded daily closing price for API Shares on ASX was $1.535 on 19 October 2021; and
- the lowest recorded daily closing price for API Shares on ASX was $1.270 on 15 September 2021.

API Share price and trading volume over the 12 months before the Last Practicable Date (10 Feb 2022)

Source: IRESS market data as at 10 February 2022.

From announcement of entry into the Scheme Implementation Deed to 10 February 2022 (being the Last Practicable Date), the closing API Share price on ASX has ranged from $1.495 to $1.755

5.11 Public information available for inspection

API is a disclosing entity as defined in the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules. Broadly, these require API to announce price sensitive information as soon as it becomes aware of the information, subject to exceptions for certain confidential information. API is also required to prepare and lodge with ASIC and ASX both annual and half-year financial statements.

Further announcements concerning API will continue to be made available on ASX's website after the date of this Scheme Booklet until the Scheme is implemented.

Copies of the documents filed with ASX may be obtained from ASX's website at www.asx.com.au and API's website at www.api.net.au. Copies of the documents lodged with ASIC in relation to API may be obtained from, or inspected via, ASIC's online registry portal ASIC Connect at www.asicconnect.gov.au including at ASIC's self-service kiosks at ASIC's service centres.

6. INFORMATION ABOUT WESFARMERS AND WFM INVESTMENTS

6.1 Introduction

This Section 6 forms part of the Wesfarmers Information and has been prepared by, and is the responsibility of, Wesfarmers. This Section 6 contains information relating to Wesfarmers and its wholly-owned subsidiary, WFM Investments, and outlines how WFM Investments is funding the Scheme Consideration and Wesfarmers' vision, intentions, views and opinions in relation to API.

6.2 Overview of the Wesfarmers Group

Wesfarmers is one of the largest listed companies and private sector employers in Australia. Wesfarmers is based in Perth, Western Australia with a portfolio of retail and industrial businesses across Australia and New Zealand. Wesfarmers listed on ASX in 1984.

Wesfarmers has diverse business operations; it is a retailer of home improvement, outdoor living and building materials, general merchandise and apparel, and technology products (through its Bunnings, Kmart Group and Officeworks retail divisions respectively), a manufacturer and distributor of chemicals and fertilisers, and a producer and distributor of gas (through its Wesfarmers Chemicals, Energy and Fertilisers (WesCEF) division) and a distributor of industrial and safety products (through its Industrial and Safety division). For the financial year ended 30 June 2021, Wesfarmers' revenue from continuing operations was $33.9 billion and NPAT was $2.4 billion.

Please see a high level structure chart of the Wesfarmers Group below.

6. INFORMATION ABOUT WESFARMERS AND WFM INVESTMENTS

continued

6.3 Wesfarmers Board

The table below sets out the directors of Wesfarmers (**Wesfarmers Board**), including their position and tenure as at the date of this Scheme Booklet:

Name	Position	Tenure
Michael Chaney AO	Chairman	Director since June 2015 and Chairman since November 2015
Rob Scott	Managing Director	Director since November 2017
Vanessa Wallace	Non-Executive Director	Director since July 2010
Jennifer Westacott AO	Non-Executive Director	Director since April 2013
The Right Honourable Sir Bill English KNZM	Non-Executive Director	Director since April 2018
Mike Roche	Non-Executive Director	Director since February 2019
Sharon Warburton	Non-Executive Director	Director since August 2019
Anil Sabharwal	Non-Executive Director	Director since February 2021
Alison Watkins AM	Non-Executive Director	Director since September 2021
Alan Cransberg	Non-Executive Director	Director since October 2021

6.4 Wesfarmers Leadership Team

The table below sets out the members of the Wesfarmers leadership team (**Wesfarmers Leadership Team**), including their position and tenure as at the date of this Scheme Booklet:

Name	Position	Tenure
Rob Scott	Managing Director and Chief Executive Officer, Wesfarmers	Since November 2017
Anthony Gianotti	Chief Financial Officer, Wesfarmers	Since November 2017
Maya vanden Driesen	Group General Counsel, Wesfarmers	Since January 2015
Vicki Robinson	Executive General Manager, Company Secretariat, Wesfarmers	Since March 2020
Michael Schneider	Managing Director, Bunnings Group	Since May 2017
Ian Bailey	Managing Director, Kmart Group	Since November 2018
Sarah Hunter	Managing Director, Officeworks	Since January 2019
Ian Hansen	Managing Director, Wesfarmers Chemicals, Energy & Fertilisers	Since April 2020
Jenny Bryant	Chief Human Resources Officer, Wesfarmers	Since October 2016
Tim Bult	Managing Director, Wesfarmers Industrial and Safety	Since April 2020
Naomi Flutter	Executive General Manager, Corporate Affairs, Wesfarmers	Since August 2018
Ed Bostock	Managing Director, Business Development, Wesfarmers	Since October 2017
Nicole Sheffield	Managing Director, Data and Digital	Since November 2021

6. INFORMATION ABOUT WESFARMERS AND WFM INVESTMENTS

continued

6.5 Rationale for proposed acquisition of API

The rationale for the proposed acquisition of API is consistent with Wesfarmers' core objective which is to deliver satisfactory returns to its shareholders, with the definition of satisfactory being superior to the market over the long term.

Wesfarmers is of the view that the acquisition of API will provide an attractive opportunity to enter the growing health, wellbeing and beauty sector. If the Scheme is approved and implemented, API would form the basis of a new healthcare division of Wesfarmers and a base from which to invest and develop capabilities in the health and wellbeing sector.

The combination of Wesfarmers and API is a compelling opportunity to capitalise on API's strengths and positioning in these markets while drawing upon Wesfarmers' capabilities and expertise in retail and distribution, its strong balance sheet and willingness to invest in businesses for growth over the long term.

Wesfarmers supports the community pharmacy model, including the pharmacy ownership and location rules, and considers API's relationships with its community pharmacy partners to be one of its key strengths. Wesfarmers sees opportunities to build on these relationships and invest to expand ranges, improve supply chain capabilities and enhance the online experience for customers. These investments are expected to strengthen the competitive position of API and its community pharmacy partners.

6.6 Funding of the Scheme Consideration

Having regard to API's issued share capital, the proposed treatment of the API Performance Rights (see section 9.2(b)) and the Total Cash Value of $1.55 per API Share (adjusted in accordance with the Scheme Implementation Deed) payable under the Scheme, the maximum Scheme Consideration payable by WFM Investments in connection with the Scheme will be approximately $618.4 million, which, for the avoidance of doubt, includes approximately $10 million payable to the holders of API Performance Rights which will be cancelled in exchange for a cash amount equivalent to the Scheme Consideration (see section 9.2(b)) of this Scheme Booklet for further information).

Wesfarmers, through itself or one or more of its Subsidiaries, will provide WFM Investments with sufficient funds to fund the Scheme Consideration. Under the Scheme Implementation Deed, Wesfarmers has guaranteed the performance of WFM Investments' obligations, including the payment of the Scheme Consideration.

In addition, Wesfarmers will repay the existing debt facilities of API. As disclosed in the 2021 Annual Report, the average used facilities of API over the course of FY21, excluding interest bearing loans related to the Clear Skincare acquisition was approximately $173.3 million and the net debt as at 31 August 2021 was $99.9 million. Wesfarmers anticipates that the combination of the Scheme Consideration and an amount broadly equivalent to the average net debt plus any other adjustments due to movements in working capital or other funding items as at the Implementation Date will represent its total funding commitments for the acquisition and will represent the initial funds employed in the API acquisition

Wesfarmers intends to fund the amount of the Scheme Consideration and the API debt repayment via existing balance sheet capacity and bank debt facilities. As at 30 June 2021 (being the last day of the last financial year for which Wesfarmers has audited financial statements), Wesfarmers had available cash at bank and on deposit with an aggregate value of approximately $2.75 billion and total undrawn financing facilities available of $5.09 billion. Since 30 June 2021, Wesfarmers has made a return of capital to Wesfarmers shareholders totalling approximately $2.3 billion and has issued approximately $938 million (EUR600 million) in Euro denominated sustainability-linked bonds under its EUR 3 billion Euro Medium Term Note Program.

On the basis of the arrangements described above, Wesfarmers believes it has reasonable grounds for holding the view, and holds the view, that WFM Investments will be able to satisfy its obligation to fund the Scheme Consideration as and when it is due and payable under the terms of the Scheme.

6. INFORMATION ABOUT WESFARMERS AND WFM INVESTMENTS

continued

6.7 Wesfarmers' intentions following implementation of the Scheme

Wesfarmers' intentions have been formed on the basis of facts and information concerning API which are known to Wesfarmers as at the date of this Scheme Booklet. Final decisions on these matters will be made by Wesfarmers in light of all material facts and circumstances at the relevant time. Accordingly, the statements set out in this Section are statements of current intention only, which may change as new information becomes available or as circumstances change, and the statements in this Section should be read in this context.

(a) Business continuity and operations

If the Scheme is implemented, it is the current intention of Wesfarmers to continue to operate the business of API substantially in its current form and continue the present strategic direction of API.

Wesfarmers intends to work with API's leadership team to identify and actively pursue growth and expansion opportunities. Wesfarmers intends to undertake a detailed review of API's operations following implementation of the Scheme.

Wesfarmers continues to see opportunities to invest in and strengthen the competitive position of API and its community pharmacy partners by expanding ranges, improving supply chain capabilities and enhancing the online experience for customers.

In addition to Wesfarmers' discussions with API management, Wesfarmers has engaged with industry stakeholders during due diligence. As previously stated, Wesfarmers supports the community pharmacy model, including the pharmacy ownership and location rules. Wesfarmers recognises the importance of strong relationships with trading partners and looks forward to working closely with API's pharmacy partners, suppliers and other industry stakeholders.

(b) Head office

Wesfarmers currently intends to maintain API's current office in Melbourne.

(c) Board of directors and employees

Pursuant to clause 7.1 of the Scheme Implementation Deed, the API Board will be reconstituted from the Implementation Date. As at the date of this Scheme Booklet, the directors of API after the Implementation Date have not been determined.

Performance Rights are currently on issue to certain of API's employees. If the Scheme becomes Effective, those Performance Rights will be dealt with in the manner set out in Section 9.2(b) of this Scheme Booklet.

Wesfarmers considers API's employees to be important to the future success of the business. Following implementation of the Scheme, Wesfarmers will review API's business operations and organisational structure in consultation with API's leadership team to ensure API has the appropriate mix and level of employees and skills to enhance the business going forward and to enable the business to pursue growth opportunities.

(d) Delisting

If the Scheme is implemented, Wesfarmers will direct that API apply to the ASX for API to be removed from the official list of the ASX after the Implementation Date.

(e) Constitution

Wesfarmers intends to replace API's constitution with a constitution appropriate for an unlisted company limited by shares.

6. INFORMATION ABOUT WESFARMERS AND WFM INVESTMENTS

continued

6.8 WFM Investments interest and dealings in API Shares

(a) Interests in API Shares

As at the Last Practicable Date, neither WFM Investments nor any member of the Wesfarmers Group had any Relevant Interests or voting power in any API Shares other than the 19.30% interest disclosed in the substantial holder notice lodged with ASX on 7 October 2021. The 19.30% interest was acquired by Wesfarmers pursuant to an Undertaking Agreement with Washington H. Soul Pattinson and Company Limited (**WHSP**) dated 9 July 2021 (the **Undertaking Agreement**) and was subsequently transferred to WFM Investments prior to the date of this Scheme Booklet (the **Share Transfer**).

(b) Dealings in API Shares in the previous four months

During the four months before the date of this Scheme Booklet, other than pursuant to the Scheme Implementation Deed, Scheme, Deed Poll or the Share Transfer, neither WFM Investments nor any of its Associates has agreed to provide consideration for any API Shares under any transaction or agreement.

(c) Benefits given in the previous four months

During the four months before the date of this Scheme Booklet, none of WFM Investments or any of its Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or an associate to vote in favour of the Scheme or dispose of API Shares, where the benefit was not offered to all API Shareholders.

(d) Benefits to current API officers

None of WFM Investments or its Associates will be making any payment or giving any benefit to any current director, secretary or executive officer of API as compensation for, or otherwise in connection with, their resignation from their respective offices if the Scheme is implemented.

6.9 No other material information

Except as otherwise disclosed in this Scheme Booklet, there is no other Wesfarmers Information that is material to the making of a decision in relation to the Scheme, being Wesfarmers Information that is within the knowledge of the directors of Wesfarmers, at the date of this Scheme Booklet, which has not previously been disclosed to API Shareholders.

7. RISK FACTORS

In the ordinary course of business, the API Board and API's senior management assess material risks associated with API's business and take appropriate steps to manage and mitigate those risks. The API Board considers, however, that it is appropriate for API Shareholders, in considering the Scheme, to be aware that there are a number of risk factors, general and specific, which could impact the future operating and financial performance of API and the value of API Shares.

The risk factors in this section 7 are existing risks that relate to API's business and the industry in which it operates, or that are generally associated with an investment in listed securities. These risks will only continue to be relevant to you if the Scheme does not proceed, in which case (in the absence of a Competing Proposal that is ultimately implemented) API will continue to operate as a standalone entity, and API Shareholders will continue to own API.

From implementation of the Scheme, Scheme Shareholders will cease to hold API Shares and will no longer be exposed to the risks set out in this section 7.

You should carefully consider the risks discussed in this section 7, as well as the other information contained in this Scheme Booklet generally, before voting on the Scheme Resolution. You should consult your legal, financial, taxation or other professional adviser if you are unclear or uncertain about any matter mentioned in this section 7 or elsewhere in this Scheme Booklet.

Additional risks and uncertainties not currently known to API may also have a material adverse effect on API's financial and operational performance and the information set out in this section 7 does not purport to be, nor should it be construed as representing, an exhaustive list of the risks affecting API, its business or an investment in API Shares.

7.1 Risks specific to the Scheme

(a) Scheme may not proceed or may be delayed

Implementation of the Scheme is subject to a number of conditions including Court approval, which are summarised in section 9.5 of this Scheme Booklet and set out in full in clause 3.2 of the Scheme Implementation Deed. As announced by API to the ASX, the ACCC Condition was satisfied on 11 February 2022.

There is a risk that such Court approval may not be obtained, either at all or in the form proposed, or Court approval may be delayed. In particular, if there is a material change in circumstances between the Scheme Meeting and the Second Court Date, the Court will take the change into account in deciding whether it should approve the Scheme. If there is a material change of sufficient importance so as to materially alter the Scheme, there is a risk that the Court may not approve the Scheme on the Second Court Date.

If the Conditions are not satisfied or waived (as applicable) by the End Date, the Scheme Implementation Deed may be terminated, which will mean the Scheme will not be implemented. These termination rights are summarised in section 9.4(f) of this Scheme Booklet.

A failure to satisfy any of the Conditions, or a delay in satisfying the Conditions and implementing the Scheme, may adversely affect the trading price of API Shares.

(b) Risks if the Scheme is implemented

If the Scheme is implemented, you will no longer be an API Shareholder and will forgo any future benefits that may result from being an API Shareholder. In particular, if the Scheme is implemented, you will not be able to participate in the future financial and share price performance of API, retain any exposure to API's business or assets or have the opportunity to share in any value that could be generated by API in the future (unless you choose to obtain indirect exposure to API's business through acquiring shares in Wesfarmers). However, there is no guarantee as to API's future performance, or its future share price and financial performance, as is the case with all investments. Please refer to section 1.3(b) of this Scheme Booklet for further details.

API Shareholders may also consider that it would be difficult to identify or invest in alternative investments that have a similar investment profile to that of API, or may incur transaction costs in undertaking any new investment.

7. RISK FACTORS

continued

(c) Tax consequences for Scheme Shareholders

If the Scheme is implemented, there may be tax consequences for Scheme Shareholders that may include tax being payable on any gain on the transfer of Scheme Shares to Wesfarmers.

The tax treatment may vary depending on the nature and characteristics of each Scheme Shareholder and their specific circumstances.

Accordingly, Scheme Shareholders should seek independent professional tax advice in relation to their particular circumstances.

For further information about the general Australian tax consequences of the Scheme and any Special Dividend that the API Directors decide to pay, please refer to section 8 of this Scheme Booklet.

(d) Transaction and other costs

Costs of approximately $14 million (excluding GST and disbursements) are expected to be paid by API in connection with the Scheme which will be paid irrespective of whether the Scheme becomes Effective (or is implemented). The costs include advisers fees for API's financial, legal, accounting and tax advisers, the Independent Expert's and Share Registry's fees, general administrative fees, Scheme Booklet design, printing and distribution costs, and expenses associated with convening and holding the Scheme Meeting. Of this, approximately $9 million (excluding GST and disbursements) will be incurred regardless of whether or not the Scheme is implemented, excluding any Break Fee that may be payable to Wesfarmers.

(e) Risks if the Scheme is not implemented

If the Scheme does not become Effective:

i. Scheme Shareholders will not receive the Scheme Consideration and API will not decide to pay, nor pay, the Special Dividend;
ii. API Shares will not be transferred to WFM Investments (and will be retained by API Shareholders);
iii. API will continue, in the absence of a Competing Proposal that is ultimately implemented, to operate as a standalone entity, and remain listed on ASX;
iv. unless they chose to sell their API Shares on the ASX, API Shareholders will continue to hold API Shares and be exposed to the benefits and risks associated with an investment in API on a standalone basis (refer to Sections 7.3 and 7.3 of this Scheme Booklet for further details about these risks);
v. API may be required to pay the Break Fee to Wesfarmers if the Scheme does not proceed in certain circumstances. However, the Break Fee is not payable by API to Wesfarmers simply because the Scheme Resolution is not approved by API Shareholders. See section 9.4(k) for further details; and
vi. in the absence of a Superior Proposal, or speculation regarding an alternative proposal, in the Independent Expert's opinion, API Shares are likely to trade at a significant discount to the Independent Expert's valuation range (of $1.48 to $1.78) and to the Total Cash Value.

(f) Risks specific to the Special Dividend

i. Special Dividend dependent on outcome of the Scheme

   As noted in sections 3.3 and 7.1(e) of this Scheme Booklet, if the Scheme does not become Effective, API will not decide to pay the Special Dividend.

ii. Payment of Special Dividend

   The decision to pay the Special Dividend is subject to the API Board's discretion. It is expected that the API Directors will decide to pay and announce the Special Dividend shortly before the Second Court Hearing, with payment being conditional on the Scheme becoming Effective.

7. RISK FACTORS

continued

iii. Tax implications of the Special Dividend

The decision to pay any Special Dividend is subject to API having obtained a draft Class Ruling, from the ATO in relation to the tax implications of the Scheme, including the availability of the franking credits attached to the Special Dividend. On the basis a favourable Class Ruling is obtained from the ATO, whether an API Shareholder is able to obtain the full benefit of the franking credits depends on their personal tax circumstances.

In assessing the value of any Special Dividend, API Shareholders should seek independent professional taxation advice as to whether or not the receipt of any Special Dividend and any entitlement to franking credits attached thereto is beneficial to them based on their own particular circumstances.

7.2 Specific risk factors for API's business

There are a range of business-specific risks associated with your current investment in API Shares, some of which are set out below. These risks include the material business risks detailed in the 2021 Annual Report as well as other risks which may be relevant to Shareholders' decision in relation to the Scheme. You will only continue to be exposed to these risks if the Scheme does not proceed and you retain your investment in API Shares. While API has in place what it considers are appropriate policies and procedures to help manage these risks, there is no guarantee that API will be able to manage these risks completely. Furthermore, certain aspects of these risks (or API's ability to respond to and manage them) may be partly or wholly outside of API's control.

(a) Compliance risks

i. Regulatory risks

API operates within an industry with extensive regulations, relating to the manufacture as well as the distribution and supply of pharmaceutical products. These include, but are not limited to, the Government's regulatory framework for the Community Service Obligation for the distribution of pharmaceuticals and the Pharmaceutical Benefits Scheme including arrangements put in place by the Commonwealth Government pursuant to the 7th Community Pharmacy Agreement. As such, the business of API is continually exposed to the risk of new regulations being introduced and changes to existing regulations which may impact or restrict its potential profitability.

ii. Litigation risks

API may be involved in litigation claims or other disputes relating to various matters. These may include personal injury (for example, in relation to adverse reactions to products or services provided), privacy breaches, product liability, intellectual property, contract disputes, employment or workplace disputes, debt recovery, regulatory compliance or other claims arising in the ordinary course of API's business.

API announced on 11 October 2021 that it had been served with proceedings which were a class action brought by an unknown number of franchisees against API's Priceline division. However the lawyers for the plaintiffs have now confirmed that they propose to withdraw those proceedings, subject to Court approval, as API announced to ASX on 1 February 2022.

iii. Reputational risks

The success of API and its pharmacy, retail, health and beauty products and services are heavily dependent on positive consumer perception and consumer confidence in API and its brands. Negative publicity or adverse commentary on product or service safety or suitability may adversely impact API's reputational and financial performance.

There is a risk of potential inconsistencies between the quality of service offerings between clinics or stores that may lead to consumers having compromised experiences, which may be detrimental to client loyalty and consumer confidence. Additionally, some API offerings use products supplied by third party suppliers, who also have the capacity to negatively impact API's reputation.

Reputational damage to API or API's third party suppliers could have an adverse effect on API's operations, which may result in a material adverse impact on API's ability to maintain its market share, financial performance and future prospects.

7. RISK FACTORS
continued

(b) Market risks

i. Competition risks

API operates in a competitive industry. API competes on the basis of a number of factors, including the variety and quality of its products and services, brand recognition, reputation, and price. There is no assurance that competitors or new market entrants in the Australian pharmacy, retail, health and beauty markets will not succeed in offering services or products that are more economic or otherwise more desirable than those being offered by API, which will have negative effects on API's market position.

The decline in API's competitive position in any one of its core categories could adversely affect its ability to upsell and cross-sell to customers, reduce customer retention and ultimately may result in a loss of market share and lead to a decline in API's revenue and earnings.

ii. Risk of changes in consumer behaviour and trends

Consumer behaviour and spending in the pharmacy, retail, health and beauty sector can be volatile and is largely affected by the state of the broader economy, including interest rates, the unemployment rate, consumer and business sentiment, geographical and political events and asset prices in general. There is a risk that Australian economic conditions may worsen, leading to a reduction in discretionary household expenditure which may cause customers to reduce their level of consumption or consumer spending on API's health and beauty products.

API is also exposed to the risk that consumer trends and tastes in relation to health and beauty products or services may change, requiring anticipation and timely responses from API. Unanticipated changes or fluctuations in consumer behaviour and trends may result in a reduction in API's revenue and may have a material adverse effect on its financial performance and financial position.

iii. New products and services risk

There is a risk that the products or services launched by API may not be as successful as anticipated, which could have a material adverse effect on API's business, financial position or operations. Each new product or service offering released to the market has associated risks, including:

- the advertising, promotional and marketing strategies for new products and services may be less effective than expected and may fail to effectively reach the targeted consumers;
- the results promoted by suppliers may not be realised;
- the costs associated with launching new products and services may exceed budgeted expectations;
- the pricing of new health and beauty products or services may not be accepted by consumers, resulting in weaker than expected demand for the new product or service; and
- consumers may experience unexpected adverse reactions to new health or beauty products or services.
- There can be no guarantee that new products or services that API plans to release will result in a profitable and successful operation.

(c) Third party and supply chain risks

API relies on various third party suppliers and manufacturers to supply equipment, medical consumables and products for re-sale, as well as third party providers for various services such as software and financial management platforms. There is a risk that any disruption or interference with the operations of any of API's third party suppliers or contract manufacturers may restrict, interrupt or adversely affect API's operations. Whilst API has mechanisms in place to limit this risk and manage any resulting shortages or disruptions, there is a risk that events may occur that are beyond API's control, which may adversely impact API's operations and financial performance.

7. RISK FACTORS

continued

(d) Information technology risks

API is increasingly reliant on information technology and systems to process, transmit and store electronic and financial information. Information systems are central to a range of API's business processes such as financial management and document management, and facilitating compliance with various regulatory, legal and tax requirements. Although API conducts regular reviews of security configurations and has aligned its systems with current industry standards, there remains a risk that API's systems may suffer damage, disruption, corruption, cyber- attacks or security breaches, which may interrupt API's operations or result in penalties for unauthorised disclosure of confidential information. API is exposed to the risk of financial and reputational damage as a result, which may have a material adverse effect on API.

(e) Economic and finance risks

Aside from the economic risks arising from the COVID-19 pandemic, the longer term economic outlook presents increased uncertainty as governments address fiscal deterioration from their responses to COVID-19, including policies to encourage economic growth. This could have positive or negative implications for consumer spending across several areas, including in relation to the pharmacy, retail, health and beauty sector.

As noted in section 7.3, API may be affected by general economic conditions (including, for example, interest rates, inflation, foreign exchange rates and the labour market environment). The changes in economic conditions may have an adverse effect on API's activities, as well as on its ability to fund those activities.

(f) Services and Products risks

i. Potential hazards for consumers

Whilst API seeks to comply with applicable regulations and industry best practice at all times, there is a risk that API's products and services may cause serious or unexpected side effects, including injury or harm to consumers.

There is also a risk that the use and adoption of emerging technologies may have unexpected side effects on the human body (including defects that may only be identified in the future) or may not otherwise provide the results to meet consumer expectations.

Whilst API has internal audit, governance and compliance management structures and standards in place to manage this risk, the risk of negative consumer experiences, adverse publicity or potential liability claims remains, which may lead to API experiencing a decline in demand for products and services, thereby negatively impacting API's financial performance.

ii. Franchisee engagement and consistency risks

The Priceline division within the API Group is exposed to the risk of varying levels of franchisee engagement, compliance and execution standards across all stores. This can lead to a loss of reliability for consumers and can be detrimental to the brand.

(g) Environmental and Sustainability risks

API is exposed to various risks if it does not appropriately address sustainability issues, including environmental issues, thereby failing to meet the expectations of the community including customers, investors and employees. API may be exposed to risks of reduced revenue and reduced access to capital, the risk of being unable to retain or recruit the best available employees and the risk of incurring costs arising from unsustainable practices such as high energy costs, insurance costs or high costs of waste disposal. API is exposed to the risk of reputational damage if it inappropriately manages sustainability issues, resulting the risk of failing to deliver its sustainability purpose to "enrich our world through sustainable choices which help our community and our environment".

7. RISK FACTORS

continued

(h) Internal business risks

i. **Business strategy implementation risks:** there is a risk that API may be unable to execute any growth business strategies due to external factors such as economic downturn, decreases in demand or for operational reasons such as unavailability of planned sites.

ii. **Funding risks:** there is a risk that API may not be able to raise debt finance or new equity in the future to continue to pursue its business strategy and grow its business. API's ability to raise funds may be, in part, subject to factors beyond the control of API, including economic and global financial market factors.

iii. **Cyclical risks:** some of API's revenues are seasonal in nature and follow increases in demand at certain times of the year. There can be no guarantee that seasonal fluctuations in revenue will always be accurately predicted and assessed, which may result in higher labour costs, lower margins and increased inventory.

iv. **Key personnel risks:** API's ability to recruit, retain and engage a talented and motivated workforce is a key success factor for API. In particular, a number of key personnel are important to executing API's strategy. One or more of these key employees could leave their employment or cease to actively participate in the management of API and this may adversely affect the ability of API to conduct its business and, accordingly, affect its financial performance and its share price. If certain key employees leave their employment with API, there may be a limited number of persons with the requisite experience and skills to serve in API's senior management positions.

v. **Insurance risks:** API currently has in place what it believes are adequate levels of insurance including property, public and product liability, directors' and officers' liability, medical malpractice and workers' compensation to protect API from potential losses and liabilities. However, insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. API cannot guarantee that its insurance cover will be sufficient for all situations encountered by API in the future. Losses flowing from events which are not covered by insurance may cause API to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

(i) Risks relating to the ongoing COVID-19 pandemic

The COVID-19 pandemic and associated response from governments around the world (including enacting movement restrictions, trading restrictions, border controls and travel restriction measures) has significantly impacted the global economy. This has had, and will likely continue have, a material adverse impact on the financial and operational performance of API.

Progress has been made in controlling the spread of the COVID-19 virus in Australia and New Zealand. However, the risk of the virus re-emerging in these jurisdictions remains, as indicated by recent outbreaks in Australia and internationally. As the COVID-19 pandemic continues, it is difficult to assess the full extent of its impact upon API's business and prospects.

API may also incur increased operational costs and decreased revenue associated with adhering to new requirements relating to the COVID-19 pandemic, such as those related to social distancing, cleaning and hygiene measures and restrictions on trading. These factors are beyond API's control and there is no guarantee that API's ongoing efforts to address the adverse impacts of the COVID-19 pandemic will be effective. The imposition of further restrictions or the reduction in demand for API's services and products arising from the impact of the COVID-19 pandemic may affect API's profitability and financial performance. Whilst API will continue to respond to these challenges, the ultimate impact upon API's financial and operational position in the long term cannot be predicted with any reasonable certainty.

7. RISK FACTORS

continued

7.3 General risk factors

As with any entity with listed securities on ASX, the future prospects and operating and financial performance of API and the value of API Shares may be affected by a variety of factors. These general risk factors may include:

a. changes in investor sentiment and overall performance of the Australian and overseas stock markets;
b. changes in general business, industry cycles, and economic conditions including inflation, interest rates, exchange rates, commodity prices, employment levels and consumer demand and preferences;
c. economic and political factors in Australia and overseas, including economic growth;
d. changes in legislation and government, fiscal, monetary, regulatory policies including foreign investment, accounting or financial reporting standards and taxation laws (or their interpretation);
e. natural disasters, catastrophes and disease or pandemic (including the outbreak, escalation or impact of, and recovery from, the COVID-19 pandemic) and other macroeconomic occurrences, including but not limited to geopolitical events such as an outbreak of hostilities, acts of terrorism and declarations of war;
f. uncertainty around the likelihood, timing, franking or quantum of future dividends;
g. failure to make or integrate any future acquisitions or business combinations (including the realisation of synergies), significant one-time write-offs or restructuring charges, and unanticipated costs and liabilities; and
h. impacts arising from the COVID-19 pandemic.

8. TAXATION IMPLICATIONS

8.1 Introduction

This section 8 sets out a general summary of the key Australian income tax, goods and services tax **(GST)** and stamp duty consequences of the Scheme and the receipt of any Special Dividend by Scheme Shareholders. The purpose of the summary is to assist API Shareholders to understand the potential Australian tax consequences of being a Scheme Shareholder.

The summary is based on the Australian tax laws, regulations, interpretations of such laws and regulations, and administrative practices in effect as at the date of this Scheme Booklet. The laws are complex and subject to change periodically as is their interpretation by the courts and tax authorities.

This summary is general in nature and is not intended to be an authoritative or complete statement of the law applicable to the particular circumstances of every Scheme Shareholder, and is not intended to be advice and should not be relied on as such. The tax consequences arising to Scheme Shareholders will vary depending on their specific profile, characteristics and circumstances. Accordingly, Scheme Shareholders should obtain independent professional taxation advice in relation to their own particular circumstances and should not rely only upon the comments contained in this summary.

The Australian tax consequences outlined below are relevant to Scheme Shareholders who are individuals, companies, trusts and complying superannuation funds that hold their API Shares on capital account for Australian income tax purposes. This summary does not cover Scheme Shareholders who:

- hold their API Shares as trading stock, as part of a profit-making undertaking or scheme, under an arrangement which qualifies as an employee share or rights plan for Australian tax purposes, or otherwise on revenue account;
- may be subject to special rules, such as banks, insurance companies, tax exempt organisations, certain trusts, superannuation funds (unless otherwise stated) or dealers in securities;
- are 'temporary residents' as that term is defined in section 995-1(1) of the *Income Tax Assessment Act 1997* (Cth);
- change their tax residence whilst holding API Shares;
- are not tax residents for Australian income tax purposes and who hold their API Shares as an asset of a permanent establishment in Australia;
- are not tax residents for Australian income tax purposes who, together with their associates, hold 10% or more of the shares in API;
- are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their API Shares; or
- are subject to the Investment Manager Regime under Subdivision 842-I of the *Income Tax Assessment Act 1997* (Cth) in relation to their API Shares.

This summary does not take into the tax laws of jurisdictions other than Australia. Accordingly, Scheme Shareholders who may be subject to tax in any jurisdiction outside Australia should obtain independent professional taxation advice on their particular circumstances.

API has applied for a class ruling from the ATO **(Class Ruling)**, which it is anticipated will outline in further detail the ATO's views as to:

- the assessability of the Special Dividend and franking credits attached to that dividend;
- the circumstances in which a Scheme Shareholder will satisfy the 'qualified person' rule with respect to the fully franked Special Dividend; and
- the application of a certain franking integrity measure; and
- whether the Special Dividend will form part of the consideration for the disposal of the API Shares.

Subject to receiving the Class Ruling, API expects that the income tax comments implications for Scheme Shareholders are as described below. However, no assurance can be given as to the content of the Class Ruling.

When the final Class Ruling is published by the ATO, it will be available on the ATO website at www.ato.gov.au, and will also be published on API's website at www.api.net.au. Scheme Shareholders should review the final Class Ruling when it is issued by the ATO.

8. TAXATION IMPLICATIONS

continued

8.2 Scheme Shareholders that are Australian residents

(a) Australian income tax consequences arising on disposal of API Shares

i. Capital gains tax

A capital gains tax **(CGT)** event will occur for Scheme Shareholders when they dispose of their API Shares to WFM Investments under the Scheme. The time of the disposal of API Shares for CGT purposes should be the Implementation Date.

ii. Calculation of capital gain or capital loss

Scheme Shareholders should make a capital gain from the disposal of their API Shares to the extent that the capital proceeds received exceed the cost base of their API Shares. Conversely, Scheme Shareholders should make a capital loss to the extent that the reduced cost base of their API Shares exceeds the capital proceeds received.

iii. Capital proceeds

The capital proceeds from the disposal of the API Shares should equal the Scheme Consideration received by Scheme Shareholders.

As the payment of the Special Dividend will occur independently of the Scheme, the Special Dividend should not form part of the capital proceeds that a Scheme Shareholder receives in respect of the disposal of their API Shares. Payment of the Special Dividend is conditional on the Scheme becoming Effective.

iv. Cost base and reduced cost base of an API Share

Generally, the cost base or reduced cost base of a Scheme Shareholder's API Shares should broadly equal the money they paid or were required to pay to acquire the API Shares plus any non-deductible incidental costs (such as brokerage fees and legal fees) incurred in acquiring or disposing of the API Shares. The cost base and reduced cost base of each API Share will depend on the individual circumstances of each Scheme Shareholder.

v. CGT discount

Scheme Shareholders may be able to obtain discount capital gains treatment to reduce any capital gain made in respect of the disposal of the API Shares if those API Shares have been held for at least 12 months before the Implementation Date. The CGT discount is one half in the case of an individual or trust, or one third in the case of a complying superannuation entity. No CGT discount is available for companies.

(b) Australian income tax treatment of the Special Dividend

Scheme Shareholders should include any Special Dividend that the API Directors decide to pay, including the attached franking credits, in their assessable income, in the income year in which the Special Dividend is paid. Scheme Shareholders may be entitled to a tax offset equal to the franking credits attached to the Special Dividend.

However, Scheme Shareholders will not be entitled to obtain a tax offset for the franking credits (and will not be required to include this amount in their assessable income) unless the Scheme Shareholders are 'qualified persons' in relation to the Special Dividend and certain franking integrity measures do not apply.

i. 'Qualified person' rule

For a Scheme Shareholder to be considered a 'qualified person' in relation to any Special Dividend that the API Directors decide to pay, the Scheme Shareholder must have held their API Shares 'at risk' for a continuous period (excluding the day of acquisition and the day of disposal) of at least 45 days during a 90-day period (beginning on the 45th day before, and ending on the 45th day after, the day on which the shares become ex-dividend). A Scheme Shareholder will not be considered to have held their API Shares 'at risk' where the Scheme Shareholder has materially diminished risks of loss or opportunities for gain in respect of the API Shares (i.e. the Scheme Shareholder's net position

8. TAXATION IMPLICATIONS

continued

in relation to the API Shares, for example due to hedging transactions, has less than 30% of those risks and opportunities). Under the Scheme, Scheme Shareholders should cease to hold the API Shares 'at risk' from the Scheme Record Date onwards.

Scheme Shareholders should seek independent professional advice regarding the application of the 'qualified person' rule to their particular circumstances.

ii. Franking integrity rules

The franking integrity rules are intended to prevent abuse of the imputation system, e.g. by streaming franking credits to certain shareholders. The tax rules in this area are complex, and the Class Ruling API has applied for seeks confirmation from the ATO that certain franking integrity rule should not apply. Scheme Shareholders should seek independent professional advice regarding the application of the franking integrity rules to their particular circumstances.

Entitlement to franking credits in excess of tax liability

Provided that Scheme Shareholders are 'qualified persons' in relation to the Special Dividend and none of the franking integrity measures apply, to the extent that the Scheme Shareholders' entitlement to franking credits exceeds their tax liability for the income year:

- Scheme Shareholders who are Australian resident individuals and complying superannuation funds should be entitled to receive a refund of the excess franking credits; and
- Scheme Shareholders that are Australian resident companies may be able to convert excess franking credits into tax losses and credit their franking account with the amount of the franking credit attached to the Special Dividend.

8.3 Foreign tax resident shareholders

(a) Australian income tax consequences arising on disposal of API Shares

Scheme Shareholders that are not tax residents of Australia and who, together with their associates, hold a less than 10% interest in API should be able to disregard a capital gain or capital loss arising from the disposal of their API Shares as their API Shares should not constitute 'taxable Australian property'.

Scheme Shareholders that are not tax residents of Australia (particularly those holding a 10% or greater interest in API) should seek independent professional advice on the Australian tax consequences arising from the disposal of their API Shares having regard to their particular circumstances.

(b) Australian income tax treatment of the Special Dividend

For Scheme Shareholders that are not tax residents of Australia, any Special Dividend that the API Directors decide to pay:

- should not be subject to income tax in Australia; and
- should not be subject to Australian dividend withholding tax (on the basis the Special Dividend can and will be fully franked).

Non-resident Scheme Shareholders should seek independent professional advice in relation to their own particular circumstances, including in respect of taxation in the jurisdiction where they are resident.

(c) Foreign resident capital gains withholding tax

Provided the API Shares held by Scheme Shareholders are not 'taxable Australian property', the foreign resident capital gains withholding tax regime should not apply.

Accordingly, the regime should not operate to require WFM Investments to withhold an amount of the Scheme Consideration that is to be paid to the Scheme Shareholders that are not tax residents of Australia.

Scheme Shareholders that are not tax residents of Australia (particularly those holding a 10% or greater interest in API) should seek independent professional taxation advice in this regard.

8. TAXATION IMPLICATIONS

continued

8.4 GST

GST should not be payable on the disposal of the API Shares under the Scheme or the receipt of any Special Dividend that the API Directors decide to pay.

Scheme Shareholders may be charged GST on costs incurred in relation to the Scheme (e.g. tax, legal or other advisers fees). Certain Scheme Shareholders that are registered (or required to be registered) for GST may be entitled to claim input tax credits (or reduced input tax credits) in relation to GST incurred on these costs.

Scheme Shareholders should seek their own independent tax advice on the impact of GST having regard to their own particular circumstances.

8.5 Stamp duty

Scheme Shareholders should not be liable for any stamp duty on the disposal of their API Shares.

9. ADDITIONAL INFORMATION

9.1 Interests of API Directors in API Shares

As at the Last Practicable Date, the API Directors have the following Relevant Interest in API Shares.

API Director	Position	Number of API Shares
Kenneth Gunderson-Briggs	Non-Executive Chair and Non-Executive Director	30,000[15]
Richard Vincent	Chief Executive Officer and Managing Director	481,833[16]
Lee Ausburn	Non-Executive Director	83,334[17]
Jennifer Macdonald	Non-Executive Director	75,000[18]
Janine Allis	Non-Executive Director	Nil
Clive Stiff	Non-Executive Director	Nil
George Tambassis	Non-Executive Director	Nil
Total		**670,167**

API Directors who hold API Shares, or entities who hold API Shares on behalf of API Directors, will be entitled to vote at the Scheme Meeting and, if the Scheme is implemented, will receive the Scheme Consideration for their API Shares along with other Scheme Shareholders.

Each API Director intends to vote any API Shares held or controlled by them in favour of the Scheme Resolution, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of API Shareholders.

No API Director acquired or disposed of a Relevant Interest in any API Share or other API security in the four-month period ending on the date immediately before the date of this Scheme Booklet.

9.2 API incentive arrangements

(a) Overview of arrangements

As detailed in the 2021 API Annual Report, API operates incentive plans under which API Performance Rights are offered to senior executives and key employees as an incentive and to reward such persons for performance and align their interests with those of API Shareholders.

Accordingly, API senior executives and key employees have previously received, and have on foot, a number of existing incentive arrangements which will be impacted by the Scheme (depending on the relevant offer terms).

In particular, as at the Last Practicable Date, API had 6,611,351 Performance Rights on issue which comprises:

- 1,487,711 unvested performance rights (2019-2022 LTIP);
- 2,483,900 unvested performance rights (2020-2023 LTIP);
- 352,510 unvested performance rights (2021 STIP); and
- 2,287,230 unvested performance rights (2021-2024 LTIP).

As at the Last Practicable Date, Mr Richard Vincent, the Chief Executive Officer and Managing Director, holds 2,213,741 of the above Performance Rights comprising:

- 495,711 unvested performance rights (2019-2022 LTIP);
- 825,400 unvested performance rights (2020-2023 LTIP); and
- 160,900 unvested performance rights (2021 (FY20) STIP); and
- 731,730 unvested performance rights (2021-2024 LTIP).

15. Held indirectly through Demlon Pty Ltd and GBCA Nominees Pty Ltd.
16. Directly held by Mr Richard Vincent.
17. Indirectly held through Bond Street Custodians Limited.
18. Directly held by Ms Jennifer Macdonald.

9. ADDITIONAL INFORMATION

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Each Performance Right entitles the holder to receive one API Share after vesting, or a cash payment in lieu of an API Share in certain circumstances, subject to the satisfaction of certain conditions.

Further information about API's incentive and other incentive arrangements can be found in announcements lodged by API with ASX, including in API's 2021 Remuneration Report that is included in API's 2021 Annual Report, which can be obtained from the ASX website www.asx.com.au and from API's website at www.api.net.au.

(b) Impact of the Scheme on API Performance Rights and other incentive arrangements

Under the Scheme Implementation Deed, API must ensure that all API Performance Rights have either lapsed or vested and converted into API Shares such that there are no outstanding API Performance Rights on issue as at the Scheme Record Date.

This section 9.2(b) sets out details regarding how the API Performance Rights and other incentive arrangements in place with senior executives and key employees will be treated in connection with the Scheme, as agreed between API and Wesfarmers.

i 2019-2022 LTIP, 2020-2023 LTIP, 2021-2024 LTIP and 2021 STIP

Under the terms of the LTIP and the STIP, if the API Board forms the view that the replacement of the majority of the API Board is imminent due to a person acquiring voting power in more than 25% of API, the API Board is permitted to determine the extent to which any relevant vesting conditions are satisfied at the date of such event.

In compliance with API's obligations under the Scheme Implementation Deed, the API Board has determined, subject to and with effect from the Scheme becoming Effective, to cancel all unvested API Performance Rights in exchange for a cash amount equivalent to the Scheme Consideration.[19]

This means that, subject to the Scheme becoming Effective, all of Mr Richard Vincent's Performance Rights will be cancelled for cash consideration in the manner described above. API Shareholders should have regard to these interests when considering how to vote on the Scheme, including Mr Richard Vincent's recommendation on the Scheme (in his capacity as an API Director), which appears throughout this Scheme Booklet.

The API Board (excluding Mr Richard Vincent) considers that, despite these arrangements, it is appropriate for Mr Richard Vincent to make a recommendation on the Scheme given his role in the operation and management of API and that API Shareholders would wish to know Mr Vincent's views in relation to the Scheme. Mr Richard Vincent also considers that it is appropriate for him to make a recommendation on the Scheme.[20]

ii 2022 STIP

Pursuant to the Scheme Implementation Deed, API and Wesfarmers have agreed the following in respect of the 2022 STIP:

- that the API Board retains the discretion to make awards to senior executives and key employees of the API Group in respect of awards under the 2022 STIP in the ordinary course, provided such discretion is exercised in compliance with the relevant plan rules and other terms governing the relevant awards; and
- in the event that a change of control in API occurs, that any 2022 STIP outcomes will be satisfied by a cash payment with no deferred share component.

Pursuant to these terms, the API Board has approved:

- the terms of the 2022 STIP for API's executive leadership team; and

19. Up to a maximum cash amount of $1.55, less the amount of the Special Dividend that the API Directors decide to pay.

20. Following the exercise of the API Board's (excluding Mr Vincent) discretion, subject to the Scheme becoming Effective, the API CEO and Managing Director, Mr Richard Vincent, will be entitled to receive up to $3,431,298.55 in connection with the cancellation of his unvested API Performance Rights. The API Board (excluding Mr Vincent) considers that, despite these arrangements, it is appropriate for Mr Vincent to make a recommendation on the Scheme given his role in the operation and management of API and that API Shareholders would wish to know Mr Vincent's views in relation to the Scheme. Mr Vincent also considers that it is appropriate for him to make a recommendation on the Scheme.

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- that if there is, for the purposes of the STIP:
  - a 'change of control' of API during the applicable performance period, and if rewards under the STIP are earned, then the 50% of the award which would ordinarily be provided in the form of API Performance Rights can, be converted to cash or shares in the acquiror (at the discretion of the API Board); and
  - no change of control during the applicable performance period, and if rewards under the STIP are earned, those rewards will be provided to participants as 50% cash and 50% API Performance Rights, as in prior years.

The offers under the 2022 STIP for other senior manager participants are yet to be made as at the Last Practicable Date, but these awards will be cash only, consistent with past practice.

(c) Implications for API Performance Rights and other equity arrangements if the Scheme does not become Effective

If the Scheme does not become Effective, API expects that:

- its existing incentive arrangements will remain in place subject to their existing terms and conditions (including the incentive arrangements relating to Mr Richard Vincent); and
- it would put in place incentive arrangements for senior executives and key employees for future years similar to those in place prior to the announcement of the Scheme.

(d) Other arrangements

In recognition of the significant roles played by a number of API employees in connection with the ongoing operation of API's business, including delivering API's transformation strategy, and to incentivise them to remain with API and continue to contribute to its success during the 12 months ending 17 September 2022 (regardless of whether or not the Scheme is implemented), those employees will each be entitled to a one-off cash retention payment. Each payment is subject to certain conditions including, among others, that the employee remains employed by API as at 17 September 2022 (unless employment is terminated by API in certain circumstances beforehand).

The maximum aggregate of the cash retention payments payable to employees is approximately $4,057,600.

API Non-Executive Directors are not entitled to receive a cash retention payment.

9.3 Other benefits and agreements

(a) API Directors' interests in securities in the Wesfarmers Group

As at the Last Practicable Date, the following API Director has a Relevant Interest in the following securities in Wesfarmers:

Director	Number of Wesfarmers shares
Janine Allis	1,000 shares

(b) API Directors' dealings in securities in the Wesfarmers Group

No API Director has acquired or disposed of a Relevant Interest in any securities in Wesfarmers or any of its Related Bodies Corporate in the four-month period ending on the date immediately before the date of this Scheme Booklet.

(c) API Director fees

As contemplated by API's Constitution, the API Board has approved that special exertion fees be paid to each Non-Executive Director of API, in recognition of their increased workload and time commitment (over and above that required for API's ordinary business requirements) which are and have been required for considering and responding to, among other things, the proposals received for the acquisition of API.

9. ADDITIONAL INFORMATION
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This additional work includes overseeing the due diligence process, considering the offers, considering and negotiating the terms and conditions of the Scheme and associated issues and documents and overseeing the process for preparation of this Scheme Booklet and implementation of the Scheme.

These special exertion fees are not conditional on the Scheme being implemented and are being paid based on time spent at the rate of $400 per hour.

(d) Agreements or arrangements connected with or conditional on the Scheme

Other than the matters described in section 9.2 and this section 9.3, there are no agreements or arrangements made between any API Director and any other person, including Wesfarmers, in connection with, or conditional on the outcome of, the Scheme.

(e) Benefits in connection with retirement from office

Other than the matters described in section 9.2 and this section 9.3, there is no payment or other benefit that is proposed to be made or given to any API Director, secretary or executive officer of API (or any of its Related Bodies Corporate) as compensation for the loss of, or consideration for or in connection with his or her retirement from, office in API (or any of its Related Bodies Corporate) as a result of the Scheme, other than as set out in their existing employment agreement or as a result of them participating in the Scheme as a Scheme Shareholder.

API pays premiums in respect of a directors and officers insurance policy for the benefit of its directors and executive officers.

(f) Benefits from Wesfarmers

None of the API Directors has agreed to receive, or is entitled to receive, any benefit from Wesfarmers or any of its Related Bodies Corporate, which is conditional on, or is related to, the Scheme other than in their capacity as an API Shareholder.

(g) Interests of API Directors in contracts with Wesfarmers

None of the API Directors has any interest in any contract entered into by Wesfarmers or any of its Related Bodies Corporate.

9.4 Scheme Implementation Deed

(a) Introduction

On 8 November 2021, API, Wesfarmers and WFM Investments entered into the Scheme Implementation Deed, under which the parties have agreed to implement the Scheme between API and Scheme Shareholders and which governs the conduct of the Scheme. A full copy of the Scheme Implementation Deed was attached to API announcement to the ASX relating to the Scheme dated 8 November 2021.

A copy of the Scheme Implementation Deed can be obtained from the ASX website www.asx.com.au and from API's website at www.api.net.au. A summary of the Scheme Implementation Deed appears below in this section 9.4.

(b) Scheme Consideration

If the Scheme is implemented, Scheme Shareholders will receive the Scheme Consideration (payable by Wesfarmers) of $1.53 per API Share, less any Special Dividend paid by API prior to the Implementation Date. API Shareholders that held API Shares on the Ordinary Dividend Record Date will have also received $0.02 cash per API Share by way of the Ordinary Dividend, resulting in such Scheme Shareholders receiving the Total Cash Value of $1.55 per API Share.

9. ADDITIONAL INFORMATION

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(c) Special Dividend

API may (in its absolute discretion) decide to pay a dividend of up to $0.03 per API Share (and which may, at API's election as contemplated by the terms of the Scheme Implementation Deed, be partially or fully franked) to API Shareholders, provided that:

- the Special Dividend Record Date must be 7.00 pm on the day which is two Business Days before the Scheme Record Date;
- the Special Dividend Payment Date must be on or before the Implementation Date;
- API will not decide to pay a Special Dividend where payment would result in the franking account of API being in deficit after payment of the Special dividend;
- the Special Dividend is to be paid from profits, retained earnings or distributable reserves (or a combination of all or some of them) of the API Group existing prior to the decision to pay such dividend; and
- the Special Dividend is to be paid in accordance with the Corporations Act.

(d) Conditions

Implementation of the Scheme is subject to the satisfaction or waiver (as applicable) of the following Conditions. The Conditions in paragraphs (ii) and (iii) below cannot be waived. API and Wesfarmers have agreed to use their reasonable endeavours to satisfy, or procure the satisfaction of, the Conditions.

As far as API is aware, immediately before the date of this Scheme Booklet no circumstances have occurred which will cause any of the Conditions not to be satisfied or to become incapable of satisfaction. These matters will continue to be assessed until the latest time each Condition Precedent is required to be satisfied, which for many of the Conditions is 8.00 am on the Second Court Date. A summary of the Conditions and status in respect of their satisfaction as at the date of this Scheme Booklet follows:

Condition	Status
i. **Regulatory Approval:** before 8.00 am on the Approval Date, API and Wesfarmers receive from the ACCC confirmation that it will not intervene into or seek to prevent the Scheme (**ACCC Condition**) and Wesfarmers receives from any other relevant Government Agencies all approvals, consents, waivers, exemptions or declarations as are necessary to implement the Scheme.	On 6 December 2021, the ACCC commenced an informal review under the Informal Merger Review Process Guidelines 2013. The closing date for submissions was 20 December 2021. As API announced to the ASX, the ACCC announced that it would not oppose the Scheme on 11 February 2022.
ii. **Shareholder approval:** API Shareholders approve the Scheme by the Requisite Majorities at the Scheme Meeting.	The Scheme Meeting is scheduled to be held on 17 March 2022.
iii. **Court approval:** the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act.	An order of the Court in accordance with section 411(4)(b) of the Corporations Act will be sought at the Second Court Hearing.
iv. **No regulatory actions:** no decision, order, injunction or decree issued by a court of competent jurisdiction or other Government Agency is in effect as at 8.00 am on the Second Court Date that restrains, prohibits or impedes the implementation of the Scheme.	As at the date of this Scheme Booklet, API is not aware of any circumstances which will cause this Condition not to be satisfied.

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Condition	Status
v. **No Material Adverse Change:** no Material Adverse Change occurs between 8 November 2021 and 8.00 am on the Second Court Date.	As at the date of this Scheme Booklet, API is not aware of any circumstances which will cause this Condition not to be satisfied.
vi. **No API Prescribed Event:** no API Prescribed Event occurs between 8 November 2021 and 8.00 am on the Second Court Date.	As at the date of this Scheme Booklet, API is not aware of any circumstances which will cause this Condition not to be satisfied.
vii. **Representations and warranties:** the representations and warranties given by API, Wesfarmers and WFM Investments to each other are true and correct as at the time or times they are given or made.	As at the date of this Scheme Booklet, API is not aware of any circumstances which will cause this Condition not to be satisfied.
viii. **Independent Expert's Report:** the Independent Expert's Report concludes that the Scheme is in the best interests of API Shareholders and that conclusion is not withdrawn or qualified prior to 8.00 am on the Second Court Date.	As at the date of this Scheme Booklet, the Independent Expert has concluded that the Scheme is fair and reasonable and therefore, is in the best interests of API Shareholders, in the absence of a superior proposal.

(e) Material Adverse Change

The Material Adverse Change condition will be triggered if a Material Adverse Change occurs, is announced or becomes known to Wesfarmers between the date of the Scheme Implementation Deed and 8.00 am (Melbourne time) on the Second Court Date.

In summary, and subject to certain exceptions, a Material Adverse Change includes an event (or a series of such events) which occurs after the date of the Scheme Implementation Deed that has or would be considered reasonably likely to have the effect of:

- a diminution in the API Group's consolidated net assets, taken as a whole, of at least $60 million; or
- a diminution in the API Group's consolidated EBITDA of at least $15 million.

API is required to promptly notify WFM Investments in writing of events, facts, matters or circumstances which would or would be reasonably expected to either constitute a Material Adverse Change of which API becomes aware.

(f) Termination

Either API or Wesfarmers may terminate the Scheme Implementation Deed if:

- a Condition has not been satisfied or waived by the required date and the parties cannot otherwise reach an agreement to enable the Scheme to proceed;
- the Scheme Resolution is not passed by the Requisite Majorities; or
- the other party commits a breach of the SID that is material in the context of the Scheme taken as a whole (including in relation to API, the occurrence of certain API Regulated Events (set out in paragraphs (a) to (i) in the API Regulated Events definition in section 10) being deemed to be material in the context of the Scheme taken as a whole) and, if applicable, the breach has not been remedied within the required period.

Wesfarmers may terminate the Scheme Implementation Deed if:

- an API Director does not make (or changes or adds adverse qualifications to) their recommendation or voting intention statement in relation to the Scheme or publicly supports a Competing Proposal; or
- API enters into any legally binding agreement to give effect to a Competing Proposal.

9. ADDITIONAL INFORMATION

continued

API may terminate the Scheme Implementation Deed if:

- a Wesfarmers or WFM Investments director publicly withdraws their support for the Scheme; or
- a majority of the API Directors do not make (or change or adversely qualify) their recommendation or voting intention statement in support of the Scheme or they publicly support a Competing Proposal.

Please refer to section 9.4(k) for an overview of when the Break Fee may be payable by API or Wesfarmers.

(g) API Board recommendation

API must use its reasonable endeavours to:

- procure a unanimous Board recommendation that API Shareholders (other than the Excluded Shareholders) vote in favour of the Scheme (in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of API Shareholders);
- include the Board recommendation in this Scheme Booklet; and
- include a statement that each API Director will (subject to the same qualifications) vote, or procure the voting of, any API Shares held or controlled by him or her at the time of the Scheme Meeting in favour of the Scheme at the Scheme Meeting.

The Board can change its recommendation if its fiduciary duties require it. This includes if the Independent Expert concludes that the Scheme is not in the best interests of API Shareholders or if API receives a Superior Proposal. A Break Fee may be payable in certain circumstances where there is a change of recommendation by the API Board or Directors (described at Section 9.4(k) below).

(h) Conduct of business

Subject to certain exceptions, until the Implementation Date, API must (amongst other things):

- conduct, and procure that each API Group Member conducts its businesses and operations in the ordinary course and operate those businesses consistent with past practice;
- use reasonable endeavours to preserve its relationship with its franchisees, financiers, customers, suppliers, licensors, licensees, the Pharmacy Guild of Australia, Government Agencies and others having business dealings with it, and to retain the services of its key officers and employees;
- use reasonable endeavours to maintain and preserve the value of its business and assets, including maintaining (and, where necessary, use reasonable efforts to renew) the policies of insurance and licences held by API;
- use reasonable endeavours to respond to changes in market and operating conditions;
- keep WFM Investments reasonably informed, and consult with WFM Investments in good faith in respect, of any material developments concerning the financial affairs or conduct of its businesses, including written notification of certain matters;
- not make any material changes to its policy or manner of collection of receivables as disclosed in the API Due Diligence Information, or materially depart from such policy or manner; and
- ensure that no API Prescribed Event or API Regulated Event occurs.

(i) Representations and warranties

The Scheme Implementation Deed contains customary and other representations and warranties by each of API and Wesfarmers, including that each of Wesfarmers and WFM Investments will have available to it sufficient cash amounts (whether from internal cash resources or external funding arrangements) to satisfy WFM Investments' obligation to pay the Scheme Consideration in accordance with its obligations under the Scheme Implementation Deed.

9. ADDITIONAL INFORMATION

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(j) Exclusivity

i. No Shop

During the Exclusivity Period, API must not, and must ensure that its Representatives nor any other person on its behalf do not, directly or indirectly solicit, encourage, initiate or invite any enquiries, negotiations, expressions of interest, offers, proposals or discussions with any person in relation to, or which could reasonably be expected to encourage or lead to the making of, an actual, proposed or potential Competing Proposal, or announce or communicate any intention to do any of these things.

ii. No Talk

Subject to the fiduciary exception (see paragraph (iv) below), during the Exclusivity Period, API must not, and must ensure that its Representatives nor any other person on its behalf do not negotiate or enter into any agreement, arrangement or understanding, or participate in or continue any negotiations or discussions with any person in relation to a, or which could reasonably be expected to encourage or lead to the making of, an actual, proposed or potential Competing Proposal, or offer, agree, announce or communicate any intention to do any of these things.

iii. No Due Diligence

Subject to the fiduciary exception (see paragraph (iv) below), during the Exclusivity Period, API must not, and must ensure that its Representatives nor any other person on its behalf do not, disclose or otherwise make available to any Third Party, or cause any Third Party to receive, any non-public information relating to the API Group in connection with that Third Party making, formulating, developing or finalising a Competing Proposal, or offer, agree, announce or communicate any intention to do any of those things.

iv. Fiduciary Exception

The 'No Talk' and 'No Due Diligence' restrictions do not prohibit any action or inaction by API or its representatives in relation to an actual, proposed or potential Competing Proposal which the API Board, acting in good faith, determines:

- after consultation with API's financial and legal advisers, is, or would be reasonably likely to lead to, a Superior Proposal if it were proposed; and
- after receiving written advice from API's legal advisers, that failing to take or not take such action would, or would be reasonably likely to, constitute a breach of any of the fiduciary duties or statutory obligations of any API director,

provided there has not been any breach of the "No Shop" obligations in respect of that actual, proposed or potential Competing Proposal.

This fiduciary exception was invoked by API on 2 December 2021 in respect of the non-binding indicative proposal made by Woolworths to acquire all of the API Shares and announced by API on that day. Woolworths announced it had withdrawn this non-binding offer on 7 January 2022.

v. Termination of existing discussions

API must terminate any negotiations or discussions with any Third Party existing as at the time of execution of the Scheme Implementation Deed in respect of a Competing Proposal.

vi. Notification and matching rights

During the Exclusivity Period, API and its Representatives are required to notify Wesfarmers as soon as reasonably practicable (and in any event within 48 hours) if becomes aware of any:

- negotiations or discussions, approach or attempt to initiate any negotiations or discussions in respect of any inquiry, expression of interest, offer, proposal or discussion in relation to an actual, proposed or potential Competing Proposal; or
- proposal made to any API Group Member or any of their respective Representatives in connection with, or in respect of any exploration or completion of, an actual, proposed or potential Competing Proposal.

9. ADDITIONAL INFORMATION

continued

API provided such a notice to Wesfarmers in respect of Woolworths' non-binding indicative proposal on 2 December 2021.

During the Exclusivity Period, API must give WFM Investments a matching rights notice within 24 hours of determining, in good faith and in reliance on the fiduciary exception, that a Competing Proposal is a Superior Proposal on terms capable of acceptance and which, but for following the matching rights process, API has elected to accept by entry into legally binding agreements and recommend publicly.

API must provide Wesfarmers with five Business Days, commencing from the time the matching rights notice is given, to submit an amended or alternative proposal to API with a view to providing an equivalent or a superior outcome for the API Shareholders than those offered under the relevant Competing Proposal received by API. During that timeframe API must not, and must procure that each other API Group Members does not, enter into any arrangement or understanding under which a Third Party, API or any other API Group Member proposes to give effect to the Competing Proposal. API must also use its reasonable endeavours to ensure that no API Director makes any public statement recommending the Competing Proposal to the API Shareholders (or recommend against the Scheme).

If during the five Business Day period after the matching notice is given, WFM Investments makes a Counter Proposal, the API Board must consider the Counter Proposal and determine whether, acting reasonably and in good faith, the Counter Proposal would provide an equivalent or superior outcome for API Shareholders, compared with the Competing Proposal, taking into account all of the terms and conditions of the Counter Proposal and then promptly give WFM Investments notice of the determination of the API Board. Should the API Board determine the terms and conditions of the Counter Proposal would provide an equivalent or superior outcome to API Shareholders than those in the relevant Competing Proposal, API and WFM Investments must use reasonable endeavours to agree and enter into documentation to give effect to the Counter Proposal. Should the API Board determine the terms and conditions of the Counter Proposal would not provide an equivalent or superior outcome to API Shareholders than those in the relevant Competing Proposal, then API must allow WFM Investments a further three Business Days to amend the Counter Proposal to address the reasons identified in its notice to WFM Investments.

(k) Break fee

API must pay Wesfarmers a break fee of $7,738,000 within 30 Business Days of receiving a written demand given in accordance with the Scheme Implementation Deed if:

- prior to the End Date, any API Director:
  - fails to recommend the Scheme;
  - withdraws or adversely changes or qualifies their recommendation;
  - approves, recommends or makes an announcement in support of a Competing proposal, or announces an intention to do any of those things,

  subject to certain exceptions;
- during the Exclusivity Period, API accepts or offers to accept any binding documentation to give effect to a Competing Proposal;
- a Competing Proposal is made or announced prior to the End Date and within 9 months of the End Date the Third Party or any of its Associates who announced or made the Competing Proposal:
  - substantially completes a Competing Proposal;
  - acquires voting power of 50% or more of API and that Competing Proposal becomes free from any defeating conditions; or
  - enters into an agreement or understanding to give effect to the Competing Proposal; or
- Wesfarmers terminates the Scheme Implementation Deed for API's breach of the Scheme Implementation Deed where that breach is material in the context of the Scheme (taken as a whole) and which has not been remedied.

9. ADDITIONAL INFORMATION

continued

Wesfarmers must pay API a break fee of $7,738,000 if API terminates the Scheme Implementation Deed due to WFM Investments' breach of the Scheme Implementation Deed where that breach is material in the context of the Scheme (taken as a whole) and which has not been remedied, or where a Wesfarmers or WFM Investments director publicly withdraws their support for the Scheme.

(l) Deed Poll

Each of Wesfarmers and WFM Investments have executed the Deed Poll in favour of the Scheme Shareholders under which Wesfarmers covenants to provide the Scheme Consideration in accordance with the Scheme.

Pursuant to the Deed Poll, Wesfarmers and WFM Investments must, no later than the day that is the Business Day before the Implementation Date, pay or procure the payment into an Australian dollar denominated trust account, operated by API as trustee for the Scheme Shareholders for the purpose of paying the Scheme Consideration to Scheme Shareholders, an amount equal to the aggregate amount of the Scheme Consideration payable to all Scheme Shareholders.

Under the Scheme, each Scheme Shareholder irrevocably appoints API as its attorney and agent to enforce the Deed Poll against Wesfarmers.

A copy of the Deed Poll is set out in Annexure D of this Scheme Booklet.

9.5 ASIC relief and ASX waivers

API has applied for, and the ASX has granted API a waiver of ASX Listing Rule 6.23.2 to the extent necessary to permit the cancellation of the Performance Rights as set out in section 9.2 of this Scheme Booklet.

No ASIC relief was sought for the purposes of the Scheme or the issue of this Scheme Booklet.

9.6 Formal disclosures and consents

The following parties have given and have not, before the date of this Scheme Booklet, withdrawn their written consent:

- to be named in this Scheme Booklet in the form and context in which they are named; and
- if applicable, to the inclusion of each statement it has made (if any) in the form and context in which the statement appear in this Scheme Booklet.

Name	Role
Ashurst	Legal adviser to API
Macquarie Capital (Australia) Limited	Financial adviser to API
KPMG	Auditors to API
Grant Thornton	Independent Expert
Deloitte Tax Services Pty Ltd	Tax adviser to API
Boardroom Pty Limited	Share Registry

Wesfarmers:

- has assumed and accepted responsibility for the preparation and inclusion of the Wesfarmers Information; and
- has given and has not, before the date of this Scheme Booklet, withdrawn its written consent to the inclusion of the Wesfarmers Information in the form and context in which it appears in this Scheme Booklet.

Grant Thornton has given, and not withdrawn before the date of this Scheme Booklet, its written consent to the inclusion of its Independent Expert's Report in this Scheme Booklet in the form and context in which it appears in Annexure A and references to the Independent Expert's Report in the form and context in which they appear.

9. ADDITIONAL INFORMATION

continued

Deloitte Tax Services Pty Ltd has given, and not withdrawn before the date of this Scheme Booklet, its written consent to the inclusion of the information set out in section 8 of this Scheme Booklet in the form and context in which it appears in section 8 of this Scheme Booklet.

Each person named above:

- has not authorised or caused the issue of the Scheme Booklet;
- does not make or purport to make any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than Wesfarmers in respect of the Wesfarmers Information, Grant Thornton in respect of the Independent Expert's Report and Deloitte Tax Services Pty Ltd in respect of the information set out in section 8 of this Scheme Booklet; and
- to the maximum extent permitted by law, disclaims all liability in respect of, makes no representation regarding and takes no responsibility for any part of this Scheme Booklet, other than Wesfarmers in respect of the Wesfarmers Information and Grant Thornton in respect of the Independent Expert's Report.

9.7 Material litigation

As disclosed to the ASX on 11 October 2021, a class action has been filed against API in Victoria's Supreme Court. Subsequently, as announced to the ASX on 1 February 2022, the plaintiffs have proposed to withdraw the claims which are the subject of the class action, subject to Court approval.

To the best knowledge of the API Directors and senior management, API is not involved in any other litigation or dispute which is material in the context of API and its Subsidiaries taken as a whole.

9.8 Transaction costs

API estimates that it will incur approximately $14 million (excluding GST and disbursements) in external transaction costs which relate to the Scheme. This includes adviser fees (including for API's financial, legal and tax advisers), the Independent Expert's fees, registry, printing and mailing costs and expenses associated with convening and holding the Scheme Meeting. Of this, approximately $9 million (excluding GST and disbursements) will be incurred regardless of whether or not the Scheme is implemented, excluding any Break Fee that may be payable to Wesfarmers.

9.9 Other information material to the making of a decision in relation to the Scheme

Except as set out in this Scheme Booklet, so far as the API Directors are aware, there is no information material to the making of a decision by an API Shareholder in relation to the Scheme, being information that is within the knowledge of any API Director or director of any Related Body Corporate of API, as at the date of this Scheme Booklet, which has not been disclosed to API Shareholders.

9.10 Supplementary information

API will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of this Scheme Booklet and the Effective Date:

- a material statement in the Scheme Booklet is or becomes false or misleading in a material respect;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter included in this Scheme Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had arisen before the date of this Scheme Booklet.

Depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, API may circulate and publish any supplementary document by:

- making an announcement to ASX;
- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document to API Shareholders at their registered address as shown in the Register, or by email for API Shareholders who have elected to receive communications electronically; or
- posting a statement on API's website at www.api.net.au,

as API, in its absolute discretion, considers appropriate.

10. GLOSSARY

10.1 Definitions

The meaning of the terms used in this Scheme Booklet are set out below.

TERM	MEANING
2019-2022 LTIP	the long term incentive plan operated by API in respect of the performance period between 1 September 2019 and 31 August 2022.
2020-2023 LTIP	the long term incentive plan operated by API in respect of the performance period between 1 September 2020 and 31 August 2023.
2021-2024 LTIP	the long term incentive plan operated by API in respect of the performance period between 1 September 2021 and 31 August 2024.
2020 Annual Report	API's annual report for FY20.
2021 Annual Report	API's annual report for FY21.
2021 STIP	the short term incentive plan operated by API in respect of the financial year ending 31 August 2021.
2022 STIP	the short term incentive plan operated by API in respect of the financial year ending 31 August 2022.
ACCC	the Australian Competition and Consumer Commission.
ACCC Condition	before 8.00 am on the Approval Date, API and Wesfarmers receive from the ACCC confirmation that it will not intervene into or seek to prevent the Scheme
Announcement Date	8 November 2021, being the date of announcement of the Scheme to the ASX.
API	Australian Pharmaceutical Industries Limited (ACN 000 004 320).
API Board	the board of directors of API.
API Directors	any director of API.
API Due Diligence Information	all written information relating to the business, assets, liabilities, operations, profits and losses, financial position and performance and prospects of the API Group provided or made available in the Data Room by or on behalf of the API Group to Wesfarmers on or before 7.00 pm on 7 November 2021, or such later date or time as API and Wesfarmers agree in writing.
API Group	API and its subsidiaries, and a reference to an **API Group Member** or a **member of API Group** is to API or any of its subsidiaries.
API Information	the information contained in this Scheme Booklet, other than the Wesfarmers Information, the information in Section 8 and the information in Annexure A of this Scheme Booklet.
API Performance Rights	any rights to API Shares issued under employee incentive arrangements of the API Group.
API Performance Rights Cap	731,730 API Performance Rights.

10. GLOSSARY

continued

TERM	MEANING
API Permitted Event	an event: a. which has been Fairly Disclosed in the API Due Diligence Information or certain public register information; b. which is expressly permitted or required to be done or procured under the Scheme Implementation Deed or the Scheme; c. which is required by any applicable law, regulation, generally accepted accounting standards or generally accepted accounting principles, contract (but only to the extent such contract was entered into, and a copy of which was Fairly Disclosed in the API Due Diligence Information or disclosed in certain public register information, before 8 November 2021 or otherwise in accordance with the Scheme Implementation Deed) or by a Government Agency; d. which was within the knowledge of WFM Investments before 8 November 2021; or e. in respect of which WFM Investments consents in writing.
API Prescribed Event	the occurrence of any of the following after 8 November 2021: a. API converting all or any of its shares into a larger or smaller number of shares; b. API resolving to reduce its share capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its shares; c. any API Group Member: i. entering into a buy-back agreement; or ii. resolving to approve the terms of a buy-back agreement under the Corporations Act; d. API declaring, paying or distributing any dividend, bonus or other share of its profits or assets or returning or agreeing to return any capital to API Shareholders except as permitted by the Scheme Implementation Deed; e. any API Group Member issuing shares or securities convertible into shares, or granting an option over its shares, or agreeing to make such an issue or grant such an option, other than: i. to an API Group Member; ii. the issue of API Performance Rights; or iii. pursuant to the grant, exercise, vesting or conversion of any API Performance Rights in accordance with the Scheme Implementation Deed, provided that the aggregate number of API Performance Rights issued pursuant to this paragraph (e) may not exceed the API Performance Rights Cap; f. an API Group Member adopting a new constituent document or modifying or repealing any of its constituent documents; g. an API Group Member disposing, offering to dispose or agreeing to dispose of the whole, or a substantial part, of its business or property (and to avoid doubt, "dispose" includes sell, transfer, grant an option over, declare or create a trust over, surrender, allow to lapse or encumber); h. an API Group Member granting, or agreeing to grant, any security interest over the whole, or a substantial part, of its business or property; or i. an Insolvency Event occurring in relation to any API Group Member, excluding an API Permitted Event.

10. GLOSSARY

continued

TERM	MEANING
API Regulated Event	the occurrence of any of the following after the date of the Scheme Implementation Deed: a. an API Group Member acquiring or disposing of, or entering into or announcing any agreement for the acquisition or disposal of, any business (including any one or more assets or shares in any company), or entering into any corporate transaction, having a market value that in aggregate is, or the consideration for which in aggregate is, \$10,000,000 or more; b. an API Group Member: i. entering into, or altering in any material respect, any: (A) procurement contract (including any service or technology contract) or commitment (including in respect of technology) requiring payments by the API Group in excess of \$2,500,000 (individually) on an annual basis or in excess of \$12,500,000 in respect of the term of the contract; or (B) supply or distribution contracts or commitments requiring payments by the API Group in excess of \$15,000,000 (individually) on an annual basis or in excess of \$75,000,000 in respect of the term of the contract, other than any alteration made in the ordinary course or required by law; ii. agreeing to incur or incurring capital expenditure of more than \$5,000,000 (individually) or \$20,000,000 (in aggregate); c. an API Group Member materially altering, varying or amending any contractual right under any employment, consulting, severance or similar agreement or arrangement with one or more of its officers, directors, other executives or employees whose annual remuneration, as at 8 November 2021, is \$300,000 or more, or accelerating or otherwise materially increasing compensation or benefits for any of the above, in each case other than pursuant to: i. contractual arrangements in effect on 8 November 2021 and which are contained in the API Due Diligence Information; or ii. API's policies and guidelines in effect on 8 November 2021 and which are contained in the API Due Diligence Information, provided that the aggregate of all increases in compensation or benefits is no greater than \$2,000,000; or iii. the grant, exercise, vesting or conversion of any API Performance Rights as required by clause 4.7 of the Scheme Implementation Deed; d. an API Group Member paying any of its Executive Leadership Team a termination or retention payment, other than in accordance with contractual arrangements in effect on 8 November 2021 and which are contained in the API Due Diligence Information; e. API amending in any material respect the terms of the LTIP or STIP, provided that any waiver of any such terms will not constitute an amendment; f. an API Group Member amending in any material respect any arrangements with its financial adviser, or entering into arrangements with a new financial adviser, in respect of the Scheme or a Competing Proposal;

10. GLOSSARY
continued

TERM	MEANING
API Regulated Event (continued)	g. an API Group Member: i. receiving notice of any material investigation, prosecution, arbitration, litigation or dispute threatened against an API Group Member which could reasonably be expected to give rise to a liability for the API Group in excess of $10,000,000, other than in relation to the Franchisee Claims **(Material Proceedings)**, and, for the avoidance of doubt, which is not frivolous or vexatious, or circumstances arising which could reasonably be expected to give rise to any Material Proceedings; or ii. settling, resolving or otherwise taking any steps that are materially adverse to the API Group in respect of the Franchisee Claims (including any action or inaction with an insurer of the API Group which prejudices, or might prejudice, API's coverage under a policy that might respond in relation to a Franchisee Claim; h. an API Group Member settling, resolving or otherwise taking any steps that are materially adverse to the API Group in respect of any dispute or material written correspondence with a Franchise Regulator; i. an API Group Member changing any accounting policy applied by it to report its financial position other than any change in policy required by a change in accounting standards or law; j. an API Group Member entering into any new line of business in which the API Group was not engaged in as of 8 November 2021; K. an API Group Member varying, terminating or allowing to lapse or expire certain defined material contracts or material authorisations; l. an API Group Member: i. waiving any material Third Party default or accepting as a compromise of a matter less than the full compensation due to a member of the API Group where the financial impact of the default or compromise on the API Group will be in excess of $2,500,000 (individually or in aggregate), in each case, net of any amount specifically provisioned by the API Group in respect of such default or matter and disclosed in the API Due Diligence Information; ii. entering into, or materially altering the material terms of, any franchise agreement with a person that is a franchisee as at 8 November 2021 so that the new or amended terms of the franchise agreement are materially inconsistent with those entered into by API with that person prior 8 November 2021 and as disclosed in the API Due Diligence Information, other than in the ordinary course of its business; or iii. entering into, or materially altering the material terms of, any franchise agreement with a person who is not a franchisee as at 8 November 2021 on terms that are materially inconsistent with those entered into by API generally prior to 8 November 2021 and as disclosed in the API Due Diligence Information, other than in the ordinary course of its business; m. an API Group Member entering into a contract or commitment restraining an API Group Member from competing with any person or conducting activities in any market, other than in the ordinary course of its business; n. an API Group Member writing-down any of its material assets other than in accordance with applicable accounting standards or law; o. an API Group Member incurring any additional Financial Indebtedness (other than drawdowns under existing banking facilities) or entering into, or amending, any agreements in respect of Financial Indebtedness;

10. GLOSSARY

continued

TERM	MEANING
API Regulated Event (continued)	p. an API Group Member not defending against any Claims or not pursuing any appeals and judicial reviews against judgments or orders adverse to the interests of the API Group, unless not doing so is in the ordinary course of its business; q. an API Group Member doing anything that would make any policies of insurance held by an API Group Member void or voidable, that would permit an insurer to cancel a relevant policy or refuse or materially reduce a claim, or would otherwise limit any API Group Member's ability to claim under any insurance; r. an API Group Member fails to materially comply with any obligations under employment and industrial laws, employment contracts, industrial agreements and awards or codes of conduct and practice relevant to conditions of service; s. an API Group Member doing anything that would result in a change in API's consolidated tax group; or t. an API Group Member agreeing to do any of the things set out above, excluding an API Permitted Event.
API Share	a fully paid ordinary share in API.
API Shareholder	a person entered in the Register as a holder of API Shares.
API Shareholder Information Line	the information line set up for the purpose of responding to enquiries from API Shareholders in relation to the Scheme, being 1300 103 401 (within Australia) or +61 2 9066 4063 (outside Australia) on Business Days between 8.30 am and 5.00 pm (Melbourne time).
Approval Date	the date that is two Business Days before the Scheme Meeting (including any adjournment or postponement of that meeting).
ASIC	the Australian Securities and Investments Commission.
Associates	has the meaning given in section 12 of the Corporations Act, as if subsection 12(2) of the Corporations Act included a reference to this Scheme Booklet and API was the "designated body".
ASX	the Australian Securities Exchange or ASX Limited (ACN 008 624 691), as the context requires.
ASX Listing Rules	the listing rules of ASX.
ATO	the Australian Taxation Office.
Australian Accounting Standards	the accounting standards made by the Australian Accounting Standards Board in accordance with the Corporations Act, and the requirements of that Act relating to the preparation and content of accounts.
Break Fee	$7,738,000 (exclusive of GST). The circumstances in which the Break Fee will be payable by either API or Wesfarmers (as applicable) are summarised in Section 9.4(k) of this Scheme Booklet.
Business Day	a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Melbourne, Victoria and Perth, Western Australia.
CGT	Australian capital gains tax.

10. GLOSSARY

continued

TERM	MEANING
CHESS	the clearing house electronic subregister system for the electronic transfer of securities operated by ASX Settlement Pty Limited (ACN 008 504 532), which provides for the electronic transfer, settlement and registration of securities.
Class Ruling	has the meaning given in Section 8 of this Scheme Booklet.
Competing Proposal	any expression of interest, proposal, offer, transaction, agreement or arrangement which, if entered into or completed substantially in accordance with its terms, could result in: a. a person other than any Wesfarmers Group Member (either alone or together with one or more Associates), directly or indirectly: i. acquiring Control of API or any API Group Member which holds all, a substantial part or a material part of the business or assets of the API Group; ii. acquiring an interest (including an economic interest by way of an equity swap, contract for difference or similar transaction or arrangement) or a relevant interest in more than 10% of the API Shares; iii. acquiring, becoming the holder of, or having a right to acquire an economic interest in all or a substantial part of the business, or any of the material assets, of the API Group (where a material asset of the API Group is an asset representing more than 10% of the value of the API Group's total consolidated assets); or iv. otherwise acquiring Control of, or merging with, API or any other API Group Member holding a substantial or a material part of the assets of the API Group, whether by way of takeover bid, members' or creditors' scheme of arrangement, shareholder approved acquisition, capital reduction, buy-back, sale or purchase of shares, other securities or assets, assignment of assets and liabilities, incorporated or unincorporated joint venture, dual-listed company (or other synthetic merger), deed of company arrangement, any debt for equity arrangement or other transaction or arrangement; or b. the Scheme not being able to be implemented on the basis set out in the Scheme Implementation Deed.
Conditions	the conditions precedent to implementation of the Scheme set out in clause 3.2 of the Scheme Implementation Deed.
Control	has the meaning given in section 50AA of the Corporations Act.
Corporations Act	the *Corporations Act 2001* (Cth).
Corporations Regulations	the *Corporations Regulations 2001* (Cth).
Counter Proposal	an offer by WFM Investments to amend the terms of the Scheme, the Scheme Implementation Deed or for an alternative proposal to API with a view to providing an equivalent or superior outcome for the API Shareholders than those offered under a relevant Competing Proposal.
Court	the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act agreed to in writing between API and WFM Investments.
Data Room	the online data room established by API in connection with the Scheme.

10. GLOSSARY

continued

TERM	MEANING
Deed Poll	the Deed Poll executed by Wesfarmers and WFM Investments on 9 February 2022 under which Wesfarmers and WFM Investments covenants in favour of the Scheme Shareholders to perform the actions attributed to it under the Scheme, including to provide or procure the provision of the Scheme Consideration in accordance with the terms of the Scheme. A copy of the executed Deed Poll is included in Annexure C of this Scheme Booklet.
EBITDA	earnings before interest, tax, depreciation and amortisation.
Effective	when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.
Effective Date	the date on which the Scheme becomes Effective.
End Date	the earlier of: a. 8 August 2022 (being the date that is nine months after the date of the Scheme Implementation Deed); or b. such other date as agreed in writing between the parties for the purposes of the Scheme Implementation Deed.
Excluded Shareholder	any API Shareholder who is a Wesfarmers Group Member or any API Shareholder who holds any API Shares on behalf of, or for the benefit of, any Wesfarmers Group Member and does not hold API Shares on behalf of, or for the benefit of, any other person as at the Scheme Record Date.
Exclusivity Period	the period commencing on 8 November 2021, being the date of the Scheme Implementation Deed, and ending on the earlier of: a. the termination of the Scheme Implementation Deed in accordance with its terms; b. the Implementation Date; and c. the End Date.
Fairly Disclosed	any information disclosed in sufficient detail and with sufficient specificity so as to enable a reasonable and sophisticated recipient of the relevant information (or one of its representatives) who is experienced in transactions similar to the transactions contemplated by the Scheme Implementation Deed and experienced in an industry similar to the industry in which the businesses conducted by the API Group operate to identify the nature and scope of the relevant matter, event or circumstance and the fact it may have financial, operational or other consequences and be capable of properly assessing those consequences.

10. GLOSSARY

continued

TERM	MEANING
Financial Indebtedness	any debt or other monetary liability (whether actual or contingent) in respect of monies borrowed or raised or any financial accommodation including under or in respect of any: a. bill, bond, debenture, note or similar instrument; b. acceptance, endorsement or discounting arrangement; c. guarantee; d. finance or capital lease; e. factoring or other working capital arrangements; f. swap or hedge arrangement, financial option, futures contract or analogous transaction; g. counter indemnity obligation in respect of a guarantee, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; or h. obligation to deliver goods or provide services paid for in advance by any financier (except to the extent consistent with past practices of the API Group as disclosed in the API Due Diligence Information), other than any debt or other monetary liability (whether actual or contingent) in respect of the Ordinary Dividend or any Special Dividend.
Financial Year or FY	API's financial year, which commences on 1 September and ends on the following 31 August.
Franchise Regulator	the Pharmacy Council of New South Wales, Victorian Pharmacy Authority, Pharmacy Business Ownership team (Queensland Health), Pharmacy Regulation Authority South Australia, Pharmacy Registration Board of WA, Tasmanian Pharmacy Authority, Pharmaceutical Services section of the Health Protection Service (ACT) and the Pharmacy Premises Committee (NT).
Franchisee Claim	a. any counterclaim filed in response to *Australian Pharmaceutical Industries Limited and Ors v Christopher Ian Lemon and Anor* (case number S ECI 2021 01012); b. *Ranya Youseff and others v Australian Pharmaceutical Industries Limited and others* (case number S ECI 2021 03706); and c. any actual class action or class actions of the same or a similar nature to proceedings referred to in the bullet point above.
Franchisees	any person who is or was, or is proposed to be, a party to a contract, agreement, arrangement or understanding pursuant to which an API Group Member grants or has granted the right to engage in or carry on a business, or to sell or offer to sell any product or service, using or in association with any authorisation, trademark, system or other intellectual property owned by or in the possession of an API Group Member, including any trade mark licence agreement with an API Group Member.
FY20	the financial year ended 31 August 2020.
FY21	the financial year ended 31 August 2021.
Government Agency	a government, government department or a governmental, semi-governmental, administrative, statutory or judicial entity, agency, authority, commission, department, tribunal, or person charged with the administration of a law or agency, whether in Australia or elsewhere, including the ACCC, ASIC, ATO, ASX, the New Zealand Inland Revenue Department, any Office of State Revenue, the Takeovers Panel, any Franchise Regulator and any self-regulatory organisation established under statute or by ASX.

10. GLOSSARY

continued

TERM	MEANING
GST	has the meaning given in the *A New Tax System (Goods and Services Tax) Act* 1999 (Cth).
Implementation Date	the fifth Business Day after the Scheme Record Date, which is expected to be Thursday, 31 March 2022, or such other date as WFM Investments and API may agree in writing.
Independent Expert	Grant Thornton, being the independent expert appointed by API in respect of the Scheme.
Independent Expert's Report	the report by the Independent Expert set out in Annexure A of this Scheme Booklet.
Insolvency Event	in respect of a person: a. an administrator being appointed to the person; b. a controller or analogous person being appointed to the person or any of the person's property; c. an application being made to a court for an order to appoint a controller, provisional liquidator, trustee for creditors or in bankruptcy or analogous person to the person or any of the person's property; d. an appointment of the kind referred to in paragraph (c) being made (whether or not following a resolution or application); e. the person being taken under section 459F(1) of the Corporations Act to have failed to comply with a statutory demand; f. an application being made to a court for an order for its winding up; g. an order being made, or the person passing a resolution, for its winding up; h. The person: i. suspending payment of its debts, ceasing (or threatening to cease) to carry on all or a material part of its business, stating that it is unable to pay its debts or being or becoming otherwise insolvent; or ii. being unable to pay its debts or otherwise insolvent; i. the person taking any step toward entering into a compromise or arrangement with, or assignment for the benefit of, any of its members or creditors; j. a court or other authority enforcing any judgment or order against the person for the payment of money or the recovery of any property; or k. any analogous event under the laws of any applicable jurisdiction.
KPMG	the Australian professional advisers and accounting practice of KPMG (ABN 51 194 660 183).
Last Practicable Date	10 February 2022.
LTIP	the long term incentive plan operated by API, as detailed in the 2021 Annual Report released to the ASX on 15 December 2021.

10. GLOSSARY

continued

TERM	MEANING
Material Adverse Change	an event or circumstance that occurs, is announced or becomes known to WFM Investments after 8 November 2021 which, either individually or when aggregated with all such events or circumstances that have occurred, has had the effect of, or is reasonably likely to have the effect of: a. diminishing the consolidated net assets of the API Group, taken as a whole, (calculated in accordance with the accounting policies and practices applied by API as at 8 November 2021) by an amount of at least $60,000,000; or b. diminishing the consolidated EBITDA by an amount of at least $15,000,000 (and for this purpose, the full financial year effect of any resulting EBITDA diminution must be applied), other than any event or circumstance: c. required or expressly permitted by the Scheme Implementation Deed, the Scheme or the transactions contemplated by either; d. that is Fairly Disclosed in the API Due Diligence Information (other than any event or circumstance in connection with the Franchisee Claims WFM Investments is notified of under the Scheme Implementation Deed) or that is disclosed in certain public register information; e. that is consented to in writing by WFM Investments or within the knowledge of WFM Investments as at 8 November 2021; f. comprising a change to legislation or regulation, any judicial or administrative interpretation of the law or any practice or policy of a Government Agency (whether or not retrospective in effect), including in relation to tax, provided that such changes do not have a materially disproportionate effect on API relative to other participants in its industry; g. arising from general changes in economic, political or business conditions (including interest rates, commodity prices and exchange rates), or in securities, credit or financial markets including material adverse changes or major disruptions to, or fluctuations in, domestic or international financial markets, and acts of terrorism, war (whether or not declared), natural disaster or the like, provided that such changes do not have a materially disproportionate effect on API relative to other participants in its industry; h. arising directly or indirectly from COVID-19 or certain measures in response to COVID-19 or other infectious or contagious disease, including the outbreak, escalation or impact of, or recovery from, the disease, including as a result of preventing, identifying, treating, lockdowns, travel restrictions, social distancing, vaccination programs, requirement or restrictions and other obligations on healthcare providers; or i. arising out of the announcement of the Scheme (including any loss of or adverse change in the relationship of API or other API Group Members with any Government Agency or their respective Franchisees, employees, customers, partners, creditors, suppliers or contractual counterparties as at 8 November 2021, including the loss of any contract).
Notice of Scheme Meeting	the notice in relation to the Scheme Meeting set out in Annexure D of this Scheme Booklet.
NPAT	net profit after tax.
Ordinary Dividend	a fully franked ordinary dividend of $0.02 per API Share in relation to the financial year ended on 31 August 2021, as announced by API on 28 October 2021.

10. GLOSSARY

continued

TERM	MEANING
Ordinary Dividend Record Date	12 November 2021.
Register	the register of members of API maintained by API or the Registry in accordance with the Corporations Act.
Registered Address	in relation to an API Shareholder, the address of the shareholder shown in the Register as at the Scheme Record Date.
Related Body Corporate	has the meaning given in section 50 of the Corporations Act.
Relevant Interest	has the meaning given in sections 608 and 609 of the Corporations Act.
Requisite Majorities	approval of the Scheme Resolution by: – unless the Court orders otherwise, a majority in number (i.e. more than 50%) of API Shareholders (other than Excluded Shareholders) present and voting on the Scheme Resolution at the Scheme Meeting, either in person or by proxy, attorney or, in the case of corporate API Shareholders, body corporate representative; and – at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting by API Shareholders (other than Excluded Shareholders), either in person or by proxy, attorney or, in the case of corporate API Shareholders, body corporate representative.
Scheme	the scheme of arrangement under Part 5.1 of the Corporations Act in the form set out in Annexure B of this Scheme Booklet, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed in writing between API and WFM Investments.
Scheme Booklet	this document, including the Annexures to it.
Scheme Consideration	the consideration to be provided by WFM Investments to each Scheme Shareholder for the transfer to WFM Investments of each Scheme Share, being $1.53 cash for each API Share held by a Scheme Shareholder as at the Scheme Record Date, less any Special Dividend that the API Directors decide to pay and is paid before the Implementation Date.
Scheme Implementation Deed	the Scheme Implementation Deed between API, Wesfarmers and WFM Investments dated 8 November 2021. A summary is set out in Section 9.4 of this Scheme Booklet and a copy is attached in full to API's ASX announcement on 8 November 2021, which is available on ASX's website at www.asx.com.au and on API's website at www.api.net.au.
Scheme Meeting	the meeting of API Shareholders to be convened, as ordered by the Court under section 411(1) of the Corporations Act, to consider the Scheme and includes any adjournment or postponement of that meeting.
Scheme Order	the order of the Court under section 411(4)(b) of the Corporations Act approving the Scheme, with or without alterations or conditions made or required by the Court under section 411(6) of the Corporations Act.
Scheme Record Date	the record date for determining entitlements to the Scheme Consideration, which is expected to be 7.00 pm on the day which is 5 Business Days after the Effective Date, or such other date after the Effective Date as WFM Investments and API agree in writing.
Scheme Resolution	the resolution to approve the Scheme to be voted on at the Scheme Meeting, as set out in the Notice of Scheme Meeting.

10. GLOSSARY

continued

TERM	MEANING
Scheme Share	an API Share on issue as at the Scheme Record Date (other than an API Share recorded in the Register as at the Scheme Record Date as being held by an Excluded Shareholder).
Scheme Shareholder	an API Shareholder (other than an Excluded Shareholder) recorded in the Register as at the Scheme Record Date.
Second Court Date	the first day on which the Court hears the application for an order under section 411(4)(b) of the Corporations Act approving the Scheme or, if the application is adjourned or subject to appeal for any reason, the first day on which the adjourned or appealed application is heard.
Second Court Hearing	the hearing of the application made to the Court for the order under section 411(4) (b) of the Corporations Act approving the Scheme is the Second Court Hearing.
Share Registry	Boardroom Pty Limited (ACN 003 209 836).
Share Transfer	the transfer of 95,068,472 API Shares from Wesfarmers to WFM Investments prior to the date of this Scheme Booklet.
Sigma	Sigma Healthcare Limited (ACN 088 417 403).
Special Dividend	a fully franked special dividend of up to $0.03 per API Share held on the Special Dividend Record Date, determined by the API Board to be paid.
Special Dividend Payment Date	the date of payment of any Special Dividend determined by the API Directors in their sole discretion, which is currently expected to be Tuesday, 29 March 2022.
Special Dividend Record Date	the time and date for determining the entitlements to any Special Dividend that is determined by the API Directors in their sole discretion, which is currently expected to be 7.00 pm (Melbourne time) on Sunday, 27 March 2022.
STIP	the short term incentive plan operated by API, as detailed in the 2021 Annual Report.
Subsidiary	has the meaning given in the Corporations Act.
Superior Proposal	a bona fide written Competing Proposal which the API Board, acting in good faith and after taking advice from API's financial and legal advisers determines: a. is reasonably capable of being valued, implemented and completed in accordance with its terms; and b. would, if completed substantially in accordance with its terms, be more favourable to API Shareholders, taken as a whole, than the implementation of the Scheme, in each case, taking into account all aspects (including all of the terms and conditions) of the Competing Proposal, including: c. the conditions associated with the Competing Proposal, including any shareholder approval requirements of the person making the Competing Proposal; d. any respective requirement for all or part of the acquisition consideration payable to API Shareholders being other than cash, and, if so, the respective nature, attributes and liquidity of such non-cash consideration and the risks associated with such non-cash consideration; and e. the identity, reputation and financial condition of the person making the Competing Proposal as compared to Wesfarmers, and the funding proposed by the person making the Competing Proposal to effect such Competing Proposal.

10. GLOSSARY

continued

TERM	MEANING
Total Cash Value	$1.55 per API Share comprising, in aggregate, the amount of the Ordinary Dividend, any Special Dividend that the API Directors decide to pay and is paid by API before the Implementation Date and the Scheme Consideration, less the amount of any Special Dividend paid by API before the Implementation Date.
Third Party	a person other than a Wesfarmers Group Member, API Group Member or their respective Associates.
Undertaking Agreement	the Undertaking Agreement with WHSP dated 9 July 2021.
VWAP	volume weighted average price.
Wesfarmers	Wesfarmers Limited (ACN 008 984 049).
Wesfarmers Group	Wesfarmers and its subsidiaries, and a reference to a **Wesfarmers Group Member** or a **member of Wesfarmers Group** is to Wesfarmers or any of its subsidiaries.

Wesfarmers Information	the information about Wesfarmers contained in:
	– the following questions and answers in Section 2 of this Scheme Booklet:
	  – "Who is WFM Investments?"'
	  – "Who is Wesfarmers?;"
	  – Does WFM Investments own API Shares?"; and
	  – "How is WFM Investments funding the Scheme Consideration?";
	– Section 6; and
	– Section 10 – the definitions of "Wesfarmers", "Wesfarmers Group", "Wesfarmers Information" and "WFM Investments".

Wesfarmers Initial Proposal	the indicative, non-binding and conditional proposal from Wesfarmers to acquire 100% of the shares in API for $1.38 per API Share, reduced by the value of any dividends or capital returns declared, determined, proposed, or paid after 9 July 2021, by way of a scheme of arrangement announced by API on 12 July 2021.
Wesfarmers Leadership Team	the members of the Wesfarmers leadership team set out in section 6.4 of this Scheme Booklet.
WFM Investments	WFM Investments Pty Ltd (ACN 651 355 501).
WHSP	Washington H. Soul Pattinson and Company Limited.
Woolworths	Woolworths Group Limited (ACN 000 014 675).

10. GLOSSARY

continued

10.2 Interpretation

In this Scheme Booklet, unless the context requires otherwise:

- headings are inserted for convenience and do not affect the interpretation of this Scheme Booklet;
- words and phrases in this Scheme Booklet have the same meaning given to them (if any) in the Corporations Act;
- the singular includes the plural and vice versa;
- a gender includes all genders;
- a reference to a person includes a corporation, partnership, joint venture, association, unincorporated body or other body corporate and vice versa;
- if a word is defined, another part of speech has a corresponding meaning;
- a reference to a Section or Annexure is a reference to a Section or Annexure of this Scheme Booklet;
- a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- unless expressly stated otherwise, a reference to time is a reference to time in Melbourne; and
- unless expressly stated otherwise, a reference to dollars, $, A$ or cents is a reference to the lawful currency of Australia.

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

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Australian Pharmaceutical Industries Limited

Independent Expert's Report and Financial Services Guide

10 February 2022

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

continued

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Directors
Australian Pharmaceutical Industries Limited
Level 5
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10 February 2022

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Introduction

Australian Pharmaceutical Industries Limited ("API", or "the Company") is involved in the wholesale distribution of pharmaceutical products, medical, health and beauty goods and in the sale of health and beauty retail products and services through its owned and franchise network of stores and clinics. It also manufactures pharmaceutical and toiletry products in New Zealand[1]. API owns and operates brands such as Priceline, Priceline Pharmacy, Clear Skincare Clinics, Soul Pattinson Chemist and Pharmacist Advice. As at 14 January 2022, API had a market capitalisation of A$746.3 million[2].

Wesfarmers Limited ("Wesfarmers" or "WES") is a large conglomerate group listed on the ASX with a market capitalisation of A$62.5 billion[3] as at 14 January 2022 and a portfolio of retail and industrial businesses across Australian and New Zealand. The operations span across home improvement and outdoor living; apparel and general merchandise; office supplies; and an industrial division with businesses in chemicals, energy and fertilisers, and industrial and safety products.

On 8 November 2021, API entered into a Scheme Implementation Deed ("SID") with Wesfarmers under which it is proposed that a wholly owned subsidiary of WES[4] will acquire 100% of the API shares ("API Shares") that it does not already own[5] by way of Scheme of Arrangement ("Scheme") for a cash consideration of A$1.55 per share ("Scheme Consideration"). Wesfarmers currently holds a 19.3% relevant interest in API. The acquisition was made pursuant to the Undertaking Agreement entered into on 9 July 2021 with Washington H. Soul Pattinson and Company Limited ("WHSP").

The SID allows API to make a fully franked dividend payment of up to a maximum of 5 cents per API share, including any final fully franked dividend for FY21 with the Scheme Consideration being reduced by the cash component of any such dividend ("Permitted Dividend"). API has paid a fully franked final dividend of 2 cents per share for the six months ended 31 August 2021 ("FY21 Dividend") but it also intends to pay a fully franked special dividend of up to 3 cents per share if the Scheme is implemented ("Special Dividend")[6]. Accordingly, the actual cash proceeds receivable by API Shareholders will reduce to A$1.50 per share[7] on an ex-dividend basis (before personal tax).

[1] The Company has recently announced plans to cease manufacturing at its New Zealand facility with products for the Healthcare Brands business to be sourced via contract manufacturing from third party suppliers.
[2] Based on 492.656 million ordinary shares outstanding and a closing share price of A$1.515 as at 14 January 2022.
[3] Based on 1.157 billion ordinary shares outstanding and a closing share price of A$54 per Wesfarmers share as at 14 January 2022.
[4] WFM Investments Pty Ltd.
[5] As at 16 November 2021, Wesfarmers held a 19.3% relevant interest in API. The acquisition was made pursuant to the Undertaking Agreement entered into on 9 July 2021 with Washington H. Soul Pattinson and Company Limited ("WHSP").
[6] The Special Dividend together with the FY21 Dividend are collectively referred as Permitted Dividend.
[7] A$1.55 per share Consideration less the Permitted Dividend of 5c per share.

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

continued

The Scheme was the outcome of a competitive process during which the Company also received non-binding indicative offers from Sigma Healthcare Limited ("Sigma") and Woolworths Group Limited ("WOW")[8] which were subsequently withdrawn and never converted into binding offers capable of being accepted (refer to Section 1 for details).

The Scheme is subject to the conditions precedent set out in Section 1 of this Independent Expert's Report ("IER") including approval by API shareholders ("API Shareholders" or "Shareholders"), the Court and the ACCC[9] confirming that it does not intend to intervene or seek to prevent the acquisition of API Shares under the Scheme.

The SID contains customary exclusivity provisions including no shop and no talk restrictions and a matching counterproposal right for Wesfarmers in the event the Directors of the Company ("API Directors" or the "Directors") receive a superior proposal. The SID also details circumstances under which API may be required to pay Wesfarmers a break fee of A$7.74 million excluding GST if the Scheme is not implemented.

Subject to no superior proposal emerging and an Independent Expert concluding and continuing to conclude that the Scheme is in the best interests of API Shareholders, API Directors unanimously recommend that API Shareholders vote in favour of the Scheme and subject to the same qualifications, all API Directors intend to vote, or procure the voting of all API Shares held or controlled by them in favour of the Scheme.

Purpose of the report

The Directors have requested Grant Thornton Corporate Finance to prepare an Independent Expert's Report ("IER") stating whether the Scheme is in the best interests of security holders of the Company for the purposes of section 411 of the Corporations Act 2001 (Cth) ("Corporations Act").

When preparing this IER, Grant Thornton Corporate Finance has had regard to the Australian Securities Investment Commission's ("ASIC") Regulatory Guide 111 *Contents of expert reports* ("RG 111") and Regulatory Guide 112 *Independence of experts* ("RG 112"). The IER also includes other information and disclosures as required by ASIC.

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Scheme is FAIR AND REASONABLE and hence in the BEST INTERESTS of API Shareholders in the absence of a superior alternative proposal emerging.

In forming our opinion, Grant Thornton Corporate Finance has considered whether the Scheme is fair and reasonable to API Shareholders and, as part of that consideration, has had regard to other quantitative and qualitative considerations.

Fairness Assessment

Grant Thornton Corporate Finance has compared the fair market value of API before the Scheme on a control basis with the Scheme Consideration. We note that we have undertaken our valuation assessment of API based on the audited balance sheet as at 31 August 2021 which does not reflect the cash outflow for

[8] The non-binding indicative offer from WOW was announced on 2 December 2021 and withdrawn on 7 January 2022.
[9] Australian Competition and Consumer Commission.

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

continued

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the FY21 Dividend and the Special Dividend. Accordingly, in our fairness assessment, we have referred to the Scheme Consideration of A$1.55 per API Share. The following table summarises our fairness assessment.

Fairness assessment A$ per API Share	*Section Reference*	Low	High
Fair market value of API Shares before the Scheme	*Section 6.1*	1.48	1.78
Scheme Consideration		1.55	1.55
Premium/(discount)		**0.07**	**(0.23)**
Premium/(discount) (%)		**5.0%**	**(13.1%)**
FAIRNESS ASSESSMENT		**FAIR**	

Source: GTCF analysis

The Scheme Consideration is within the range of the fair market value of API Shares on a control basis. Accordingly, we conclude that the Scheme is FAIR to API Shareholders.

API Shareholders should be aware that our assessment of the value per API Share should not be considered to reflect the price at which API Shares may trade if the Scheme is not implemented. The price at which API Shares will ultimately trade depends on a range of factors, including the available public market for API Shares, macroeconomic conditions, the impact of the outbreak of COVID-19 on the economy and the performance of API's business.

We have assessed the fair market value of API Shares on a control basis by adopting the EBIT multiple method ("EBIT Multiple") [10] which we have cross checked with a discounted cash flow method ("DCF Method") and Quoted Security Price.

EBIT Multiple (FME[11] Method)

API has put in place and announced to the market a number of strategic initiatives expected to generate cost savings and improvements in profitability of c. A$20.5 million from FY23 (collectively, "Strategic Initiatives")[12]. Accordingly, for the purpose of our valuation assessment, we have relied on the FY23 EBIT Multiple which, in our opinion, reflects a more normalised financial performance of the Company. Our valuation assessment is summarised below.

[10] Calculated as enterprise value divided by EBIT.
[11] Future Maintainable Earnings.
[12] The impact of the Strategic Initiatives has been quantified and reported at the EBIT level (as opposed to EBITDA level).

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

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FME Method - valuation summary A$ '000 (except where stated otherwise)	Section Reference	Low	High
Assessed FY23 EBIT	*Section 6.1.1*	90,000	95,000
Assessed FY23 EBIT Multiple	*Section 6.1.2*	11.5x	12.5x
Enterprise value of API		**1,035,000**	**1,187,500**
Less: Net debt as at 31 August 2021[1]	*Section 6.1.5*	(275,379)	(275,379)
Less: Other adjustments	*Section 6.1.6*	(24,600)	(25,600)
Add: Investment in SiSU Pty Ltd	*Section 6.1.6*	2,400	2,400
Less: Performance Rights Cancellation Consideration	*Section 6.1.7*	(10,248)	(10,248)
Equity value of API		**727,173**	**878,673**
Number of outstanding shares ('000s) (fully diluted)	*Section 6.1.7*	492,656	492,656
Value per share (A$ per API Share)		**1.48**	**1.78**

Source: GTCF Calculations
Note (1): Net debt set out in the table above is on a post-AASB 16 basis and includes lease liabilities of c. A$175.433 million. We have considered the closing net debt balance as at 31 August 2021. Unlike API, the comparable companies do not report an average net debt balance and therefore, to make a like-for-like comparison we have adopted the closing net debt balance. Refer to section 6.1.5 for details.

As set out in the table above, we have adopted a FY23 EBIT between A$90 million and A$95 million for the purpose of our valuation assessment based on the following:

- The low-end of the range is consistent with the underlying FY21 EBIT of A$70.1 million pro-forma adjusted for the financial benefits expected to be delivered by the Strategic Initiatives of c. A$20 million.
- The selected FY23 EBIT range is substantially in line with FY23 broker forecasts between A$91 million (median) and A$94 million (average). It is also not inconsistent with the underlying EBIT achieved by the business in FY18 and FY19 before the outbreak of COVID-19, however we note this was prior to the implementation of AASB 16.
- There is significant latent value in the financial performance of the Clear Skincare Clinics business as a new clinic takes c. 2.5 years to become cash flow positive and some further time to reach steady state operations. Out of the 86 clinics as at 31 August 2021, 42 clinics (representing c. 49% of the total number of clinics) have been operational for, on average, less than 2 years.

In assessing the applicable EBIT multiple, having regard to the diverse nature of API's business, we have considered comparable companies belonging to three sets of industries being ANZ Pharmaceutical Distributors, ANZ Health and Beauty companies and International Pharmacies companies. Whilst none of the listed peers are perfectly comparable to API, for the purpose of our analysis, we have mainly relied on the following:

- Sigma Healthcare Limited ("Sigma") and EBOS Group Limited ("EBOS") which similar to API derive a large proportion of their revenue from Pharmaceutical Benefits Scheme ("PBS") products distribution and they are highly regulated by the PBS and the Seventh Community Pharmacy Agreement ("7CPA"). API, Sigma and EBOS are three out of four national distributors under the Community Service Obligation ("CSO") funding for PBS distribution.
- SILK Laser Australia Limited ("SILK Laser" or "SLA"), which is highly comparable to Clear Skincare Clinics and BWX Limited ("BWX"), manufactures products that can be considered comparable to the Clear Skincare Clinics products and the consumer products division.

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

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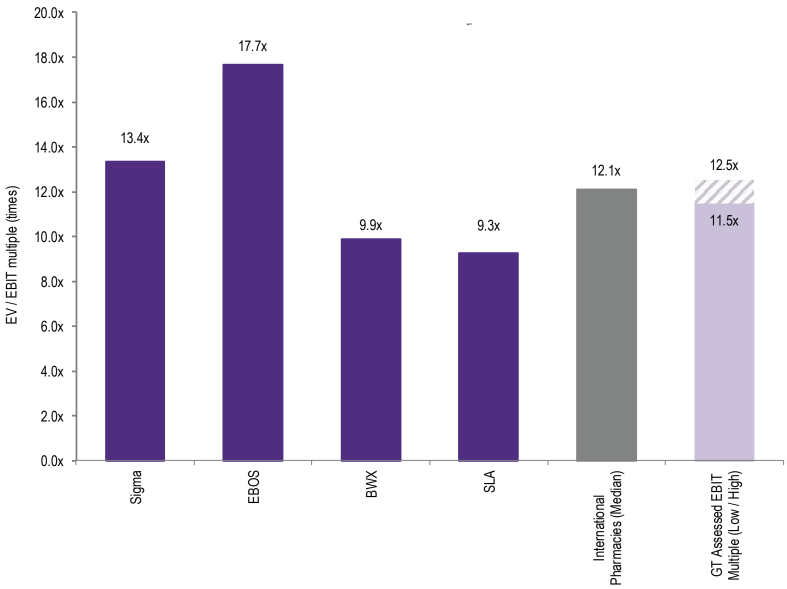
- We have also included in our peer set, the international listed pharmacies. Whilst the level of comparability is limited by their size, the competitive environment and the regulatory framework, they nonetheless provide directional evidence to assist in selecting the EBIT multiple for API.

The following graph sets out the multiples of the comparable companies:

Comparable companies multiples



Source: S&P Global, Mergermarket, Company annual reports, GTCF Analysis
Note (1): The EBIT multiples in the graph above are FY23 EBIT multiples on a minority basis as at 25 January 2022.

Whilst the selection of the EBIT multiple of API is an exercise of judgement and the business of API is diverse with no clear comparable companies, in our opinion the selected range between 11.5x and 12.5x is supported by the following:

- It is at a discount to Sigma's trading multiple on a minority basis, however Sigma's trading multiple has been impacted by a number of factors such as M&A activity and operational challenges which affected the short term profitability of the company. As a result, the rolling EBIT multiple has historically moved in an opposite direction to the consensus forecast EBIT which supports our view that investors may reflect into the trading prices a through-the-cycle view of the Sigma EBIT rather than the EBIT expected for FY23. This implicitly increases the resulting FY23 EBIT multiple. For example, on 6 December 2021, Sigma materially revised down the EBITDA guidance for FY22 from a growth of 5% over FY21 underlying EBITDA to a contraction of 10% due to short term operational issues. The EBITDA multiple increased after the announcement. We also note that the latest guidance provided by Sigma Management in relation to the underlying FY23 EBITDA between A$95 million to A$100 million[13] is materially in excess of consensus forecast FY23 EBITDA of A$81.6 million, which,

[13] Page 16 of 1H22 Results Presentation

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ANNEXURE A – INDEPENDENT EXPERT'S REPORT

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all other things being the same, will translate into a higher FY23 EBIT and lower EBIT multiple based on Management's guidance. Further, we note that Sigma has been demonstrating strong top-line growth in H1FY22 with overall wholesale sales up 13.6% on pcp[14], PBS sales growth of 6%, like for like ("LFL") sales in retail pharmacy brands of 8.7% in FY21 (after delivering 9% in FY20) and hospital sales growth of 8.9% in FY21. Conversely, top line growth for API has been limited as the strong performance from the wholesale business has been offset by the lockdown of Priceline stores and Clear Skincare Clinics.

- It is broadly in line with the trading multiples of BWX and SILK Laser once a premium for control is taken into account.
- It is at a discount to the current trading multiple of EBOS which we are of the opinion is reasonable based on the analysis presented in Section 6 and not inconsistent with the historical discount between the EBIT multiples of the two companies.
- It is substantially in line with the median EBIT multiple of the International Pharmacies on a minority basis notwithstanding the significant larger size of these businesses.

Whilst the information on the comparable transactions are limited as discussed in section 6.1.3, the FY21 underlying EBIT multiple implied in our valuation assessment is substantially in line with the FY21 underlying EBIT multiple observed in the LifeHealthcare acquisition.

DCF Method

For the purpose of our valuation cross-check using the DCF Method, Grant Thornton Corporate Finance was provided with Management's internal projections ("Internal Projections") up to FY26 which we have used as a starting point to build a high level valuation model ("GT Model"). The Internal Projections include the quantification of a number of strategic initiatives, growth opportunities and streamlining of operations in excess of those reported to the market as part of the Strategic Initiatives. These additional performance improvements initiatives are expected to be realised in the outer years of the discrete forecast period with implementation yet to be approved/commenced. We also note that the Internal Projections have not been provided to interested parties and accordingly the DCF Method is considered a high level cross-check and desktop in nature.

We have prepared our valuation assessment under the DCF Method having regard to the two cases outlined below:

- *Analyst Case* – API is covered by 6 investments' analysts which provide regular updates to the investors, including cash flows projections which form the basis for the consensus forecast ("Analyst Case"). The underlying EBIT is expected to grow from c. A$70 million in FY21 to c. A$98 million in FY26 which we have adopted for the purpose of our valuation and integrated it with Management's forecast in relation to maintenance capital expenditure.
- *Risk-Adjusted Management Base Case* – API is a large and strategic business with a significant market position as one of the four national PBS Distributors and with a unique geographic footprint with the Priceline Pharmacy and Priceline stores network which would be difficult to replicate for a pool of potential purchasers. Further, the wholesale distribution business is protected by a regulatory framework which provides certainty at least until the end of the 7CPA (30 June 2025). Given that, upon

[14] Including the positive impact of CWH or 3.0% excluding CWH

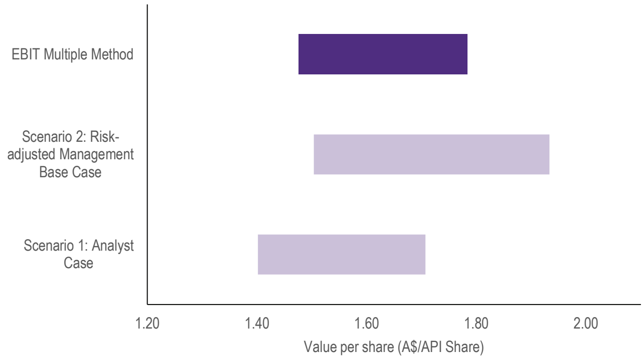
ANNEXURE A – INDEPENDENT EXPERT'S REPORT

continued

implementation of the Scheme, API Shareholders will give away any potential future upside from growing the business, we have captured in our valuation assessment some of the upside compared with the Analyst Case from the additional growth initiatives included in the Internal Projections ("Risk-Adjusted Management Base Case").

Based on the scenarios mentioned above, our valuation of API is summarised below:

API valuation assessed range



Source: GTCF analysis

Based on the above, we are of the opinion that the DCF Method provides support to our assessed value range of A$1.48 to A$1.78 per API Share.

Share price analysis and review

We have set out below a comparison between the historical trading prices before the Original Proposal[15] on 12 July 2021 and the Scheme Consideration.

[15] On 9 July 2021, Wesfarmers submitted a non-binding, indicative offer to acquire 100% of API's shares for A$1.38 per share by way of a scheme of arrangement ("Original Proposal"). This offer was announced to the market on 12 July 2021.

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

continued

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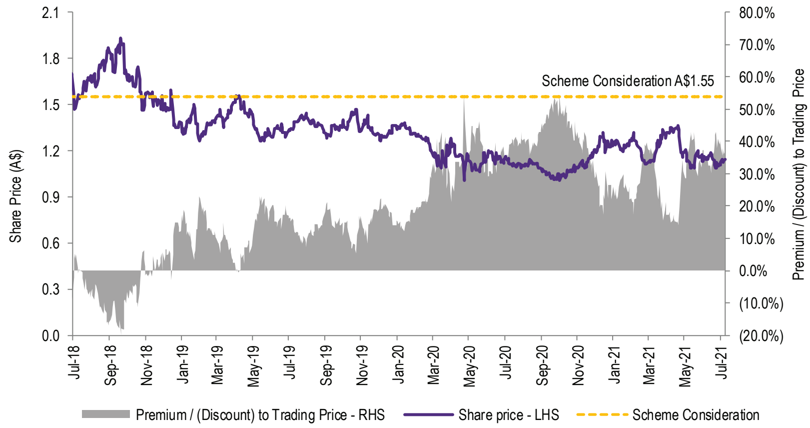
API – Historical share trading price and volume



Source: S&P Global, GTCF analysis

The Scheme Consideration is at a significant premium of 35.4% to the undisturbed closing prices before the announcement of the Original Proposal and at the high-end of premium for control paid in Australia for successful takeovers between 20% and 40%. However, over the last couple of years, market conditions have been volatile due to the outbreak of COVID-19 and API has implemented a number of initiatives to future proof the business and to respond to some of the challenges experienced in relation to increased competition, changes in the regulatory regime and gross margin pressure.

Towards the end of FY21, API announced an update on its annual strategic review with the exit of its manufacturing operations in New Zealand to focus resources and investments on its distribution and retail businesses. We note that API announced the Strategic Initiatives and the cash flow impact of these (A$20.5 million incremental EBIT by FY23) on 12 July 2021 with the Original Proposal received on the same day. Further, on 11 October 2021, API communicated that it would exceed the profit guidance for FY21 communicated to the market on 12 July 2021. These positive announcements were not reflected in the trading prices before the Original Proposal.

During the initial outbreak of COVID-19 between March 2020 and June 2020, given the defensive nature of the business, API's decline in the share price was modest compared to the ASX 200 Index. Once the uncertainty due to COVID-19 reduced, given the low interest rate environment and accommodating monetary policy, the ASX 200 performed strongly whereas API's trading price experienced volatility due to the announcement of results and trading updates. As a result of this short-term volatility, the trading price reduced from A$1.36 per share towards the end of April 2021 and traded in the range of A$1.10 and A$1.20 in the period before the Original Proposal. Whilst we have not noticed any anomalies in the trading prices of API, they appeared depressed immediately before the announcement of the Original Proposal.

We are of the opinion that the premium for control implied in the Scheme Consideration is towards the high-end of the premium for control usually applied in Australia for successful takeovers due to the following:

- The Original Proposal was announced at the same time as the Strategic Initiatives and before API communicated on 11 October 2021 that it would exceed the profit guidance provided for FY21. The trading update from API also reported that in the event lockdowns in Sydney and Melbourne continued

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

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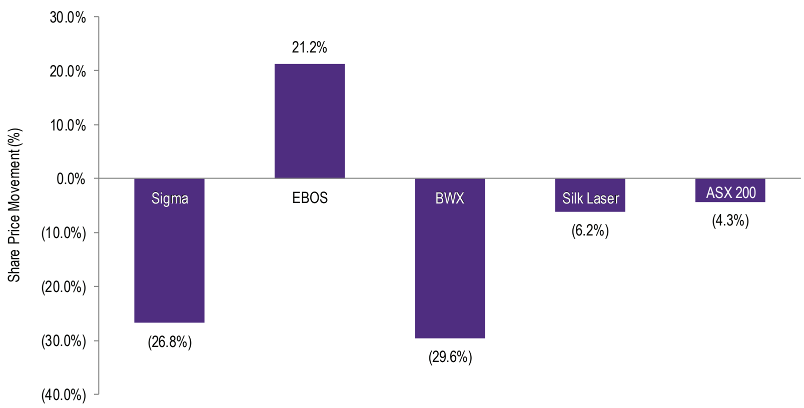
beyond July, the EBIT reduction would be c. A$1 million per week during which the lockdown remains in effect. As part of this, the Company also reduced its guidance from A$75 million (provided at the half-year) to c. A$66 million to A$68 million. Further, API released strong FY21 results on 22 October 2021. Accordingly, the trading prices before the announcement of the Original Proposal did not reflect the full underlying financial performance of API.

- Strategic nature of API with a unique market positioning and geographic footprint which is difficult to replicate.
- The competitive nature of the process with three large and sophisticated parties submitting non-binding offers, however only WES submitted a binding offer capable of being accepted by API.
- EBOS has recently announced the acquisition of LifeHealthcare, one of the largest independent distributors of third party medical devices in Australia, New Zealand and South East Asia and it has completed a large capital raising which continues to demonstrate investor appetite for the sector.

We also note that the Original Proposal was presented more than six months ago from the preparation of this IER and from the withdrawal of the WOW Proposal[16]. Accordingly, we have presented below the performance of the trading prices of the key comparable companies selected in our analysis to seek to draw some observations on the potential trading prices of API in the absence of the transaction.

Trading price movement of peers and the ASX200 since the Original Proposal



Source: S&P Global, GTCF analysis
Note: Share price movements have been calculated from 9 July 2021 to 25 January 2022

Whilst we cannot draw conclusive evidence from the graph above, with the exception of EBOS, the key comparable companies and the ASX 200 Index have remained substantially flat or reduced since the Original Proposal.

[16] On 2 December 2021, API received a non-binding indicative proposal from Woolworths Limited to acquire 100% of the shares in API by way of Scheme of Arrangement at an indicative price of A$1.75 per share ("WOW Proposal").

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Reasonableness Assessment

Under RG 111, the Scheme is reasonable if it is fair. Notwithstanding the above, we have summarised below the advantages, disadvantages and other factors in relation to Scheme.

Advantages

Premium for control

A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as the ability to realise synergies, access technology, access tax benefits and control of the board of Directors of the Company. The Scheme Consideration of A$1.55 per API Share represents a premium of:

- 35.4% to undisturbed closing share price immediately before the Original Proposal.
- 36.9% to the 1-month VWAP[17] up to and including 9 July 2021, being the day before the announcement of the Original Proposal.
- 33.3% to the 3-month VWAP up to and including 9 July 2021, being the day before the announcement of the Original Proposal.

This premium for control will not be available to API Shareholders in the absence of the Scheme or an alternative transaction.

Certainty of the cash consideration

API Shareholders have the opportunity to receive a certain cash amount at a premium to the trading price of API before the announcement of the Original Proposal and at a premium to the price that API Shares may trade in the short term in the absence of the Scheme or an alternative transaction. If the Scheme is implemented, API shareholders will no longer be exposed to the ongoing risks associated with holding an investment in API which are summarised below in a non-exhaustive manner:

- *Margin pressure for the Distribution business* – As discussed extensively in the industry section, PBS Distributors under the 7CPA are remunerated on a fixed percentage mark-up applied to the price of the PBS medicines, both set by the Federal Government. Over the years, with an aging population and the cost of healthcare continuously increasing, the Federal Government has sought to manage the cost of the medicines with several price cuts for the PBS medicines which is expected to continue in the foreseeable future. This has an adverse effect on the distributors which operate on a fixed marked-up percentage and accordingly have experienced their mark-up in dollar value continuously decreasing.
- *COVID-19* – The Priceline[18] and the Clear Skincare Clinics divisions ("Retail Divisions") have experienced challenging market conditions in FY20 and FY21 as a result of the lockdowns across the Eastern seaboard associated with COVID-19. The Company has noted that all API owned Priceline stores were required to be closed during FY21 with some of these being closed for 41% of the available trading days[19]. Further, due to the protracted lockdown and decrease in customer attendance

[17] Volume weighted average price ("VWAP")
[18] It comprises 464 stores as at 31 August 2021 comprising Priceline Pharmacy Network of 366 community pharmacies (franchise mode) and Priceline Stores 95 health and beauty stores (company-owned) and 3 franchised stores that are not pharmacies.
[19] The Priceline Pharmacy stores remained opened all the time.

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in the CBD, API permanently closed a number of its Company-owned retail stores located in CBD locations with a net reduction of 10 stores over the financial year. Similarly, the Clear Skincare Clinics network stores remained closed for 58% of available trading days during FY21. Whilst most of the COVID-19 related restrictions have been removed across the country, uncertainties remain in relation to the potential impact and consequences of the new Omicron strain which was designated as a variant of concern on 26 November 2021 by the World Health Organisation ("WHO"). Whilst the general consensus appears to be that Omicron is less severe compared with the Delta variant, it is highly transmissible with the number of cases rising globally and putting pressure on healthcare systems. In Australia, the total number of cases acquired in the last 24 hours as at 11 January 2022 was 66,825. It is likely that, for the foreseeable future, the Retail Division of API will continue to be affected by volatile market conditions and uncertainty in relation to COVID-19.

- *Competitive and continuously evolving marketplace in the Retail Divisions* – The Retail Divisions operate in an industry which is highly competitive and continuously evolving. Since the outbreak of COVID-19, brick and mortar retail businesses have been transformed by lockdowns, closed stores, increased online shopping, and supply chain disruptions which have brought uncertainties in relation to what a successful business model looks like going forward. As online shopping increasingly provides greater revenue streams for retailers, more physical store closures are also possible. We note that in May 2021, Wesfarmers, announced it would shut 75 of its Target stores (and convert the rest to Kmart stores), further, both Myer and David Jones have accelerated their plans to reduce floor space by 20% by 2025 and finally, footwear Accent Group, which has more than 500 stores in Australia and New Zealand, is planning to close 28 stores and focus more on online sales. In a move that reflects the shift in consumer shopping behaviour more focused towards online purchases, many of the big retailers have transformed the layouts of their stores by converting shop floor space into fulfilment centres. Whilst API has sought to adapt to the new environment with the creation of the digital hub[20], strengthening its ecommerce platform and leveraging-off AI, there is no guarantee that the mix between owned stores, franchisees and online sales will be successful for the business. Priceline, Priceline Pharmacy, Soul Pattinson Chemist and Clear Skincare Clinics are all predominantly brick and mortar retail operations which rely, among other things, on foot traffic to support their sales and grow their network. Whilst the Company has put in place a number of strategic initiatives to boost online sales and presence, it may suffer from competition from online marketplaces and online-only retailers. API has historically faced a number of challenges in the Priceline Division which has underperformed on a number of KPIs with retail register LFL sales[21] having mostly reduced or remained flat over the last five years as outlined below.

Priceline Pharmacy	FY17	FY18	FY19	FY20	FY21
Like for like sales change (%)	(0.4%)	(1.1%)	0.7%	(6.0%)	0.8%

Source: API annual reports, GTCF analysis
Note: Like for like sales compares the same store sales between periods including dispensary, excluding CBD stores after adjustment for stores impacted by COVID-19

- *Class action and challenges with the franchise model* – On 11 October 2021, API announced that a class action has been filed against it in the Supreme Court of Victoria. The claims make various allegations about certain clauses in the Priceline Franchise Agreement which the Company denies vigorously. API has communicated that the number of members in the class have not been disclosed

[20] The Company is focussing on the development a suite of digital assets labelled as the Digital Hub to complement the Sister Club loyalty offering. The Digital Hub is designed to provide analytics on customer behaviours, purchasing preferences and insights into the effectiveness of marketing initiatives across the various divisions and to increase sales through the development of customer targeted products.
[21] Sales recorded at the register of all network stores which excludes dispensary sales. Register sales made by franchisees are included in the register sales but they do not form part of the results of API.

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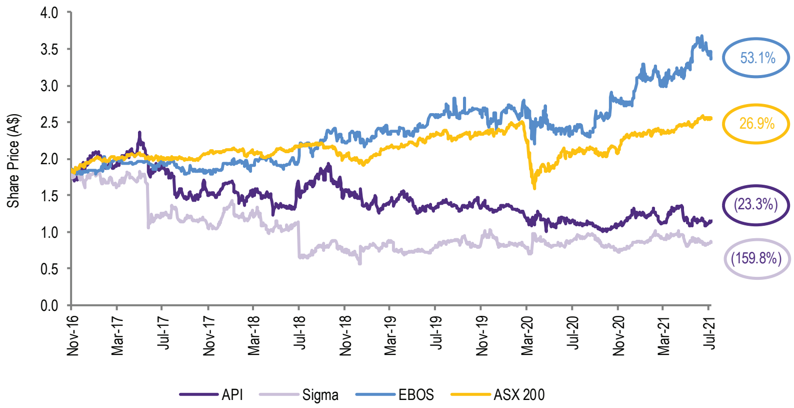
and the claim is not quantifiable. Whilst the impact for the Company, if any, cannot be quantified at this time, if the Scheme is implemented, API Shareholders will not be exposed to this ongoing risk and uncertainties. We also note that in recent years, there have been a number of high profiles class actions of franchisees in various businesses which have enhanced the underlying risk of this business model. However, API continuously and regularly monitors franchisee satisfaction which has increased in FY21.

- *Quality of earnings* – API's earnings in FY20 and FY21 have been volatile with a significant difference between reported and underlying EBIT due to restructuring, re-organisation and one-off costs incurred by the business[22]. This affects the quality of earnings and it is taken into account by a pool of potential purchasers in their valuation assessment of the Company. We note that this is also demonstrated by the returns generated by API which have materially underperformed the ASX200 Index and the performance of EBOS which is considered one of the closest listed peers. Similarly to API, Sigma's trading prices have also materially underperformed the share market in conjunction with a volatile financial performance.

Trading price performance since November 2016 up to the Original Offer



Source: GTCF analysis, S&P Global

Franking credits attached to the Special Dividend

In accordance with the terms of the Scheme, the Board currently intends to pay a Special Dividend of 3 cents per API Share prior to implementation of the Scheme. The Scheme Consideration will be reduced by the cash amount of any Special Dividend paid by API in addition to the 2 cents FY21 Dividend.

Australian resident shareholders on a lower tax rate can claim an income tax offset and accordingly realise greater value compared to A$1.55 per share. Those Shareholders are better off on a post-tax basis if the Special Dividend is paid compared with the scenario that 100% of the consideration is paid as a capital gain (i.e. nil Special Dividend). The following table summarises the after-tax cash amount from the Special Dividend that certain Shareholders could realise depending on their tax position.

[22] In FY20, reported EBIT was A$4.4 million vs underlying EBIT of A$59.6 million. In FY21, reported EBIT was A$27.8 million vs underlying EBIT of A$70.1 million.

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Special Dividend - Franking Credits Benefit		Australian resident			Corporate
		45%	30%	0%	30%
A$ / Australian Pharmaceuticals Limited	*Reference*	Tax rate[2]	Tax rate[2]	Tax rate[2]	
Special dividend[1]	[A]	0.03	0.03	0.03	0.03
Franking credits	[B]	0.01	0.01	0.01	0.01
Gross taxable income	[C] = [A] + [B]	0.04	0.04	0.04	0.04
Tax payable	[D] = [C] x MTR[3]	(0.02)	(0.01)	-	(0.01)
Tax credit	[B]	0.01	0.01	0.01	0.01
Net after tax special dividend	**[A] + [B] + [D]**	**0.02**	**0.03**	**0.04**	**0.03**

Source: GTCF analysis
Notes: (1) Analysis based on a Special Dividend of A$0.03 per Security; (2) Ignoring Medicare levy and other surcharges. (3) MTR = Marginal Tax Rate

No brokerage costs

API Shareholders will be able to realise their investment in API without incurring any brokerage or stamp duty costs.

Disadvantages

Timing of the transaction is somewhat opportunistic

The timing of the Scheme is somewhat opportunistic as market conditions are yet to normalise as a result of the outbreak of COVID-19 and the Company has not yet had the opportunity to translate all the investments and improvements made into the business over the last few years into an improved financial performance. Notwithstanding the challenging market conditions, API has invested heavily in the business with the outcomes expected to eventuate in the years ahead. Specifically, we note the following:

- *De-risking the Pharmacy Distribution business* – The Pharmacy Distribution business has been de-risked with the announcement of the 7CPA in the second half of 2020 which has created a positive and certain regulatory environment for the five year period between 1 July 2020 and 30 June 2025. In particular, we note the positive outcomes for API and the other distributors with an additional A$92 million in funding over the five year period (c. 10% uplift) and introduction of a floor price with a guaranteed 7.5% distributor margin.

- *Growth in Clear Skincare Clinics* – The Clear Skincare Clinics business is in the growth phase of its business cycle. Accordingly, it is yet to reach its full potential and generate steady state returns for the large investments undertaken by API since the acquisition in 2018. The number of clinics were up to 86 at the end of FY21 and API is focussed on continuing to increase its geographic footprint. Out of the 86 total clinics, 42 are new clinics and have been operational, on average, for less than 2 years and accordingly they are still developing their customer base and market presence. API has indicated that it usually takes 2.5 years for a new clinic to become profitable. Accordingly, even in the absence of additional new clinics, the current financial performance of Clear Skincare Clinics is expected to materially improve in the years to come. This is also evidenced from LFL sales up 24% in FY21.

- *Defensive business* – API has a portfolio of complementary retail and wholesale businesses which operate in the growing health, wellness and beauty sectors which are benefiting from positive secular trends. Specifically, we note the following:

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- The size of the pharmaceutical wholesale market has increased materially over the last 10 years, and is expected to continue to do so in conjunction with the aging population of Australia. The 65+ age demographic currently represents c. 16%[23] of the population and it is expected to increase to c. 20%[24] by 2037. This group is estimated to account for c. 53%[25] of pharmaceutical consumption within the industry.

- Over the years, the cost of the PBS has continued to increase due to several factors, including newly-developed expensive medicines, over prescribing, an ageing population and increased patient awareness and expectations. Although the Government manages the price of each medicine on the PBS, the total cost of the PBS remains uncapped and therefore the overall cost of the Scheme increases as new drugs are added.

- The global facial injectable market size was valued at US$13.4[26] billion in 2020 and is expected to expand at a compound annual growth rate ("CAGR") of 8.8%[27] between 2021 and 2028 with Australia growing at a faster CAGR of 26.3%[28] over the same period. A growing focus on physical appearance among consumers has led to an increased demand for facial injectables in recent years, with Botox being one of the most popular products, as adults becoming more aware of their appearance. This market growth represents a key opportunity for Clear Skincare Clinics.

• *EBIT improvements* – API has put in place a number of initiatives over the years (some of them still being implemented) which are expected to significantly uplift the financial performance, all other things being the same. These initiatives are discussed in details in Sections 4 and 6 of this Report but they are briefly summarised below:

  - *Marsden Distribution Centre*: Automated distribution centre which is expected to be completed by FY23 and able to generate cost savings of at least A$8 million EBIT per annum.

  - *Pfizer distribution*: Pfizer announced in May 2021 the transition from its direct distribution model to a wholesaler distribution. As a result, from 1 September 2021, API distributes Pfizer Australia's portfolio of innovative and off-patent medicines to community pharmacies in a non-exclusive arrangement. This arrangement, which is expected to deliver an estimated additional A$4 million in EBIT on an annualised basis from 1 September 2021, does not include Pfizer's COVID-19 vaccine.

  - *Rationalisation of Priceline network*: the rationalisation of the Priceline company store network with the closure of underperforming stores over the last 2 years, is expected to generate EBIT improvement of A$3.4 million, all other things being the same.

  - *Closure of consumer manufacturing*: the Company announced the closure of the New Zealand manufacturing plant in July 2021 with production being outsourced to third parties. This is anticipated to increase EBIT by A$5 million on an annualised basis from the second half of FY23.

[23] Australian Bureau of Statistics.
[24] Ibid.
[25] Ibid.
[26] Grand View Research, Australia Facial Injectable Market Analysis and Segment Forecast to 2027, September 2020.
[27] Ibid.
[28] Ibid.

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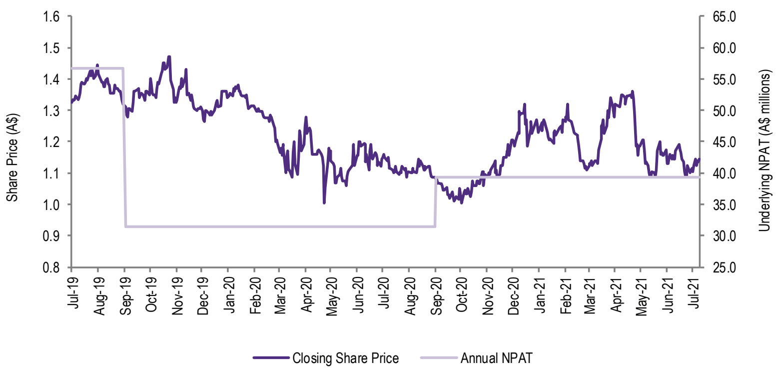
- *Trading price* – As set out in the graph below, the trading price and the underlying net profit after tax ("NPAT") are yet to return to pre-COVID-19 levels, however in the last couple of years, Management have significantly streamlined the business with significant margin improvements expected to be delivered by FY23, all other things being the same.

API Trading Price and Underlying NPAT



Source: API annual reports, S&P Global, GTCF analysis
Note: Underlying NPAT has been taken based on a year end of 31 August

As set out in the graph above, API was trading around A$1.35 per share before the outbreak of COVID-19 and by mid-February 2021, the share price had recovered to around this level whereas immediately before the announcement of the Original Proposal, they were close to the trough for the year.

Other factors

Share price after the announcement

As set out below, following the announcement of the Scheme, the share price of API has traded substantially in line with or slightly below the Scheme Consideration (excluding during the period of the WOW Proposal) which seems to indicate good support from investors, a perceived low risk of the Scheme not being implemented and limited expectations for a superior proposal. We note that the share prices started trading on an ex-dividend basis on 12 November 2021.

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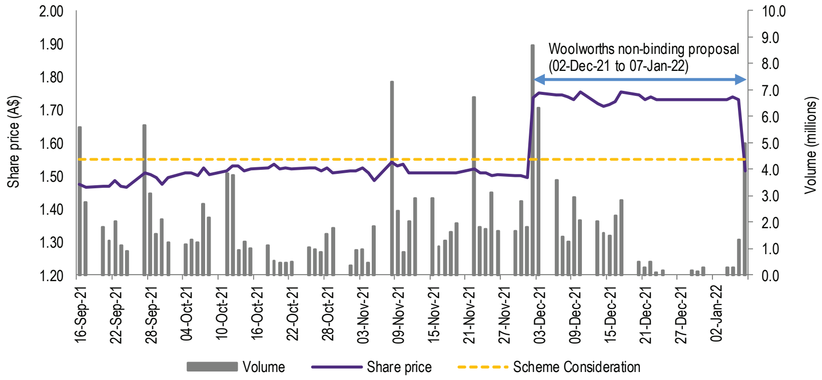
Trading price after announcement of the Scheme



Sources: S&P Global, GTCF analysis.

Value of API for Wesfarmers

Wesfarmers has indicated that the key rationale for the acquisition is to create a new healthcare division to use as a platform to continue to invest and grow in the health and wellbeing sector. Wesfarmers will also be able to leverage off its strong capabilities in retail, distribution and logistics to capitalise on API's strengths and market positioning. Wesfarmers has indicated that it may seek to expand ranges, improve supply chain capabilities and enhance online service offerings.

In addition, API currently incurs overhead expenses including but not limited to audit, directors' fees, insurance, accounting, share registry and stock exchange listing fees. Following the implementation of the Scheme, it is expected that the majority of the overhead expenses would be rationalised as API will become a wholly-owned subsidiary of Wesfarmers. Further, Wesfarmers may realise certain economies of scale in relation to marketing, sales and R&D.

In our valuation assessment, we have included the synergies that would be available to a pool of potential purchasers.

Prospects of a superior offer

Whilst API has agreed not to solicit any competing proposals or, subject to a fiduciary exception, to participate in discussions or negotiations in relation to any competing proposals, there are no material impediments to an alternative proposal being submitted by potentially interested parties. However, we note that Wesfarmers currently holds a 19.3% interest in API and accordingly it may deter potential alternative parties to submit a binding offer. Specifically, both Sigma and WOW have decided to withdraw their indicative non-binding proposals and, in our opinion, these decisions were also affected, among other things, by Wesfarmers current 19.3% interest in API and Wesfarmers' intention of not to support the Sigma Proposal and the WOW Proposal.

The Sigma Proposal was a 100% scrip deal (with some shareholder flexibility in electing the cash and scrip mix) based on the presumption of merging the two businesses and by doing so realising large synergies and cost savings, estimated by Sigma at A$45 million per annum. Wesfarmers' interest was likely to

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prevent Sigma from acquiring 100% of API and therefore not allow the merged entity to realise the expected benefits.

Similarly, the WOW Proposal of A$1.75 per API Share, at a premium of c. 13% to the Consideration or c. 54% to the trading prices immediately before the Original Proposal, was also likely premised on the ability of WOW to acquire 100% of API and realise synergies and cost savings reflected into the proposal. Whilst WOW provided limited information in relation to the reasons of withdrawing the WOW Proposal, it is likely that the inability to acquire 100% of the issue capital of API played a role in WOW not been able to validate the financial returns of API required in line with WOW's capital allocation framework[29].

Both the Sigma and the WOW Proposal were deemed by the API Board to be likely to be more favourable to API Shareholders than the Scheme if capable of being completed substantially on the same terms of the non-binding indicative proposals.

Notwithstanding the above, the transaction process may act as a catalyst for all interested parties and it will provide significant additional information in the Scheme Booklet and Independent Expert's Report to enable such potential acquirers to assess the merits of potential alternative transactions. If a superior proposal emerges before API Shareholders cast their vote on the Scheme, the Scheme meeting may be adjourned or API Shareholders may vote against it.

We note that in the event that a competing superior proposal is announced and completed or the Directors withdraw their recommendation of the Scheme, API may be required to pay Wesfarmers a break fee of A$7.74 million plus GST subject to certain exceptions. The break fee may also become payable under other circumstances as set out in the Scheme Booklet.

Share price in the absence of the Scheme

If the Scheme is not implemented, it is likely that API Shares will trade at a price below the Scheme Consideration, at least in the short-term.

Tax implications

Acceptance of the Scheme may crystallise a capital gains tax liability for API Shareholders, however the taxation consequences for API Shareholders will vary according to their individual circumstances and will be impacted by various factors. API Shareholders should read the overview of tax implications of the Scheme set out in the Scheme Booklet and also seek independent financial and tax advice.

Conclusion on the reasonableness

Based on the qualitative factors identified above, it is our opinion that the Scheme is **REASONABLE**.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Scheme is **FAIR AND REASONABLE and hence in the BEST INTERESTS of** API Shareholders in the absence of a superior alternative proposal emerging.

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[29] On 7 January 2022, WOW announced that upon completion of a comprehensive due diligence process, WOW has withdrawn its proposal as it had not been able to validate the financial returns required in line with WOW's capital allocation framework.

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Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

In preparing this report we have considered the interests of API Shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN
Director

JANNAYA JAMES
Authorised Representative

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10 February 2022

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by API to provide general financial product advice in the form of an independent expert's report in relation to the Scheme. This report is included in the Scheme Booklet outlining the Scheme.

2 Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we Scheme, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance will receive from API a fixed fee of A$280,000 (plus GST) which is based on commercial rates, plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

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5 Independence

Grant Thornton Corporate Finance is required to be independent of API and Wesfarmers in order to provide this report. The guidelines for independence in the preparation of independent expert's reports are set out in RG 112 *Independence of expert* issued by ASIC. The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with API and Wesfarmers *(and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Scheme.*

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Scheme, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of RG 112 "Independence of expert" issued by the ASIC."

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Australian Financial Compliance Authority (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Australian Financial Compliance Authority who can be contacted at:

Australian Financial Compliance Authority
GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 931 678

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the General Meeting should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

7 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

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1 Outline of the Scheme

1.1 Previous non-binding indicative proposals

On 12 July 2021[30], API announced that Wesfarmers submitted a non-binding, indicative offer to acquire 100% of API's shares for A$1.38 per share by way of a scheme of arrangement. API's major shareholder, WHSP, which owned 19.3% of the issued capital, had entered into an Undertaking Agreement pursuant to which, in the absence of a superior proposal, WHSP had to vote in favour of the indicative proposal (or an improved proposal by Wesfarmers). The agreement also included an option for Wesfarmers to acquire WHSP's shares in the event that Wesfarmers intends to match or exceed any competing proposal. The Original Proposal was rejected by the Board of API on 29 July 2021 as it was considered to undervalue API.

On 16 September 2021, API announced that Wesfarmers submitted a revised indicative and non-binding proposal ("Revised Indicative Proposal") for the acquisition of API at a cash offer for A$1.55 per API Share. The Board indicated that it had determined that it was in the best interests of API Shareholders to progress the Revised Indicative Proposal and allow Wesfarmers to undertake confirmatory due diligence.

On 27 September 2021, API announced that Sigma submitted a conditional non-binding indicative proposal to acquire 100% of the shares in API for a mixed consideration of 2.05 Sigma shares for each API Share plus A$0.35 in cash per API Share, which implied a total consideration[31] of A$1.57 per API Share ("Sigma Proposal"). Based on the terms of the Sigma Proposal, API Shareholders would have held c. 48% of the enlarged entity. The API Board determined that the Sigma Proposal was reasonably capable of being valued and completed and it would reasonably be likely to be, if completed substantially in accordance with its terms, more favourable to API Shareholders as a whole than the Revised Indicative Proposal by Wesfarmers, notwithstanding that it would likely take an overall longer time to implement. On this basis, the API Board believed that it was in the interests of API Shareholders to also offer Sigma to undertake confirmatory due diligence in parallel with Wesfarmers.

On 7 October 2021, Wesfarmers announced that it had acquired 95.1 million API Shares from WHSP representing 19.3% of the issued capital pursuant to the Undertaking Agreement and that it did not intend to support or vote its 19.3% in favour of the Sigma Proposal. On 5 November 2021, Sigma announced that it would not proceed with the Sigma Proposal.

On 2 December 2021, API received a non-binding indicative proposal from Woolworths Limited to acquire 100% of the shares in API by way of Scheme of Arrangement at an indicative price of A$1.75 per share with the other terms substantially consistent with the SID. On 15 December 2021, WES announced that it would vote its existing shareholding and any other API Shares that it may acquire against any scheme of arrangement pursuant to the WOW Proposal and that it did not intend to accept any takeover offer made by WOW. On 7 January 2022, WOW announced that upon completion of a comprehensive due diligence process, WOW has withdrawn its proposal as it had not been able to validate the financial returns required in line with WOW's capital allocation framework.

1.2 Other key terms of the Scheme Implementation Deed

We have set out below some of the key terms of the SID:

[30] WES submitted the Original Proposal on 9 July 2021 which was announced by API to the market on 12 July 2021.
[31] Based on the trading price of Sigma shares of A$0.595 per Sigma share on 24 September 2021.

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- *Conditions precedent* – the SID includes the following conditions precedent:
  - Approval of the Scheme by API Shareholders and by the Court in accordance with Section 411(4)(b) of the Corporations Act.
  - ACCC raising no objections to the Scheme.
  - No API prescribed occurrences and no material adverse effects, and other conditions precedent typical for a transaction of this type.
  - The Independent Expert concludes and continues to conclude, that the Scheme is in the best interests of API Shareholders.
- *Performance Rights* – API has 6,611,351 Performance Rights on issue under the long-term incentive plan ("LTIP") and short-term incentive plan ("STIP") (collectively "Performance Rights"). Subject to the Scheme taking effect, all of the Performance Rights on issue will be cancelled on or before the Implementation Date[32] and the participants will receive in return a cash payment equal to the Scheme Consideration as compensation for the cancellation ("Cancellation Consideration[33]").
- *Break Fee* – A break-fee of A$7.74 million may become payable by API to Wesfarmers if, during the exclusivity period, the Scheme does not proceed due to:
  - A competing proposal is announced by a third party and, within nine months from its announcement, any third party acquires a relevant interest in more than 50% of API.
  - Any of the API Directors withdraws or adversely revises or qualifies their voting intention or recommendation to vote in favour of the Scheme, except in limited circumstances set out in the SID.
  - Wesfarmers terminates the SID due to a material breach by API of the terms of the SID.
  - In some instances (as set out in the Scheme Booklet), a reverse break-fee may also be required to be paid by Wesfarmers to API. Refer to the Scheme Booklet for details.

Other – The SID contains customary exclusivity provisions including no shop and no talk restrictions, restrictions on providing or making available information or access to due diligence (with the no talk and no due diligence restrictions subject to a fiduciary-out), and a matching counterproposal right for Wesfarmers in the event the Directors receive a superior proposal.

[32] As defined in the Scheme Booklet.
[33] Ibid.

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2 Purpose and scope of the report

2.1 Purpose

Section 411 of the Corporations Act

Section 411 of the Corporations Act 2001 regulates schemes of arrangement between companies and their members. Part 3 of Schedule 8 of the *Corporations Regulations 2001 (Cth)* ("Corporations Regulations") prescribes information to be sent to shareholders and creditors in relation to members' and creditors' scheme of arrangement pursuant to Section 411 of the Corporations Act.

Part 3 of Schedule 8 (s640) (clauses 8303 and 8306) of the Corporations Regulations requires an independent expert's report in relation to a scheme to be prepared when a party to that scheme has a shareholding greater than 30% in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether a scheme is in the best interests of shareholders and state reasons for that opinion. Even where there is no requirement for an independent expert's report, documentation for a scheme of arrangement typically includes an independent expert's report.

While there is no legal requirement for an independent expert's report to be prepared in respect of the Scheme, the Directors of API have requested Grant Thornton Corporate Finance to prepare an independent expert's report to express an opinion as to whether the Scheme is in the best interests of API Shareholders.

2.2 Basis of assessment

In determining whether the Scheme is in the best interests of the Company's members, Grant Thornton Corporate Finance has had regard to relevant Regulatory Guides issued by the ASIC, including RG 111, Regulatory Guide 60 Scheme of arrangement ("RG 60") and RG 112. The IER will also include other information and disclosures as required by ASIC. We note that neither the Corporations Act nor the Corporations Regulations define the term "in the best interests of members".

RG 111 establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. RG111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" in the context of a takeover offer. RG111 requires an independent expert report prepared for a change of control transaction implemented by way of scheme of arrangement to undertake an analysis substantially the same as for a takeover bid. However, the opinion of the expert should be whether or not the proposed scheme is "in the best interests of the members of the company". If an expert were to conclude that a proposal was "fair and reasonable" if it was in the form of a takeover bid, it will also conclude that the proposed scheme is "in the best interests of the members of the company".

Pursuant to RG111, an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are subject of the offer. A comparison must be made assuming 100% ownership of the target company.

RG111 considers an offer to be "reasonable" if it is fair. An offer may also be reasonable if, despite not being "fair" but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

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In our opinion, the most appropriate way to evaluate the fairness of the Scheme is to compare the fair market value of API on a control basis with the market value of the Scheme Consideration.

In considering whether the Scheme is in the best interests of API shareholders, we have considered a number of factors, including:

- Whether the Scheme is fair.
- The implications to API Shareholders if the Scheme is not implemented.
- Other likely advantages and disadvantages associated with the Scheme.
- Other costs and risks associated with Scheme that could potentially affect API shareholders.

2.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance (a 100% subsidiary of Grant Thornton Australia Limited) considered its independence with respect to the Scheme with reference to RG 112 issued by ASIC.

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Scheme other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success implementation of the Scheme.

In our opinion, Grant Thornton Corporate Finance is independent of API and its Directors and all other relevant parties of the Scheme.

Compliance with APES 225 Valuation Services

This report has been prepared in accordance with the requirements of the professional standard APES 225 Valuation Services ("APES 225") as issued by the Accounting Professional & Ethical Standards Board. In accordance with the requirements of APES 225, we advise that this assignment is a Valuation Engagement as defined by that standard as follows:

"An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time."

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3 Industry overview

3.1 Pharmaceutical wholesale distribution and pharmacy industry

3.1.1 Introduction

API operates as a wholesale distributor of PBS medicines, over-the-counter ("OTC") products and beauty and wellness products to community pharmacies, Priceline Pharmacy stores, Priceline stores and other customers. The pharmacy distribution division generates revenue by distributing the following major categories of products:

- *PBS medicines to pharmacy:* This is highly regulated by the Australian Federal and State Governments.
- *Non-prescription medicines:* Products in this segment can only be sold by pharmacies but do not require a prescription. Top-selling product categories in this segment include cold and flu medicines, allergy and analgesics.
- *General retail products:* This comprises the distribution of OTC products, consumer products and fast moving consumers goods ("FMCG") in the beauty and personal care sector ("BPC").

Changes to the industry's operating environment and ongoing reforms to the PBS, with continuous cuts to the price of PBS medicines, have caused falling unit prices and lower per-unit profit margins for the wholesalers which has affected the industry's performance over the past five years. Market participants have responded by growing non-PBS revenue streams through higher mark-ups on the distribution of OTC products and some operators have diversified into new markets, including hospital pharmacies.

Given the regulated revenue stream on the distribution of PBS medicines, industry participants have implemented various strategies to reduce costs via investment in technology, AI and automated distribution centres. Wholesalers have streamlined delivery frequencies, offered price discounts to downstream retail pharmacy customers and improved operating efficiencies through warehouse rationalisation and inventory optimisation programs.

The pharmaceutical wholesale industry is expected to grow at a CAGR of 2%[34] between FY21 and FY26 as recently implemented favourable regulatory policies are expected to support near-term profitability, whereas the Cosmetic and Toiletries Wholesaling industry is expected to grow at a CAGR of 2.4%[35] over the same period.

[34] IBISWorld Pharmaceutical Wholesaling May 2021.
[35] *IBISWorld Cosmetics and Toiletries Wholesaling May 2021.*

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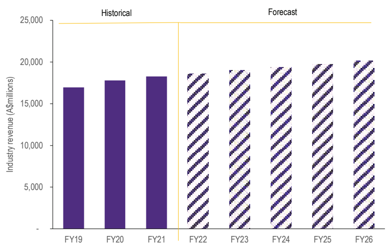
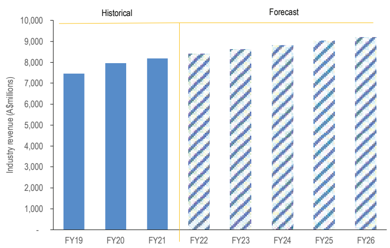
Pharmaceutical wholesale



Source: IBISWorld Pharmaceutical Wholesaling May 2021

Cosmetic and toiletries wholesale



Source: IBISWorld Cosmetics and Toiletries Wholesaling May 2021

3.1.2 Regulatory regime

Pharmaceutical wholesale distribution and retail pharmacy are governed by a strict regulatory regime providing participants with a clear framework of operations under the PBS which is part of Australia's National Medicines Policy. PBS began as a limited scheme in 1948 with free medicines for pensioners and a list of 139 'life-saving and disease preventing' medicines free of charge for others in the community. Today, the PBS ensures that Australians can access medicines in a timely, reliable and affordable manner with the government subsidising the cost of medicine for most medical conditions. Most of the listed PBS medicines are dispensed by pharmacists and used by patients at home.

The PBS creates the legal framework and an obligation on community pharmacies to provide timely medication to Australians within 24 hours of placing the script with the pharmacist. Given the fragmented landscape of community pharmacies, it is not feasible for them to liaise directly with manufacturers to obtain the supply of medicines. Accordingly, the PBS relies on a selected and regulated number of pharmaceutical wholesalers, such as API, to operate as a link between pharmacies and manufacturers to ensure the PBS can operate efficiently.

Seventh Community Pharmacy Agreement

The 7CPA supports consumer access to PBS subsidised medicines through community pharmacies across Australia and it was executed[36] in late 2020 for the period between 1 July 2020 and 30 June 2025. The 7CPA also regulates wholesale pharmaceutical distribution and it has removed a key area of regulatory uncertainty in the industry. Specifically, the 7CPA provides the following:

- A$16 billion in pharmacy remuneration for dispensing PBS medicines. This comprises a dispensary fee, an administration handling and infrastructure ("AHI") fee, and a dangerous drug fee which will be indexed on a yearly basis. Under the 7CPA, the dispensary fee has increased from A$7.39 to A$7.74 (5% increase), the dangerous drug fee from A$3.11 to A$4.80 (54% increase) and the AHI fee, which is tiered based on the price of the drugs, saw more modest increases. The manufacturer price for the drug plus the fixed wholesaler mark-up and the fees above represent most of the Commonwealth price for the PBS medicines. The pharmacists can then charge this price to the general patient or charge an additional amount up to a maximum allowable.

- A$1.2 billion for professional pharmacy programs.

[36] Between the Federal Government, the Pharmacy Guild of Australia and by the Pharmaceutical Society of Australia (only for certain parts).

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- A$1.083[37] billion for the Community Service Obligation funding for PBS distribution.

The CSO will continue in the 7CPA with A$1.083 billion allocated to support the distribution of PBS medicines, which is a A$92 million or c. 10% increase on the Sixth Community Pharmacy Agreement. The CSO was established by the Federal Government in 2005 in recognition of the additional costs faced by pharmaceutical wholesalers in providing the full range of available PBS medicines to all pharmacies in Australia. In particular, the CSO helps ensure that pharmaceutical wholesalers are adequately compensated for the delivery of medicines to all regions of Australia within 24 hours including weekends for all the PBS medicines.

From 1 January 2021, the structure of wholesaler mark-up arrangements has been revised to allow for a price floor to protect wholesalers against medicine price decreases. The wholesaler mark-up will be fixed at A$0.41 per item for Section 85 PBS medicines where the manufacturer price is up to and including A$5.50. For Section 85 PBS medicines where manufacturer price is over A$5.50, wholesalers will receive a fixed mark-up of 7.52% of the manufacturer price capped at A$54.14. No indexation will be applied to the wholesaler mark-up arrangements during the 7CPA.

The CSO distributors currently eligible under the CSO Funding pool are four national distributors being API, Sigma, EBOS and Clifford Hallam Healthcare Pty Limited ("CH2") and two state distributors being Barrett Distributors Pty. Ltd and National Pharmacies ("CSO Distributors").

Pharmacy ownership in Australia

There were 5,822 approved PBS community pharmacies in Australia at the end of FY20. Community pharmacies form an integral part of Australia's healthcare system. These pharmacies provide a range of products and services, and dispense prescription and pharmacy-only medicines. Current ownership provisions and location rules ensure that community pharmacies are well distributed throughout the Australian community and prevents ownership of a large number of pharmacies by corporate groups or individuals. The ownership rules requires pharmacies to be owned by registered pharmacists, who are health care professionals. The number of pharmacies that can be owned by a pharmacist is typically limited to five.

Community pharmacies also benefit from limited geographic competition to a certain degree as the establishment of a new pharmacy must be at least 1.5 km from an existing operation. In large shopping centres with at least 200 establishments, there cannot be more than two approved pharmacies whereas in smaller shopping centres, a new pharmacy must be at least 500 metres from another approved premise. Similar rules apply in private hospitals and medical centres with only one approved pharmacy allowed.

To comply with the ownership restrictions and reflective of the strong economics of the franchise model, the Priceline network is predominantly run as a franchise model with pharmacists as the franchise partners.

3.1.3 Key trends affecting the pharmaceutical industry

COVID-19 and Omicron

The world continues to be impacted by COVID-19. The most recent variant, Omicron, was designated as a variant of concern on 26 November 2021 by the WHO. Whilst the general consensus appears to be that

[37] With the balance to A$1.15 billion allocated to the National Diabetes Services Scheme ("NDSS") product distribution.

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Omicron is less severe compared with the Delta variant, it is highly transmissible and the number of cases are rising globally putting pressure on healthcare systems. As Omicron spreads through the world, some countries in Europe and Asia have implemented various measures of lockdowns in an effort to restrict mobility and contain the transmission of the virus.

In Australia, the total number of cases acquired in the last 24 hours as at 11 January 2022 was 66,825[38], whilst the total estimated active cases was 612,619[39] cases. Although the case numbers are high, the number of hospitalisations, patients in the ICU and those currently on a ventilator remain low. Australia has thus far refrained from resorting to lockdown measures, however a high degree of uncertainties remain with continuous adverse impact on the supply chain as outlined below:

- Due to high transmissibility, workers in critical industries have been required to isolate for extended periods which has disrupted domestic supply chains. Most recently, Woolworths reported that COVID-19 driven absences had resulted in over 20% of staff being isolated at more than 10% of its distribution centres.
- Elsewhere, Inghams announced that due to staff shortages and supply chain disruptions, delivery of poultry products had been suspended.

Ageing population and access to medication

According to the Australian Bureau of Statistics, the median age[40] of the Australian population has increased from 35 years at 30 June 2000 to 38 years at 30 June 2020. Like most developed countries, Australia's population is ageing as a result of sustained low fertility and increasing life expectancy. In the 20 year period between 2000 and 2020, the proportion of the population aged 65 years+ increased from 12.4% to 16.3%. The ages 65 years+ demographic is estimated to account for c. 53% of pharmaceutical consumption within the industry. This ageing demographic is expected to increase demand for pharmaceutical products which will drive up volumes for CSO Distributors.

The following graph sets out the size of the pharmaceutical wholesale market and the proportion of the age 65 years+ population over the last 20 years.

[38] Australian Government Department of Health.
[39] Ibid.
[40] The age at which half the population is older and half is younger.

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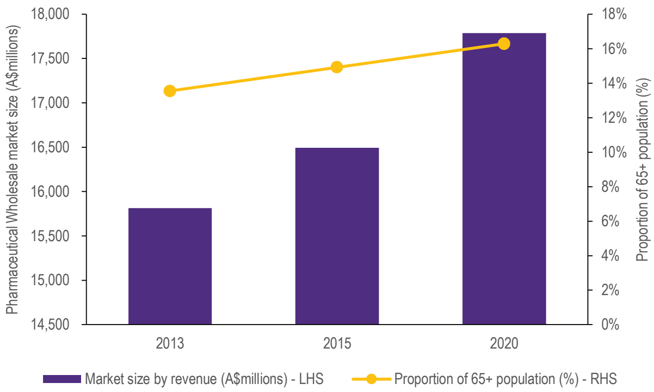
Size of pharmaceutical wholesale market and proportion of 65+ population

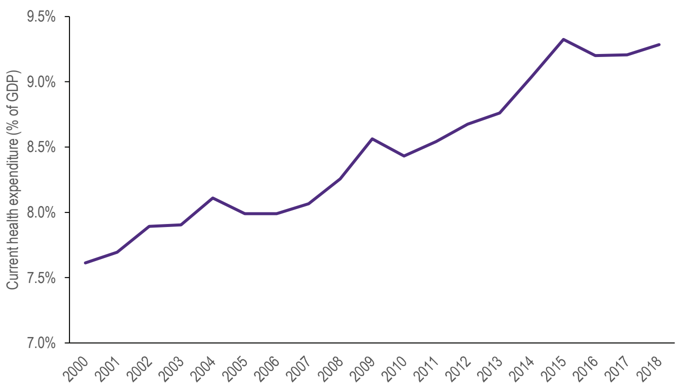


Source: IBISWorld Pharmaceutical Wholesaling in Australia Industry Report May 2021, Australian Bureau of Statistics
Note (1): Given the industry revenue data is not available for 2013, we have assumed that the 2010 proportion is the same as at the 2013.

Healthcare spending

According to the World Bank, between 2000 and 2018, total healthcare spending (as a proportion of GDP) increased from c. 7.6% of GDP in 2000 to c.9.3% of GDP in 2018. Taking into account population growth, per person spending increased an average of 2.7% per year over the period in real terms.

Current health expenditure as a % of GDP



Source: World Bank

Total spending on health in 2021–22 is estimated to be A$98.3 billion, representing 16.7% of the Australian Government's total expenditure which is expected to increase to A$103.2 billion by the end of FY25[41] as set out below.

[41] Budget Strategy and Outlook: Budget Paper No. 1: 2021–22, pp. 161–162.

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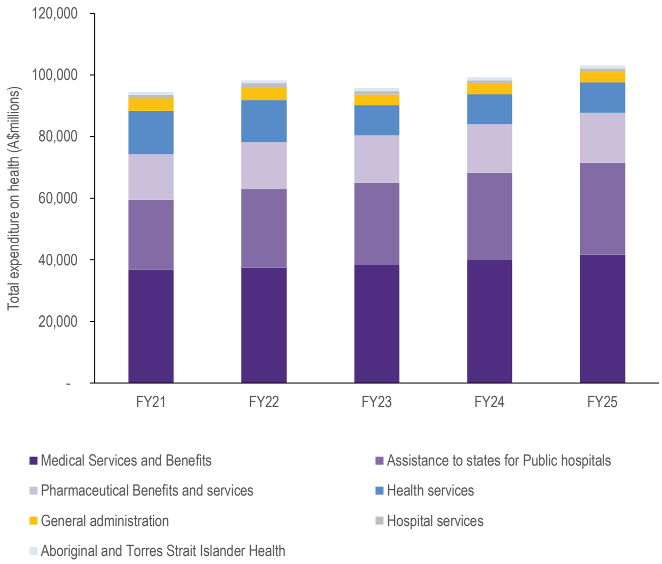
Total expenditure on health from FY21 to FY25 (nominal)



Source: Australian Parliament House Budget Review Paper May 2021

Pharmaceutical benefits and services comprise primarily of Australian Government subsidies for PBS medicines which is expected to be relatively steady over the forecast period.

The 2020-2021 Federal Budget provides for A$878.7 million over five years from 2020–21 for new and amended listings on the PBS, the Repatriation Pharmaceutical Benefits Scheme and the Stoma Appliance Scheme. The government investment in new PBS medicines continues to grow, with more than 2,450 new or amended medicines listed on the PBS since 2013. The most recent Federal Budget has created the PBS New Medicines Funding Guarantee to ensure funding for the listing of new medicines which should support greater volumes for CSO Distributors.

Increasing front-of-house sales

Pharmaceutical retailers are increasing revenue growth via front-of-house general retail products. Relative to PBS Medicines, these products are characterised by higher margin and high volumes and primarily comprise BPC products and non-prescription medicine. This strategy is adopted by discount and mainstream retailers such as Priceline Pharmacy and Chemist Warehouse ("CWH") which target approximately 60%/40% split between general retail sales and dispensary sales which is significantly different for community pharmacies which currently generate the vast majority of revenue from dispensary sales (80%)[42]. Consumers are also increasingly purchasing pharmacy products, including OTC products, from supermarkets which is affecting the profitability of community pharmacies. Many supermarkets now stock a range of widely used non-scheduled medicines which appeals to consumers seeking convenience. As a result, independent pharmacy numbers have continued to decline.

[42] Source: Analyst reports, KordaMentha (November 2018)

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Digital health

Use of technology is now assisting in delivering better healthcare services via secure connection to doctors, electronic prescriptions (or eScrip) or telehealth. Particularly relevant for the industry is the take-up by consumers of electronic prescription which is a digital version of a paper prescription that the healthcare provider can send via an SMS or email in the form of a unique QR barcode (known as a 'token'). Once the prescription is filled, the token is no longer available. This is quickly becoming mainstream for patients given the convenience attached to it. Once the eScrip has been issued, the patient can collect the medicines personally by scanning the token or get them delivered directly at home using, among other means, apps such as MedAdvisor which is a wallet used to track prescriptions and repeat medications. COVID-19 has positively impacted telehealth as doctor's surgeries limited face-to-face consultations and patients sought to avoid visiting hospitals.

3.1.4 Key competitors

The Australian pharmacy industry has experienced a significant change in the last decade, transitioning from a highly fragmented community-based pharmaceutical dispenser to a landscape dominated by discount and healthcare retailers. There are currently c. 5,822 retail and community pharmacies in Australia. The key players in the industry are summarised below:

- *CWH*: It operates Chemist Warehouse and My Chemist stores.
- *Sigma*: It services in excess of 1,200 pharmacies[43] under the brands Amcal+, Chemist King discount pharmacies, Discount Drug Stores, Guardian and PharmaSave.
- *EBOS*: It services in excess of 450 pharmacies[44] under the TerryWhite Chemmart, Cincotta Discount Chemist, Mega Save Chemist, YouSave Chemist, Max Value Pharmacy, BetterBuy Pharmacy and MyMedical Pharmacy brands. EBOS also holds a 25% interest in Good Price Pharmacy Warehouse. EBOS also supplies certain products to CWH.
- *API*: It operates c. 600 pharmacies comprising of 366 franchised Priceline Pharmacies, 43 Soul Pattinson and 45 Pharmacist Advice. In addition, it also services c. 950 pharmacies through Club Premium.

EBOS, API and Sigma are key national CSO Distributors which have in the past suffered competition from the direct-to-pharmacy ("DTP") models used by pharmaceutical manufacturers. Specifically, in November 2017, Amgen and AstraZeneca joined Pfizer in the use of the DTP model for various prescription pharmaceuticals. All three manufacturers used logistics company DHL to supply community pharmacies. Pfizer was the first to adopt a DTP model in January 2011. However, since then, both AstraZeneca and Pfizer reverted back to the previous distribution model with Pfizer selecting CSO distributors (including API) to distribute its PBS medicines, excluding the COVID-19 vaccine.

One of the recently emerged challenges from the traditional community pharmacy industry are discount pharmacists such as CWH. CWH adopts a big box high-volume, low-margin business model, and with a significant marketing presence that includes newspaper inserts, magazine, TV and radio shows, they have

[43] Sigma website.
[44] FY21 presentation and accounts.

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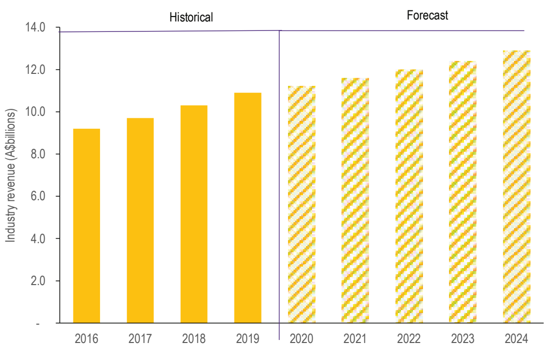
positioned themselves as an inexpensive warehouse offer. Through competitive pricing and an extensive product range, CWH has been able to grow its presence and market share significantly.

The competition has further intensified over the past five years, as supermarkets have expanded their range of general sales medicines alongside their wider BPC products. Supermarkets have played on being a convenience offer that has especially seen their share increase through COVID-19, as the population has frequented supermarkets more than any other retailer during this time.

3.2 General retail for BPC products and complementary medicines

The beauty and personal care market includes skin care, hair care, body care, cosmetics, fragrances, oral care, men's grooming, electrical appliances and dietary supplements. Frost & Sullivan estimates that in CY19[45], the Australian beauty and personal care market (both offline and online) generated sales of approximately A$10.9 billion with a breakdown of sales to be increasingly weighted towards skin care and cosmetics. Sales in this market are also estimated to grow at 4.3% CAGR to FY24.

Historical and forecast – Australian beauty and personal care market[46]



[45] Adore Beauty Prospectus
[46] IBID

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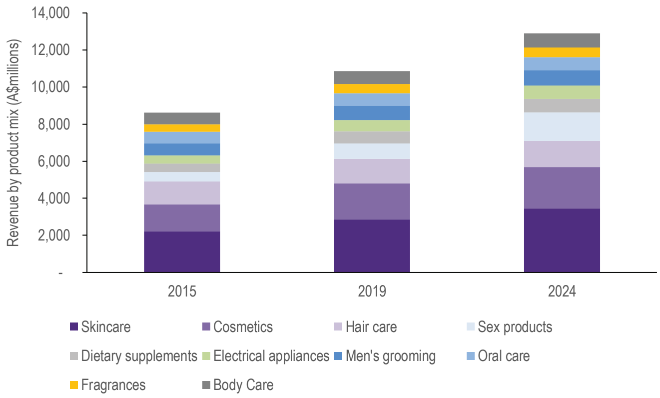
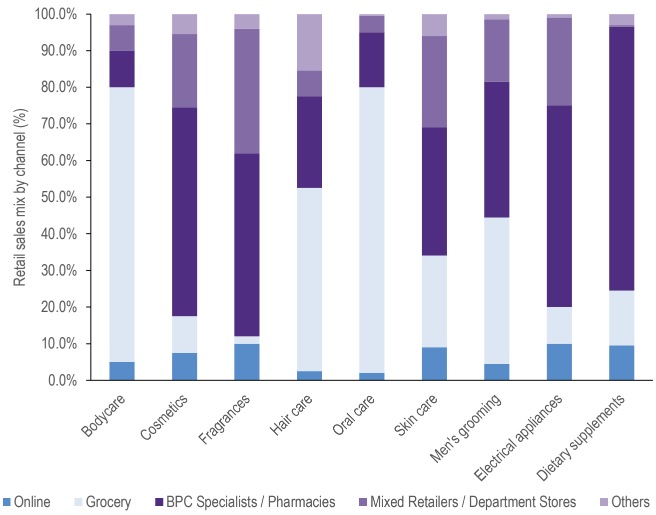
Historical and forecast – Australian beauty and personal care market by product mix[47]



Source: Adore Beauty Prospectus

Frost & Sullivan estimates that, as at CY19, BPC specialists and pharmacies are the largest channel for cosmetics, fragrances, skin care, appliances and dietary supplements as set out in the graph below.

Australian beauty and personal care products by retail channel



Source: Frost & Sullivan Industry Report, Adore Beauty Prospectus

To enhance product differentiation, API and other retailers are entering into exclusive partnerships with brands in order to increase revenue and profitability. New niche and eco-friendly/natural products have

[47] IBID

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been critical for the industry over the past few years with several operators targeting millennial consumers who are willing to experiment with new products and independent brands. Green trends, and the associated eco-beauty, are also projected to stimulate change in the industry's product portfolio over the next few years with products containing natural or certified organic ingredients and being made from sustainable sources and produced ethically. On a similar wavelength is the rise in popularity of complementary medicines which are non-prescription medicines available from health food shops, supermarkets and other retails. Most of these medicines are available for purchase on the shelf for consumers to select, unlike prescription medicines (prescribed by a doctor) and some OTC medicines (selected by a pharmacist). Examples of complementary medicines include traditional herbal medicines, nutritional supplements, vitamins and minerals, homeopathic preparations, weight loss products and others. Most complementary medicines must be included on the Australian Register of Therapeutic Goods ("ARTG") before they can be sold in Australia.

Competition is expected to continue to heighten from online rivals, supermarkets and department stores and large store networks. Supermarkets and large discount groups such as CWH have continued to make inroads into the industry, due to consumers demanding both value for money and convenience, largely at the expense of specialty retailers. More retailers are integrating their offline and online channels to provide a seamless shopping experience as the outbreak of COVID-19 has created an increase in demand for online sales. This has created an opportunity for retailers to invest in their digital infrastructure and grow the offering as a means to meet customer demand in a challenging macroeconomic environment.

With the outbreak of the COVID-19 pandemic, there has been a growing inclination towards online sales which have increased materially as a share of total retail sales. According to the NAB Online Retail Sales Index ("NAB Index")[48], online sales have increased by circa 25.6% from FY20 to FY21. In the 12-month period to August 2021, NAB estimates that Australians spent A$48.6 billion on online retail, which represents a circa 13.9% share of total retail sales and about 29.8% higher market share than in September 2019.

[48] The NAB Online Retail Sales Index measures all online retail spending by consumers using various electronic payment methods such as credit cards, BPAY and PayPal. The Index is derived from personal transaction data from NAB platforms and it is then scaled up to be representative of the economy.

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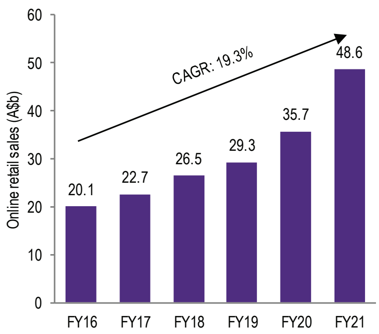
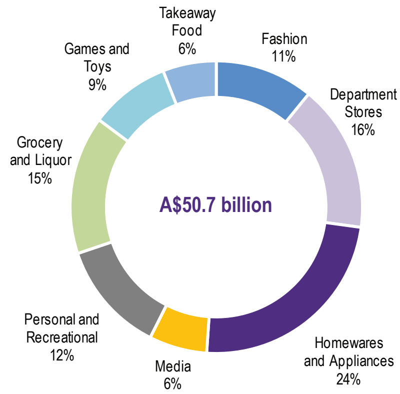
continued

Online retail sales in Australia



Source: NAB Online Sales Index August 2021

Australian online retail sales in FY21



Source: NAB Online Sales Index August 2021

According to Australia Post, the share of online sales as a proportion of the total retail sales is expected to continue to grow due to Christmas, Black Friday and Cyber Monday reaching c. 15% of the total retail market sales[49] by the end of 2021. These holiday sales events are an opportunity to attract a large number of first time online shoppers.

API and its competitors continue to invest heavily in the digital offering in order to maintain and to increase their market shares. There is an increased focus on providing reputable information online; 'how-to' video content and forums for like-minded customers to interact and communicate with each other. Invariably, if the retailer moderates the conversation authentically and without prejudice, they gain credibility with their customers. Other initiatives include offering click-and-collect services, free shipping (subject to minimum orders), reducing delivery time, increasing the range of medicines offered and also promoting their loyalty programs.

3.3 Non-surgical aesthetics markets

The non-surgical aesthetics market primarily comprises elective products or procedures that improve aesthetic appearance. The key offerings in this market are hair removal (laser hair removal), injectables, skincare treatment, facial skincare and body contouring and fat reduction. The following graph sets out the historical and forecast revenue growth in the aesthetics skincare market.

[49] Excluding café', restaurants and takeaway.

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

continued

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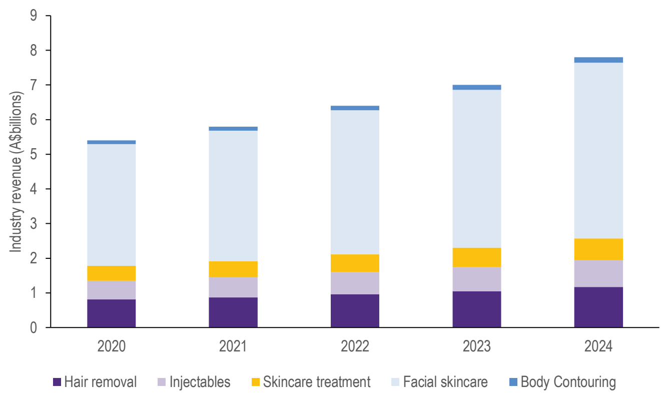
Historical and forecast revenue growth



Source: SILK Laser Clinics Prospectus

In Australia, the estimated addressable market in which Clear Skincare Clinics operates generates an annual revenue of c. A$5.4 billion which is expected to grow (between 2020 to 2024) at a CAGR of 10% to A$7.8 billion. Injectables are the fastest growing segment with an expected CAGR of c. 25% to FY24[50].

The non-surgical aesthetics market is driven by product innovation which has made these treatments more accessible to the general public. Changing consumer preferences have also been a demand driver recently. More specifically, these include:

- An ongoing trend towards convenient and longer-term hair removal and the growing accessibility of permanent hair reduction treatments through competitive pricing compared with non-permanent solutions.
- An increasing female acceptance of cosmetic injectables as a means of providing anti-ageing solutions as well as growth in marketing of anti-wrinkle and dermal filler treatments.
- A growing interest in self-care and wellness has increased focus on skin health and appearance.

The specialist clinic market remains highly fragmented with over 700 small / single clinic operators in Australia. The five largest operators (comprising of Laser Clinics Australia, Clear Skincare Clinics, SILK Laser Clinics, Australian Skin Clinics and Results Laser Clinics) account for c. 31%[51] of the total number of clinics. The basis of competition amongst these operators is driven by scale, pricing, selection and quality of services, location, condition and size of clinic network, client service levels, technical expertise and brand strength.

[50] Grand View Research, Australia Facial Injectable Market Analysis and Segment Forecast to 2027, September 2020.
[51] SILK Laser Clinics Prospectus

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continued

4 Profile of API

4.1 Overview and business model

API is involved in wholesale distribution of pharmaceutical products, medical, health and beauty goods to pharmacies and retail stores and in the sale of health and beauty retail products and services through its owned and franchise network of stores and clinics. It also manufactures pharmaceutical and toiletry products in New Zealand. The Company operates via four divisions:

- *Pharmacy Distribution Division:* The Pharmacy Distribution Division primarily buys products in bulk from pharmaceutical companies and distributes them to the community pharmacies and Priceline Pharmacies using API's existing distribution network in accordance with the legal framework established by 7CPA. The division is characterised by high volumes and low margins, however given it operates in a regulated environment supplying primary need goods, it generates large cash flows. The division also supplies BPC products to the Priceline network and other customers.

- *Priceline Division:* The retail segment comprises 464 stores[52] as at 31 August 2021 as summarised below:

  - *Priceline Pharmacy[53]* – Network of 366 community pharmacies which operates under a franchise model due to the ownership restriction in place discussed in Section 3.1.2. The franchisees are required to purchase at least 95% of their products from API.

  - *Priceline[54]* – 95 health and beauty[55] stores (company-owned) and 3 franchised stores that are not pharmacies.

  In addition, API provides a range of retail products, services and solutions to the Soul Pattinson and Pharmacist Advice banner groups, and to other independent pharmacies through its Club Premium membership program. API also owns the Sister Club Loyalty program and its online website[56] which provides the Priceline and Priceline Pharmacy stores with a strong customer base and a point of differentiation.

- *Clear Skincare Clinics Division:* Clear Skincare Clinics is a provider of non-invasive aesthetic services such as laser hair removal, skin treatments and cosmetic injectables in Australia and New Zealand. As at 31 August 2021, Clear Skincare Clinics had a footprint of 86 clinics. In addition, the division also has a product business that is labelled 'Clear Skincare' with a range of after care and skincare products which sells in clinic, online and in retail outlets including Priceline and Priceline Pharmacy. API acquired 50.2% the business in June 2018 and it has since then increased its shareholding to 100%. Clear Skincare Clinics represents one of the key growth division of the Company.

- *Consumer Brands Division:* This is the product sourcing and manufacturing division of API with two plants both in New Zealand for the production of pharmacy and toiletry products used in the private label market. In July 2021, the Company announced the intention to exit manufacturing in New Zealand and outsource the supply to third parties.

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[52] FY21 Investor Presentation.
[53] Priceline stores that have a pharmacy within the store are known as Priceline Pharmacy.
[54] Priceline stores that do not have a pharmacy within the store are known as Priceline.
[55] 95 Company-owned and 3 non-pharmacy franchise stores.
[56] The Priceline website is Priceline.com.au

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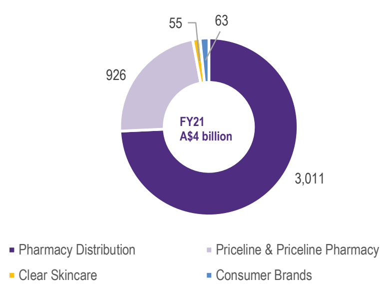
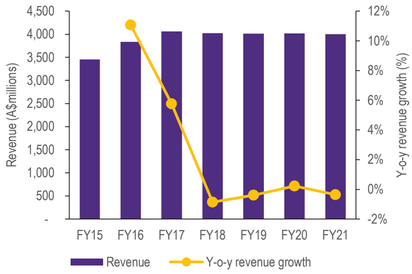
As part of its digital strategy, the Company is focussing on the development a suite of digital assets labelled as the Digital Hub to complement the Sister Club loyalty offering. The Digital Hub is designed to provide analytics on customer behaviours, purchasing preferences and insights into the effectiveness of marketing initiatives across the various divisions and to increase sales through the development of customer targeted products. The Digital Hub aims at creating brand value and enhancing customer loyalty via a better understanding of their behaviours and requirements. This is critical for the future success and growth of the Priceline, Priceline Pharmacy and Clear Skincare Clinics stores/clinics which operate in a highly competitive environment. The opportunity to cross promote and increase revenue from the customer base between the two divisions is an important priority for API. To upsell the high margin Clear Skincare Clinics services to Priceline customers and back for more mainstream cosmetic and skincare brands appears to be a sound and strategic way to increase loyalty.

The following graphs provide a breakdown of API's FY21 financial performance by each division and historical financial performance.

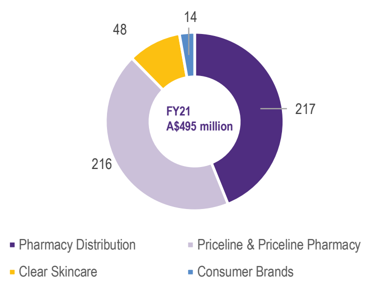
FY21 revenue breakdown



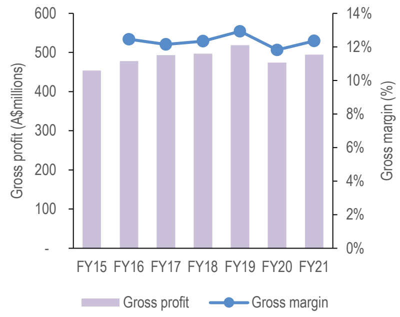
Historical revenue growth



FY21 gross profit by division



Historical gross margin growth



Source: API FY21 Investor Presentation
Note (1): The Priceline revenue reported is Register revenue whilst the revenue of the other divisions represents company revenue. Register revenue is defined as sales recorded at the register of all network stores which excludes dispensary sales. Register sales made by franchisees do not form part of the results of the consolidated entity.

Source: API Historical financial information

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

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The overall performance of the Company was affected by the lockdown measures put in place by the State Governments which adversely impacted the retail operations with Priceline stores closed for 80 days in FY20 and 149 days in FY21 and Clear Skincare Clinics for 128 days and 211 days respectively in the same period. Notwithstanding these challenges, total group revenue for FY21 were substantially in line with FY20 driven by strong performance of the Pharmacy Distribution Division and strong growth in the network of Clear Skincare Clinics. As a result of the difficult retail environment, the Company reduced the Priceline and Priceline Pharmacy network by 10 stores in FY21.

Over the last few years, to respond to challenging market conditions and competitive pressure, the Company has also put in place several strategic and operating initiatives which have reduced the cost of doing business ("CODB")[57] from 10.3% of revenue in FY18 to 8.8% in FY21. A number of these initiatives are expected to generate their full benefits by FY23 but they have also assisted in reducing the investment in working capital in terms and cash conversion days which is a critical KPI for the Company. Specifically, we note the following:

- *Inventory* – API has put in place an inventory optimisation program based on AI[58] to undertake inventory ordering based on current customer behaviour and buyer data from the Sister Club. As a result, inventory days across reduced by c. 6 days from c. 39 days as at 31 August 2019 to c. 33 days as at 31 August 2021.

- *Debtors* – The Company undertakes an in-depth credit analysis before adding new debtor groups by assigning a risk rating category and credit limits to various customers and also actively reviewing and monitoring them. As a result of this, notwithstanding the financial difficulties experienced by some customers, the Company has been able to largely maintain its debtor days, which has contributed to maintaining positive cash flows. Approximately 95% of the outstanding balance related to customers added to the portfolio post 1 January 2020 and is within the typical Company required terms (between 25 days and 55 days) with only 1% of the balance overdue by more than 360 days.

As a result of the above and thanks to the large cash flows generated by the Pharmacy Distribution Division, the net debt of the Group reduced from A$199.1 million in FY19 to A$18.0 million in FY20 with cash conversion days reducing from 21.1 days in FY19 to 16.8 days in FY20. Whilst the latter have remained substantially flat in FY21, the net debt increased to c. A$99.9 million as at 31 August 2021 as the Company invested in a new distribution centre and paid the second instalment for the Clear Skincare Clinics business of A$32.5 million[59]. We have set out below certain financial KPIs monitored by API.

[57] Includes warehousing, distribution, marketing, sales, administration and general and is a percentage of revenue.
[58] AI refers to artificial intelligence
[59] The final instalment was paid on 1 September 2021 (FY22) and it is now wholly owned.

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

continued

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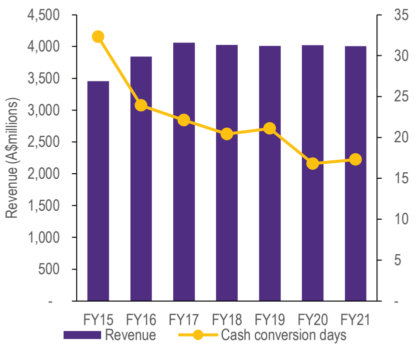
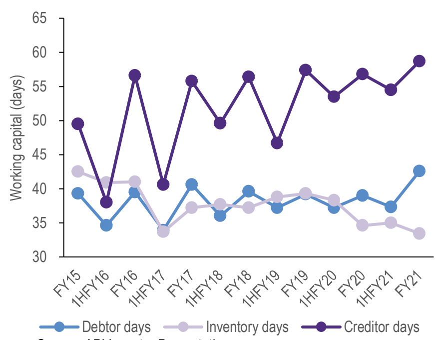
Total revenue and cash conversion days



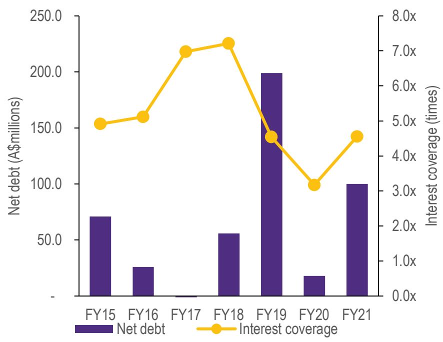
Source: API Investor Presentations

Working capital KPIs[60]



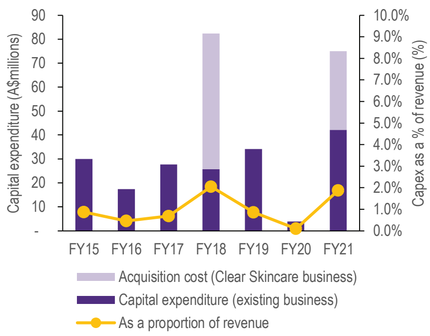
Source: API Investor Presentations

Net debt[61] and Interest coverage ratio[62]



Source: API Investor Presentations

Capital expenditure



Source: API Investor Presentations

4.1.1 Pharmacy Distribution Division

This is the largest division within API and it is a mature, high-volume, low-margin business and the cash flow generation engine of the Company. It is involved in the wholesale distribution of pharmaceutical products, medical, health and beauty goods to pharmacies and retail stores. The most recent large addition to the customers for the division occurred in 2H2020 with the 777 Group, which has 60+ pharmacies and is the largest WA pharmacy banner. As at 31 August 2021, API has seven distribution centres and through an inventory optimisation program has managed to ensure that c. 97% of the inventory is delivered within 24 hours.

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[60] A reduction in inventory and debtor days has a positive impact on the cash flows and results in an increase in the free cash flows. An increase in trade payable days has a positive impact on the cash flows and results in an increase in the free cash flows.
[61] As reported in the API Investor Presentations and represents API's net debt only.
[62] Interest coverage is calculated as Underlying EBIT divided by finance expense. A lower interest coverage ratio is considered unfavourable whilst a higher coverage ratio is considered favourable.

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As discussed in Section 3, the industry is highly regulated with the funding and the amount that API can charge for the distributions of PBS medicines prescribed by the 7CPA which positively impacted API due to the following:

- The CSO funding pool increased slightly and from 1 January 2021.
- The wholesaler mark-up has been restructured to create a minimum mark-up of 7.5%.
- For the first time, a floor on PBS pricing with a guaranteed minimum margin has been introduced in the legislation at A$0.41 per dispense when the ex-manufacturer price is below A$5.50. This is particularly valuable as the prices of PBS medicines continue to fall which historically created margin pressure for the distributors. These changes will have a positive impact on the division's performance.

Revenue can be impacted by disease outbreaks which can contribute large non-recurring revenue to the business. For instance, in FY20, the medication around Hepatitis C was a key driver of revenue contributing c. A$100 million to the FY20 financial performance.

Sales across large seasonal periods like cold and flu and allergy and their ancillary product categories (like tissues, lozenges, cough medicines, chap sticks, vitamins etc.) have been adversely affected through COVID-19. With home schooling, people working from home, public transport use at an all-time low and social outings being curtailed, cold and flu numbers have been reduced significantly as these settings would normally be key drivers for seasonal illnesses.

In addition to the distribution of PBS medicines, a large proportion of the revenue is generated by the distribution of over the counter items sold to pharmacies which tends to grow in line with retail sales and health and beauty products.

The Company has recently entered into certain new agreements which are expected to provide some revenue growth and margin improvements to the division as summarised below:

- *Arrotex Agreement*: The Company entered into an agreement with Arrotex Pharmaceuticals ("Arrotex") for the supply of generic medicines. The agreement is for a period of five years commencing from 1 September 2021. The agreement covers medication under PBS and other medicines. The agreement is expected to result in franchisees accessing products at better pricing and provide API with savings from FY22.
- *Pfizer Agreement*: On 19 May 2021, Pfizer announced that it had transitioned from its direct distribution model to a wholesaler distribution model. From 1 September 2021, API will distribute Pfizer Australia's portfolio of medicines to community pharmacies on a non-exclusive basis. This new arrangement will not include Pfizer's COVID-19 vaccine. This initiative is expected to deliver an additional EBIT of A$4 million on an annualised basis from FY22.

Given top-line growth opportunities are limited, the Company has limited control over revenue, it has been therefore required to undertake various cost saving initiatives in order to maintain or increase its profitability. These have mainly revolved around optimising its distribution network and inventory. Notably, the Company has reduced its distribution centres from 15 to 7 and it is in the process of finalising its largest and fully automated distribution facility at Marsden Park which is expected to be fully operational by FY23. The facility is expected to cost c. A$50 million of which automation capex is the largest component (c. A$35 million) whilst the balance A$15 million comprises of operating expenses, IT capital expenditure,

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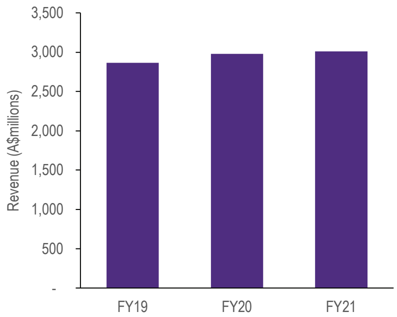
transition costs and contingency. The site on which the distribution centre will be developed has been leased under a long-term contract with a fixed annual escalation. This new facility will create increased efficiencies in the distribution of products to the wholesale and retail sale networks and is estimated to generate cost savings (resulting in an increase in EBIT) of A$8 million per annum once fully operational. Management have advised that construction is progressing in line with expectations with the facility expected to be fully operational by FY23.

API provides a range of retail products, services and solutions to the Soul Pattinson and Pharmacist Advice banner groups, and to other independent pharmacies through its Club Premium membership program. The range of services offered by API to these groups and independent pharmacies includes branding, category management, merchandise, training (product and people), marketing and reporting support services. Those individual pharmacies also negotiate and purchase pharmaceutical and other retail products from API.

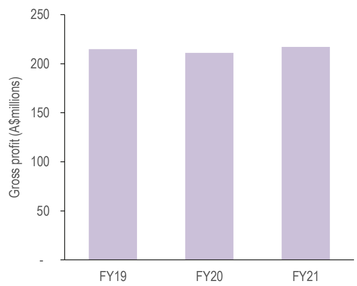
The following table sets out the revenue and gross margin during FY19, FY20 and FY21 acknowledging that FY20 and FY21 have been impacted by COVID-19.

Revenue – Pharmacy Distribution



Source: API FY21 Investor Presentation
Note (1): This represents the reported revenue and no adjustment has been made for the impact associated with Hepatitis C medication in FY20 and COVID-19 vaccines in FY21

Gross profit – Pharmacy Distribution



Source: API FY21 Investor Presentation
Note (1): This represents the reported revenue and no adjustment has been made for the impact associated with Hepatitis C medication in FY20 and COVID-19 vaccines in FY21

Pharmacy distribution revenue has increased slightly between FY19 and FY21 reflecting the growth prescription and new contract wins. The inventory optimisation program has resulted in improved stock positions which contributed to maintaining gross margins.

For YTDFY22, the pharmacy distribution performance has been mostly positive with sales in excess of budget. The division has been able to maintain inventory management through decline in excess stock levels, stable stock availability for customers and category management team holding suppliers to account. In spite of positive cases being reported amongst teams, there have been no on-site COVID-19 transmissions. As a result of COVID-19 restrictions and wet weather, there have been some delays in the expected completion of the Marsden Park facility; however, overall timing of commencement is expected to remain unchanged. These delays have also resulted in some savings on rent which are expected to be applied to extra resourcing in order to make up for lost time.

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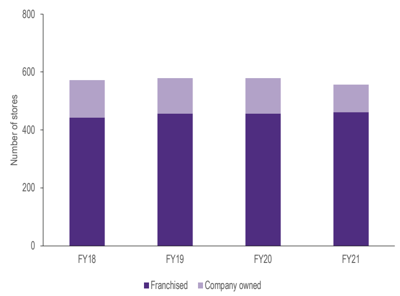
4.1.2 Priceline Division

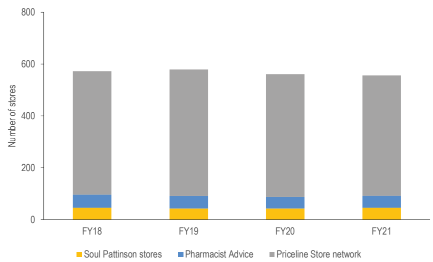
The Priceline Division comprises of health and beauty stores trading under the Priceline banner, with mostly wholly owned by the Company[63] which do not dispense PBS medicines, and the franchising pharmacies trading under the Priceline Pharmacy banner. We have set out below the historical growth and breakdown of the network.

Historical growth in the network - Type



Source: API Information

Historical growth in the network – Brand



Source: API Information

Before FY21, the Company had maintained the number of Priceline owned non pharmacy stores relatively stable between 100 and 130 stores and usually converted 3-5 Priceline stores into Priceline Pharmacy stores every year depending on geographic restriction. In FY21, the Company closed a total 12 Priceline stores and opened one store[64] resulting in a net reduction of the Company-owned Priceline store network from 106 to 95. The majority of the 12 stores closed were as a result of the impact of lockdown restrictions, particularly in the CBD locations where foot traffic did not return to pre-COVID-19 levels even when lockdowns eased.

Priceline Pharmacy is a franchise arrangement in which the pharmacists partner with API providing patient care and professional health advice while API, through its support services function and broader retail experience, provides back office support systems and compliance requirements. Franchisees use the Priceline brand name and benefit from marketing investments made by API in return for a fee that is determined pursuant to the franchise agreement. Priceline Pharmacy stores benefit from the collective bargaining power of API and also have access to customers through the Sister Club Loyalty Program (discussed below in detail). This ability to reduce the costs for the franchisees by buying the products via the Pharmacy Distribution Division and increase revenue via accessing Sister Club Loyalty Program customers assist in creating significant entrenchment for franchisees, helping to de-risk the franchise model.

Franchisee departures typically are the result of the sale of business by the pharmacists. During FY21, the Company has seen the departure of some challenging franchised stores in New South Wales due to poor operations and financial circumstances of the owners. API plans to expand the Priceline Pharmacy store network and is targeting at least 1% growth in LFL sales.

[63] Plus four franchise stores.
[64] The overall Priceline Pharmacy and Priceline network reduced by a net 10 stores.

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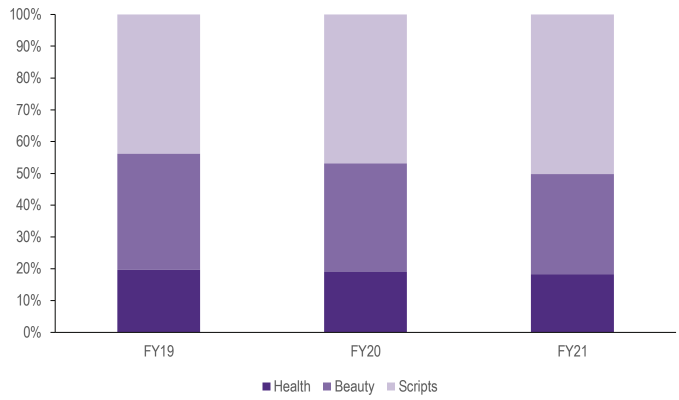
The network mix between pharmacy and general beauty stores affects the products breakdown with API more skewed towards front of store products than some of its key competitors given that the Priceline company-owned stores do not dispense medicines. Non-medicines products accounted for 50% of the product mix in FY21 as set out in the graph below.

Historical Priceline network product mix (by revenue)



Source: Management information

Historically, Priceline stores focussed on stocking low-end/mainstream cosmetic products but market shift towards premium and more natural/organic products has affected the business with negative or limited LFL[65] sales growth. More recently, the Company has embarked on a campaign of premiumisation targeting new and exclusive product ranges/brands to create a destination experience for customers. During FY21, the Priceline stores launched 59 new and exclusive brands. The launch of Boots No7 skincare range was particularly successful. We have set out below the LFL sales growth rate of the Priceline store network.

Priceline Pharmacy	FY16	FY17	FY18	FY19	FY20	FY21
Like for like sales change (%)	2.8%	(0.4%)	(1.1%)	0.7%	(6.0%)	0.8%

Source: Analyst report
Note (1): FY21 LFL sales exclude CBD Store sales. All prior year data includes CBD store sales. CBD Store sales have been excluded due to the impact of lockdowns as during lockdowns, franchisees continued to operate the stores (within the rules of prevailing public health orders) whilst the API-owned CBD stores were closed down.

Sister Club is a loyalty program owned and operated by API. No membership fee is payable by the members with the Sister Club loyalty program considered Australia's leading health and beauty loyalty program with a reported national population penetration of 28%. Sister Club has approximately 7.5 million members[66] with 93% of these being female members. 56% of transacted retail sales are made up by Sister Club members with the average basket size of purchases being 35% larger than non-member basket. The Sister Club program has three tiers – Pink Diamond, Diamond and Sister Club. Of these, the

[65] Like-for-like sales comparing the same store sales between periods including dispensary, excluding CBD stores after adjustment for stores impacted by COVID-19.
[66] FY21 Investor Presentation

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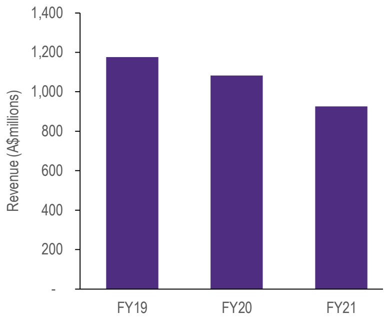
Pink Diamond tier customers transacted 29 times a year with an average basket size higher than non-members.

From a digital strategy perspective, the division has partnered with Roy Morgan to use their analytics tool, Helix Personas, to further develop customer insights, and with Google analytics. API has also been investing heavily in its online product suites with a new ecommerce platform expected to be delivered by the end of FY22 which will supplement the current offers based on click-and-collect and click-and-deliver services to boost its online sales.

In addition, the Company has recently launched its Priceline App, powered by MedAdvisor, allowing for additional information and prompts to be delivered to customers regarding use of their medications and when it is time to renew their scripts and to have them dispensed at their Priceline Pharmacy stores.

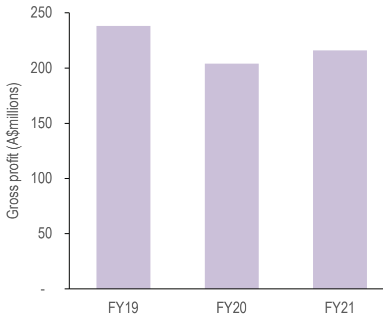
The following graph sets out the retail register revenue[67] and growth in stores (company-owned and franchise).

Revenue – Priceline register revenue[68]



Source: API Investor Presentations

Gross profit – Priceline Division



Source: API Investor Presentations

During FY20 and FY21, retail register revenue decreased due to COVID-19 induced mandatory shutdowns and reduction in the stores numbers discussed before. The Company has noted that all API owned Priceline stores were required to be closed during FY21 with some of these being closed for 41% of the available trading days compared to 22% in FY20. Whilst store closure impacted store sales, online sales during this period increased by 62%.

During YTD FY22, register sales were higher than forecast. The division continues to invest in the digital ecosystem with large customer groups around health services, ordering and delivery cycles.

API intends to grow the number of Priceline and Priceline Pharmacy stores going forward and it has held discussions at the various state and regional levels to identify gaps and opportunities for new pharmacies. The Company has also held discussions with potential owners to understand and identify the challenges and concerns within the network.

[67] Retail register revenue are all register sales by franchise and company stores in the Priceline/Priceline Pharmacy brand, including dispensary sales. Register sales made by franchisees do not form part of the results of the consolidated entity.
[68] IBID

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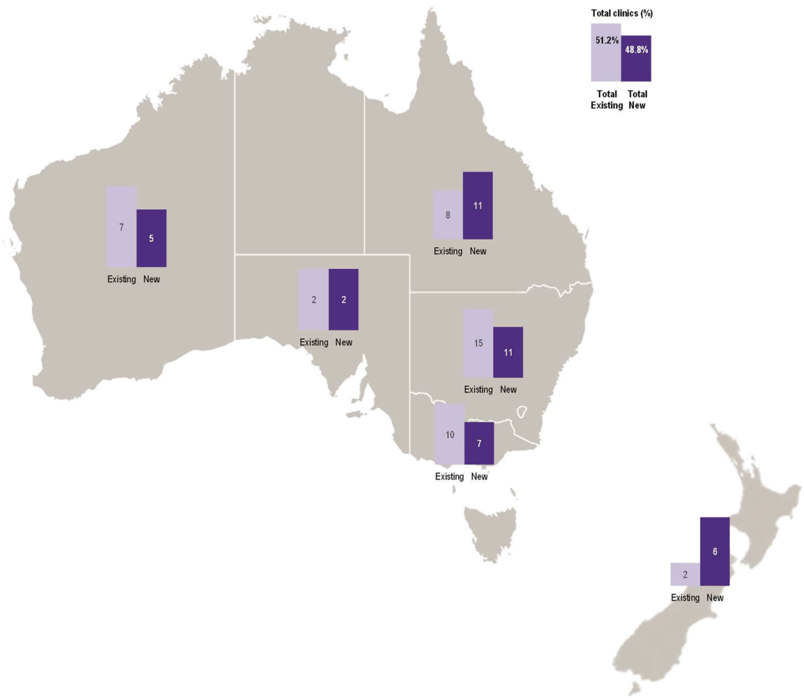
4.1.3 Clear Skincare Clinics

In June 2018, API announced the acquisition for A$127.4 million[69] of the assets of Clear Skincare Clinics and its products business, a leading provider of non-invasive aesthetic services such as laser hair removal, skin treatment and cosmetic injectables with 42 clinics in Australia and 2 in New Zealand at the time of the acquisition. Since then, API has grown the network of clinics to 78 in Australia and 8 in New Zealand as at 31 August 2021. All stores are owned by API. The following graph sets out the geographic reach of the Clear Skincare Clinics.

Clear Skincare Clinics geographic reach



Source: API FY21 Investor Presentation

Clear Skincare Clinics focus on specialty skin, anti-ageing, and acne treatments, which represents in excess of 95% of the revenue mix. It also sells proprietary skincare products, particularly anti-ageing and acne treatments. Laser procedures, which are lower margin services, represent c. 50% of FY21 revenue, whereas the higher margin cosmetic injectables accounted for 6% of revenue whilst the balance comprises skin-related procedures. Some procedures are undertaken by nurses and require a prescription whilst others are undertaken by therapists which are not registered healthcare practitioners.

[69] Paid in instalments over three years with the last payment made on 1 September 2021.

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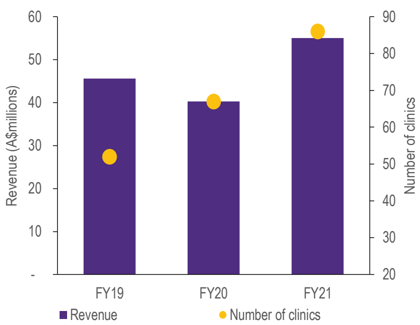
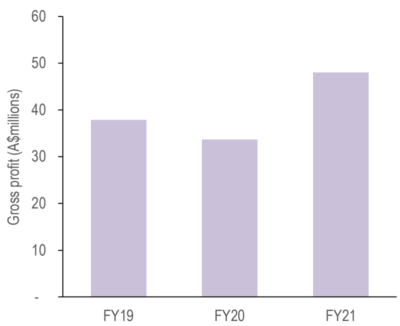
Since acquisition of Clear Skincare Clinics in 2018, the average revenue per customer has grown at a CAGR of 16.2% and customer numbers have grown by 104%. The following graph sets out the historical growth in revenue and gross margin of the Clear Skincare Clinics business in conjunction with new clinics opened.

Revenue – Clear Skincare Division



Source: API Investor Presentations

Gross profit[70] – Clear Skincare Division



Source: API Investor Presentations

The closure of the stores due to lockdowns and the slower ramp-up of the new clinics is the reason for the revenue reduction in FY20. On average, a clinic takes c. 2.5 years to become cash flow positive and out of the 86 clinics, 42 clinics (representing c. 49% of the total number of clinics) have been operational for, on average, less than 2 years. As the newer clinics mature, Management expect to realise improvements in financial performance and profitability.

During YTDFY22, cash sales in October substantially exceed pcp[71] with clinics that have all re-opened and trading strongly in Australia. NZ clinics continue to remain closed due to lockdown restrictions. Whilst the industry continues to remain competitive, API continues to focus on leveraging the Sister Club database to target Sister Club members in each clinic's catchment as well as developing new services, new products and re-engineering some targeted skin service offerings. The Company continues to assess inorganic clinic acquisitions.

4.1.4 Consumer Brands

The Consumer Brands division focuses on the manufacturing, distribution and sales of OTC health products which are distributed in Australia and New Zealand mainly via the Priceline network. It has two broad offerings – Healthcare Brands which comprises OTC health products and Personal Care brands which provides consumer products such as hand sanitisers. Following a strategic review, the Company made the decision to exit its Personal Care business and as at the date of this report, this process is complete. The one-off closure costs are A$31.1 million all of which were incurred during FY21. These costs are offset by a net gain on sale of c. A$6.6 million which will be received in FY22.

The division sources a large proportion of its raw material from China and India but ongoing travel restrictions and supply chain challenges affected its operations in FY20 and FY21. The outbreak of

[70] Gross profit is before the related staff costs; however, lease and other costs are included.
[71] Prior Corresponding Period

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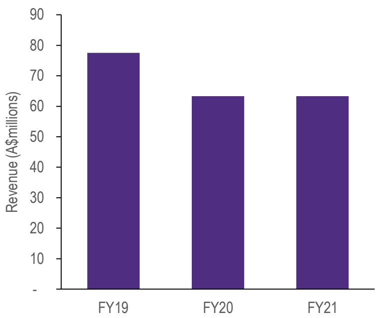
COVID-19 also reduced the demand for cold and flu products which are a key revenue driver for the business.

As part of its closure of the Personal Care business, the Company announced plans to cease manufacturing at its New Zealand facility with products for the Healthcare Brands business to be sourced via contract manufacturing from third party suppliers. As part of this process, the Company intends to hire personnel to set up a private label sourcing team which will be responsible for ensuring that contract manufacturers deliver the products and engage in customer relationship. With respect to de-risking supply, the Company already has existing relationships in place such that the switch to contract manufacturing is not expected to have any impact on the Company's ability to meet customer demand. Further, the Company has had discussions with its largest customer and understands that the customer has no reservations with regard to the Company's decision. The manufacturing plant is subject to an unconditional contract of sale with settlement occurred on 3 December 2021 with cash proceeds of A$11.5 million. The switch to contract manufacturing and the sale of the plant is expected to generate an incremental EBIT per annum of A$5 million from mid-FY23.

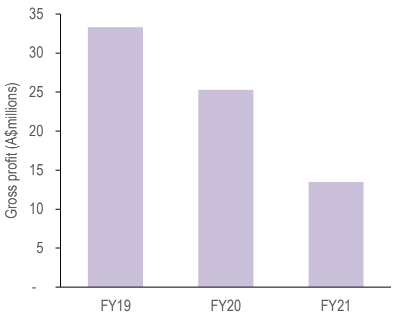
In FY21, the division produced c. 540 products which mainly comprise of generics and skincare products. The following graphs set out the FY19, FY20 and FY21 revenue and gross profit achieved by the Consumer Brands division.

Revenue – Consumer Brands Division



Source: API Investor Presentations

Gross profit – Consumer Brands Division



Source: API Investor Presentations

Relative to FY20, revenue remained largely consistent whilst gross profit was lower reflecting the impact of COVID-19 on raw material supply and one-off items relating to the restructuring of the division.

YTDFY22 sales were positively influenced by forward sales by contract manufacturing customers stocking up in advance of the closure of Consumer Brands manufacturing. The Company continues to explore alternatives for the sale of its Personal Care division.

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4.2 Financial Information

4.2.1 Financial Performance

The table below illustrates the Company's audited consolidated income statement for the periods FY19 to FY21.

Consolidated statements of financial performance	FY19	FY20	FY21
A$ '000	Audited	Audited	Audited
Revenue	4,010,725	4,019,525	4,004,863
Cost of sales	(3,492,420)	(3,545,031)	(3,510,342)
Gross profit	**518,305**	**474,494**	**494,521**
Other income	27,525	14,470	5,993
Warehousing and distribution expenses	(141,557)	(145,553)	(143,071)
Marketing and sales expenses	(217,934)	(190,035)	(192,291)
Administration and general expenses	(92,293)	(110,257)	(137,311)
Impairment of brand name	-	(37,500)	-
Profit from operating activities (EBIT)	**94,046**	**5,619**	**27,841**
Finance income	395	67	4
Finance expenses	(20,701)	(19,146)	(15,382)
Net finance costs	**(20,306)**	**(19,079)**	**(15,378)**
Profit / (loss) before tax	**73,740**	**(13,460)**	**12,463**
Income tax (expense) / benefit	(17,163)	6,354	(11,317)
Profit / (loss) for the year	**56,577**	**(7,106)**	**1,146**
Statutory:			
Gross margin	*12.9%*	*11.8%*	*12.3%*
EBIT Margin (%)	*2.3%*	*0.1%*	*0.7%*
Net profit margin	*1.41%*	*(0.18%)*	*0.03%*
Underlying:			
Underlying Cost of Doing Business	*10.9%*	*8.6%*	*8.8%*

Source: API's FY21 and annual report
Note (1): FY19 results are on a pre-AASB 16 basis as the Company has adopted a modified retrospective approach with the cumulative effect of initial application being recognised as an adjustment against the opening accumulated losses with no restatements for comparative periods; (2) FY20 results are restated based on information included in the FY21 investor presentation.

In relation to the above, we note the following:

- *Revenue*: The Company generated A$4 billion in revenue, which represented a minor reduction of 0.4% relative to FY20 primarily attributable to the mandatory shutdown of the Company's Priceline stores and Clear Skincare Clinics in New South Wales and Victoria due to COVID-19 restrictions. This decrease in revenue was marginally offset by an increase in Pharmacy Distribution revenue to A$3 billion constituting an increase of 1.1% between FY20 and FY21. The franchise fee received from the Priceline Pharmacy network is reported as service revenue and this reduced from A$164 million in FY19 to A$158 million in FY21.

- *Gross margin*: Gross margin remained largely consistent over the period ranging between 11.8% and 12.9% of revenue. During FY19, the Company undertook a restructure of a dedicated inventory management team and implementation of a new inventory management ERP tool which assisted in reducing the inventory days from c. 39 days as at 31 August 2019 to c. 33 days as at 31 August 2021 and have been maintained at these levels since. Inventory days has also improved due to inventory optimisation and demand planning initiatives across majority of the states.

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- *COVID-19 support* – During FY21, Clear Skincare Clinics received COVID-19 support and assistance of A$0.7 million under the Australian JobKeeper program versus c. A$3.5 million in FY20 as well as receiving New Zealand Wage Subsidy and Resurgence Support Payments of c. A$0.4 million in FY21 and c. A$0.3 million in FY20.

- *Cost of Doing Business*: Underlying CODB was higher in FY19 as a result of the integration of the Clear Skincare Clinics business. The FY20 CODB has been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software-as-a-Service which had the effect of reducing the FY20 CODB[72]. FY21 CODB remains broadly in line with FY20. For FY21, restructuring initiatives included closing Priceline company-owned retail stores that were no longer profitable, commencing the exit of manufacturing in Consumer Brands in New Zealand and developing a new highly automated distribution centre in Marsden Park, NSW that will significantly reduce supply chain costs when it opens in FY23. The marginal increase in the FY21 CODB is as a result of the increase in the Clear Skincare Clinics business which opened 19 clinics during the year and the associated staffing and other costs are incremental to the prior year.

- *One-off restructuring cost:* Administration and general expenses include one-off restructuring costs associated with the strategic initiatives being implemented by Management of c. A$11.6 million[73] in FY20 and c. A$25.9 million in FY21.

- *Impairment expense*: There was a one-off impairment of brand name expense recorded in the FY20 period of A$37.5 million relating to the write down of the Soul Pattinson brand name in recognition that API will not seek to grow this banner further.

The Company has also provided an underlying EBITDA and EBIT analysis which are non-statutory measures to further evaluate the financial performance of the Company. This analysis includes a number of underlying adjustments for the FY21 financial period as provided in the table below.

[72] The IFRS Interpretation Committee opined that where an intangible asset has been recognised, any ongoing cost associated with the intangible asset (such as Software-as-a-Service) will be capitalised. As a result of this the FY20 and FY21 CODB reduced. For completeness, Management have not restated FY19 CODB and therefore comparisons should be considered with caution.
[73] The remainder of the restructuring costs of c. A$6 million is reported under cost of sales and therefore have not been discussed here.

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Underlying performance of API A$ '000	FY20 Unaudited	FY21 Unaudited
EBITDA:		
Reported EBITDA	91,940	116,179
Add Back: Restructure & Reorganisation	17,622	8,378
Add Back: Strategic Business Initiatives	-	1,796
Add Back: Consumer Brands New Zealand	-	32,035
Add Back: Impairment of Brand Name	37,500	-
Total non-recurring items	55,122	42,209
Underlying EBITDA	**147,062**	**158,388**
EBIT:		
Reported EBIT	5,619	27,841
Total non-recurring items	55,122	42,209
Underlying EBIT	**60,741**	**70,050**
KPIs:		
Underlying EBITDA margin	*3.7%*	*4.0%*
Underlying EBIT margin	*1.5%*	*1.7%*
Underlying Cost of Doing Business	*8.6%*	*8.8%*

Source: API's FY21 annual report

4.2.2 Financial Position

The table below illustrates the Company's audited consolidated balance sheet as at 31 August 2019, 31 August 2020 and 31 August 2021.

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Consolidated statements of financial position	31-Aug-19	31-Aug-20	31-Aug-21
A$ '000	Audited	Audited	Audited
Assets			
Cash and cash equivalents	30,181	60,713	38,794
Trade and other receivables	657,932	537,899	589,093
Inventories	413,258	368,180	352,949
Lease Receivables	-	6,530	5,054
Assets held for sale	-	-	3,868
Total current assets	**1,101,371**	**973,322**	**989,758**
Trade and other receivables	57,544	22,534	10,947
Lease Receivables	-	23,002	18,692
Financial assets at fair value through other comprehensive income	87,849	1,200	2,400
Net deferred tax assets	-	20,641	22,051
Right-of-use assets	-	125,079	121,039
Property, plant and equipment	107,130	109,817	109,785
Intangible assets	301,901	264,401	255,270
Total non-current assets	**554,424**	**566,674**	**540,184**
Total assets	**1,655,795**	**1,539,996**	**1,529,942**
Liabilities			
Trade and other payables	790,270	741,945	719,581
Loans and borrowings	59,596	8,260	20,866
Lease liabilities	-	40,404	46,457
Provisions	35,235	34,632	37,360
Income tax payable	2,380	7,441	1,211
Total current liabilities	**887,481**	**832,682**	**825,475**
Trade and other payables	80,079	33,431	-
Deferred tax liabilities	8,239	-	-
Loans and borrowings	169,683	70,423	117,874
Lease liabilities	-	141,790	128,976
Provisions	5,663	6,899	17,113
Total non-current liabilities	**263,664**	**252,543**	**263,963**
Total liabilities	**1,151,145**	**1,085,225**	**1,089,438**
Net assets	**504,650**	**454,771**	**440,504**
Net debt	**(199,098)**	**(17,970)**	**(99,946)**
Return on Capital/Equity:			
Underlying Return on Equity	11.0%	6.4%	8.8%
Underlying Return on Capital Employed	16.3%	10.4%	14.3%
Net debt:			
Reported (Pre-AASB 16)	(199,098)	(17,970)	(99,946)
Reported (Post-AASB 16)	(199,098)	(200,164)	(275,379)
Working Capital:			
Net working capital	258,385	182,769	257,154
Inventory Days	39.3	34.6	33.4
Cash Conversion Days	21.1	16.8	17.3
Trade Debtor Days	39.2	39.0	42.6
Trade Payable Days	57.4	56.8	58.7

Source: API's FY21 and FY20 annual report

In relation to the above, we note the following:

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- *Net working capital*[74]: Whilst total revenue has been relatively flat at A$4 billion, net working capital has reduced marginally from A$258 million in FY19 to A$257 million FY21. This has been due to the following:
  - Inventory days has reduced from 39 days in FY19 to 33 days in FY21. This has been driven by the inventory optimisation measures being undertaken by Management over the past two years which have been discussed earlier in this section.
  - Trade receivable days has increased marginally from 39 days in FY19 to 42 days in FY21. This has been due to the uplift in Pharmacy Distribution sales in FY21 driving a A$51.2 million increase in current trade receivables. Excluding this, the level of trade debtors would be broadly consistent with the FY20 debtor balance.
  - Trade payable days has been maintained between 57 and 58 days between FY19 and FY21.
  - Cash conversion days have also been maintained between 22 days and 17 days between FY19 to FY21.
- *Lease receivable:* API has a number of subleasing arrangements whereby leased property is subleased to franchisees. These subleases are at-market and during FY21 there was a reduction in the sublease (current and non-current) from A$29 million to A$23 million primarily on account of receipt of the income from the subleases.
- *Fixed assets*: Given the strategic initiatives implemented by the Company have been largely operational, the fixed asset base of the Company has remained largely consistent at c. A$110 million as the capital expenditure incurred is largely for maintenance purposes.
- *Intangible assets*: Between FY19 and FY20, the intangible assets balance declined from c. A$301 million to A$264 million on account of the impairment in the Soul Pattinson brand name of c. A$37 million. Goodwill represents A$129 million out of the total intangible assets.
- *Net debt* – The following table sets out the net debt excluding lease liabilities under AASB 16.

Net debt A$000s	31-Aug-19	31-Aug-20	31-Aug-21
Cash and cash equivalents	30,181	60,713	38,794
Loans and borrowings - current	(59,596)	(8,260)	(20,866)
Loans and borrowings - non-current	(169,683)	(70,423)	(117,874)
Net debt (Pre-AASB 16)	**(199,098)**	**(17,970)**	**(99,946)**

Source: API Annual Reports

We have set out below a description of the debt facilities.

- *Bank Overdraft:* The Company is a guarantor to a bank facility agreement which provides a total overdraft facility of A$25 million to entities within the Group. Interest on the bank overdrafts is in accordance with prevailing market rates.

[74] The net working capital includes current and non-current balances as reported in the financial statements by API.

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- *Interest bearing loans:* This multi-currency revolving loan facility has a limit of A$170 million with an expiry of 30 September 2024. The facility is secured over the assets of the Group. Interest is based on the BBSW[75] reference rate plus a margin.

- *Securitisation:* The Company's funding policy includes the securitisation of current trade receivables provided the receivables meet certain criteria. The facility limit is c. A$300 million comprising a redraw overdraft facility of A$130 million and a term facility of A$170 million. The facility imposes rights and obligations on the Company with respect to the quality and maintenance of the receivables, collection, settlement and reporting. The current expiry of the securitisation facility is September 2024.

API has recently been the subject of a class action in Victoria's Supreme Court. API has denied the plaintiff's allegations and will defend the action and will continue supporting Priceline Pharmacy franchisees through the challenging macroeconomic environment.

4.2.3 Cash Flow Statement

The table below illustrates the Company's audited cash flow statements for the period FY19 to FY21.

[75] Bank Bill Swap Rate ("BBSW")

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Consolidated statements of cash flow	FY19	FY20	FY21
A$ '000	Audited	Audited	Audited
Cash flows from operating activities			
Cash receipts from customers (Inclusive of GST)	4,359,494	4,575,669	4,361,243
Cash payments to suppliers and employees (inclusive of GST)	(4,301,329)	(4,336,241)	(4,260,368)
Cash inflow from operating activities	**58,165**	**239,428**	**100,875**
Interest received	396	67	4
Finance costs paid	(19,502)	(13,045)	(10,121)
Income taxes paid	(27,450)	(10,935)	(18,958)
Net cash inflows from operating activities	**11,609**	**215,515**	**71,800**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	1,533	-	3,678
Payments for property, plant and equipment and intangibles	(35,704)	(39,992)	(45,854)
(Payments for) / Proceeds from financial assets at fair value through other comprehensive income	(85,901)	80,978	(1,200)
Payments for minority interest acquired	-	-	(32,900)
Receipts from subleases	-	8,771	7,357
Dividends received	3,533	1,373	-
Net cash (outflows) / inflows from investing activities	**(116,539)**	**51,130**	**(68,919)**
Cash flows from financing activities			
Proceeds from borrowings	2,722,269	4,034,050	6,631,539
Repayment of borrowings	(2,585,935)	(4,182,794)	(6,583,458)
Lease payments during the period	-	(70,400)	(67,615)
Payment of finance lease liabilities	(891)	-	-
Dividends paid	(38,171)	(19,706)	(17,243)
Net cash (outflow)/inflow from financing activities	**97,272**	**(238,850)**	**(36,777)**
Net (decrease) / increase in cash and cash equivalents	(7,658)	27,795	(33,896)
Cash and cash equivalents at the beginning of the year	35,948	28,237	56,061
Effects of exchange rate fluctuations on cash held	(53)	29	(117)
Cash and cash equivalents at year end	**28,237**	**56,061**	**22,048**

Source: API's FY21 and FY20 annual report

We note the following in relation to API's cash flow statement:

- *Operating cash flows*: Net cash flows from operating activities declined in the FY21 period due to the lockdown which affected the Priceline and the Clear Skincare Clinics. During FY20, the Company managed to record high level of collections from debtors and sale of inventory (c. A$200 million in total) which resulted in a significant increase in the operating cash flows.
- *Investing cash flows*: There has been significant variability in cash flows from investing activities between the FY20 and FY21 periods due to following:
  - As part of the 2018 acquisition of Clear Skincare Clinics, API exercised a put and call option, with a total amount payable of A$65.8 million in relation to the acquisition of Clear Skincare Clinics. A$32.9 million were paid on 1 September 2021 (FY22) with the balance paid on 1 September 2020 (FY21).

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- The acquisition of the financial asset relates to API's acquisition of a 13% interest in Sigma Healthcare Limited during FY19 in relation to the potential merger between the two businesses. However, API's scrip merger was rejected by Sigma and API sold its interest in FY20.
- The Company has also incurred A$23.3 million in costs on the Marsden Park distribution centre during FY21.
- The remaining capital expenditure relates to routine capital expenditure across other parts of the business and has remained consistent between FY19 and FY21.

- *Financing cash flows*: The large proceeds from borrowing and repayment of borrowing is in relation to the securitisation facility.
- *Dividend and Dividend yield:* For FY20 and FY21, given the impact of COVID-19, API declared a reduced fully franked dividend of 2 cents per share. The following table sets out API's dividend per share, Payout ratio and dividend yield between FY19 to FY21. We note that the 2 cents fully franked dividend paid on 15 December 2021 will reduce the Scheme Consideration by the same amount in accordance with the terms of the SID.

Dividend policy	FY19	FY20	FY21
Dividend on ordinary shares (Cents/Share)	7.750	6.000	3.500
Payout ratio	70.0%	33.0%	44.0%
Dividend yield (based on closing Price)	5.9%	5.6%	3.1%

Source: API Annual Report, ASX Website
Note (1): Dividend yield has been calculated with reference to the trading price as at 31 August 2019, 31 August 2020 and 31 August 2021.

4.3 Share capital structure

As at the date of this report, API's capital structure comprised the following securities:

- 492,656,035 ordinary shares; and
- 6,611,351 performance rights.

4.3.1 Share price movements

Our analysis of the daily movements in API's share price and volumes since December 2020 is set out below.

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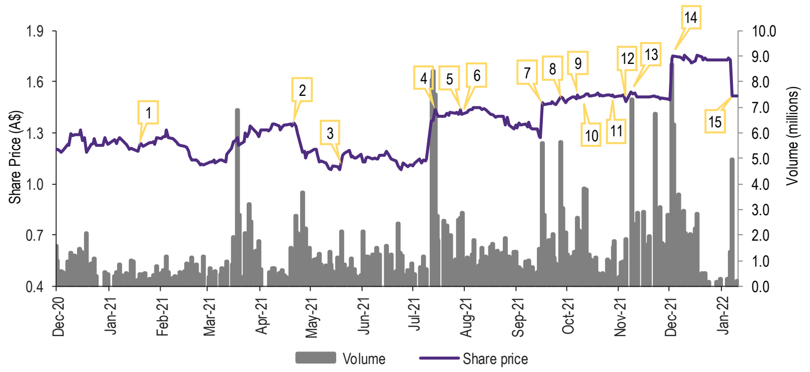
continued

API – Historical share trading price and volumes



Sources: GTCF analysis, S&P Global

The following table illustrates the key events which may have impacted the share price and volume movements shown above.

Event	Date	Comment
1	20-Jan-21	• 2020 AGM – Presentation to Shareholders. This included: - Overview of the FY20 financial performance and position. - Adopt the remuneration report for FY20 - Re-election of Directors of the Company - Grant of Performance Rights to certain executives of the Company.
2	22-Apr-2021	• The Company released its HY21 financial results and presentation: - Revenue – A$2 billion (2.6% lower than 1HFY20); Underlying EBITDA – A$76.6 million (-11.8% lower than 1HFY20); Underlying EBIT – A$32 million (-26.5% lower than 1HFY20); COD – 10.6% (20 bps lower than 1HFY20); - The Company announces a fully franked interim dividend of 1.5c per share for the half year ending 28 February 2021 to be paid 4 June 2021.
3	19-May-2021	• According to the announcement, Pfizer Australia announced the transition from its direct distribution model to a wholesale distribution model. From 1 September 2021, API would distribute Pfizer Australia's portfolio of innovative and off-patent medicines to community pharmacies in a non-exclusive arrangement. This new arrangement does not include Pfizer's COVID-19 vaccine. The agreement with Pfizer Australia is expected to deliver an estimated additional A$4 million in EBIT on an annualised basis from 1 September 2021.
4	12-Jul-2021	• The Company provided an update on its recent annual strategic review and anticipated financial results for the year ending 31 August 2021. - Following its detailed strategic review, the API Board has decided to increase the focus of the Company on its Pharmacy Distribution and two retail businesses, Priceline Pharmacy and Clear Skincare Clinics. - API will cease manufacturing personal care and over-the-counter products in New Zealand and outsource their manufacture. - The Company also intended to escalate its investment in its digital capabilities and accelerate the initiatives that will improve customer experience in the Priceline and Clear Skincare Clinics network. - The Company also provided a general trading update which discussed the impact of the lockdown and the Company's expectations around FY21 performance. The Company also discussed progress at its Sydney distribution center.

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Event	Date	Comment
		• ASX announcement that API has received an unsolicited, non-binding, conditional proposal from Wesfarmers Limited to acquire 100% of the shares in API, by way of a scheme of arrangement, cash consideration of $1.38 per share. Other details of the transaction included: - The offer price was at a 21% premium to API's last close price of A$1.145 per share. - API's major shareholder, WHSP, which owns 19.3% of API's shares outstanding, has agreed to vote in favour of the Proposal and has granted a call option in respect of its API shares in favour of Wesfarmers. - The proposal is subject to satisfaction of a limited condition precedent, including completion of due diligence and obtaining clearance from the ACCC. - The transaction is expected to be funded through Wesfarmers existing balance sheet capacity and debt facilities.
5	29-Jul-2021	• API rejected the proposed scheme of arrangement from Wesfarmers Limited received 9 July 2021. In coming to the conclusion, the Board of API had undertaken detailed analysis of: - The underlying value of API - Assessing the medium and long-term prospects of the Company and reviewing a range of scenarios in relation to API's recovery from the impacts of COVID-19 and related lockdown restrictions. - Recent legislation including the 7CPA and its positive impact on the performance of API. - Outlook for the discretionary health and beauty spending industry, continued roll out of the Priceline stores and strength of the digital offering. - Benefits of margin improvement and strategic initiatives. - Strategic value of Priceline's Sister Club loyalty program.
6	30-Jul-21	• MedAdvisor signs 5 year deal with API. Key highlights include: - MedAdvisor has signed a 5-year agreement with API and the agreement is expected to add at least 250+ new Priceline pharmacies to the MedAdvisor network increasing the network for MedAdvisor by 7%. - MedAdvisor will develop a branded version of its mobile application for the Priceline pharmacy network. - The agreement is expected to generate revenue of c. A$2.5 million over 5 years before transaction and other variable fees. • The partnership is expected to increase MedAdvisor's patient reach and aligns with the strategic priority of growing domestic revenues and increasing revenue from growing market share.
7	16 Sep-2021	• ASX announcement that API has received a non-binding indicative proposal from Wesfarmers Limited to acquire 100% of the shares in API, by way of a scheme of arrangement, for cash consideration of $1.55 per share. This offer was: - At a premium of 35.4% to the closing price of A$1.145 per share on 9 July 2021. - At a premium of 36.9% to the one-month VWAP price of A$1.133 on 9 July 2021. The proposal was subject to a number of conditions precedent such as completion of due diligence, ACCC clearance, receipt of all other regulatory approval, unanimous recommendation of the API Board and a commitment from all API directors to vote in favour of the transaction and execution of the Scheme Implementation Deed.
8	27-Sep-2021	• ASX announcement that API has received an unsolicited, indicative, non-binding and conditional proposal from Sigma Healthcare Limited (ASX:SIG) to acquire 100% of the shares in API for a combination of cash and scrip. - Under the terms of the offer, API shareholders would receive $0.35 in cash and 2.05 Sigma shares for each API share which implied a value of $1.57 per API share based on Sigma's closing price of $0.595 per share on 24 September 2021. - The proposal noted that the value created from potential annual synergies was c. A$45 million. • The Sigma proposal was subject to similar conditions as those mentioned in the Wesfarmers revised proposal discussed above.

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Event	Date	Comment
9	07-Oct-21	• Exercising its Call Option, Wesfarmers acquired 95.1 million shares in API, representing 19.3% of APIs shares outstanding.
10	11-Oct-21	• The Company announced that it will exceed the profit guidance it provided to the market on 12 July 2021, despite a broadening of COVID-19 lockdown restrictions in both NSW and Victoria. API anticipated its underlying EBIT to be approximately c. A$70 million and reported EBIT to be c. A$28 million for FY21. • The Company releases an ASX announcement that a class action has been filed against API in the Supreme Court of Victoria.
11	28-Oct-21	• The Company released its FY21 financial report and presentation: - Revenue was c. A$4 billion; Underlying EBITDA was c. A$158.4 million; Underlying EBIT was c. A$70 million. - Underlying ROE and ROCE were 8.8% and 14.3%. - The Company provided an update on the strategic initiatives comprising the Sydney Distribution Centre, Priceline store rationalization, generic pharmaceutical supplier agreement and the contract manufacturing of the Consumer Brands. • Company announces a fully franked final dividend of 2c per share for FY21.
12	05-Nov-21	• Sigma Healthcare Limited announces that it will not proceed with its current proposal to merge with API.
13	8-Nov-21	• Company announces that it has entered into a SID with Wesfarmers Limited under which it is proposed that a wholly owned subsidiary of Wesfarmers will acquire 100% of the shares in API that they do not already own, by way of a scheme of arrangement, for cash consideration of $1.55 per API share. The SID provides for the payment of fully franked dividends of up to a maximum of 5 cents per API share, including any final dividend for the financial year ended 31 August 2021. The cash consideration of $1.55 will be reduced by the cash component of any such dividend.
14	02-Dec-21	• ASX announcement that API has received a non-binding indicative proposal from Woolworths Group Limited (ASX:WOW) to acquire 100% of the shares in API, by way of Scheme of Arrangement, for cash consideration of A$1.75 per share. This offer was: - At a premium of 52.8% to the closing price of A$1.145 per share on 9 July 2021. - At a premium of 54.5% to the one-month VWAP price of A$1.133 on 9 July 2021. - A $0.20 per share cash increase over the price offered under the Wesfarmers SID. • The Woolworths proposal was subject to similar conditions as those mentioned in the Wesfarmers revised proposal discussed above.
15	07-Jan-22	• Woolworths Group Limited announces that it will not proceed with its proposal to acquire 100% of the shares in API made on 2 December 2021. • Company announces that the Wesfarmers SID announced to the market on 8 November 2021 remains in place and is on track for completion in Q1 CY2022.

Source: ASX announcements; S&P Global

The monthly share price performance of API since December 2020 and the weekly share price performance of API over the last 16 weeks, is summarised below.

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Australian Pharmaceutical Industries	High $	Low $	Close $	Average weekly volume 000'
	Share Price			
Month ended				
Dec 2020	1.335	1.170	1.230	4,097
Jan 2021	1.275	1.185	1.270	2,472
Feb 2021	1.320	1.100	1.110	3,124
Mar 2021	1.350	1.100	1.280	6,968
Apr 2021	1.375	1.140	1.185	5,457
May 2021	1.210	1.060	1.175	4,395
Jun 2021	1.200	1.075	1.115	5,604
Jul 2021	1.445	1.105	1.410	12,244
Aug 2021	1.460	1.295	1.345	5,677
Sep 2021	1.547	1.260	1.475	8,328
Oct 2021	1.540	1.480	1.510	7,128
Nov 2021	1.540	1.475	1.500	11,026
Dec 2021	1.765	1.495	1.730	8,800
Week ended				
1 Oct 2021	1.547	1.475	1.495	13,635
8 Oct 2021	1.535	1.495	1.505	8,568
15 Oct 2021	1.540	1.502	1.520	10,824
22 Oct 2021	1.535	1.510	1.520	3,083
29 Oct 2021	1.530	1.500	1.510	6,220
5 Nov 2021	1.530	1.475	1.485	4,590
12 Nov 2021	1.540	1.510	1.510	15,526
19 Nov 2021	1.520	1.510	1.510	8,882
26 Nov 2021	1.520	1.500	1.505	15,083
3 Dec 2021	1.765	1.495	1.750	21,251
10 Dec 2021	1.760	1.730	1.755	11,281
17 Dec 2021	1.755	1.705	1.755	10,200
24 Dec 2021	1.750	1.725	1.730	1,585
31 Dec 2021	1.745	1.730	1.730	601
7 Jan 2022	1.745	1.510	1.515	6,886
14 Jan 2022	1.525	1.515	1.515	6,265

Sources: GTCF analysis, S&P Global

4.3.2 Top shareholders

We have set out below the top three shareholders of API as at 14 January 2022.

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Number of ordinary shares as at 14 January 2022		
'000	%	Number of shares
WFM Investments Pty Ltd	*19.3%*	95,068
First Sentier Investors Holdings Pty Ltd	*8.1%*	39,919
Mitsubishi UFJ Financial Group Inc.	*8.1%*	39,919
Top 3 Shareholders	***35.5%***	**174,907**
Other Shareholders	*64.5%*	317,749
Total number of ordinary outstanding shares		**492,656**

Source: API FY21 annual report, Scheme Booklet

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5 Valuation methodologies

5.1 Introduction

As discussed in Section 2, our fairness assessment involves comparing the Scheme Consideration with the fair market value of API on a control basis.

Grant Thornton Corporate Finance has assessed the value of API using the concept of fair market value. Fair market value is commonly defined as:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

5.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, Schemes of arrangement, takeovers and prospectuses. These include:

- Discounted cash flow and the estimated realisable value of any surplus assets ("DCF Method").
- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets ("FME Method").
- Amount available for distribution to security holders in an orderly realisation of assets ("NAV Method").
- Quoted price for listed securities, when there is a liquid and active market ("Quoted Security Price Method").
- Any recent genuine Schemes received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG 111 does not prescribe any above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

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5.3 Selected valuation methods

In our assessment of the fair value of API we have relied on the following valuation methodologies as outlined below:

- *EBIT Multiple* – We are of the opinion that the EBIT multiple is an appropriate benchmark to assess fair market value as it is not affected by tax planning and adequately takes into account the capital requirements of the business. In addition to this we note the following:
  - API's two largest divisions, Priceline and Pharmacy Distribution are mature businesses. API has a history of profitability which is expected to continue in the future.
  - EBIT multiples are widely used and accepted valuation measures in the industry. Further, the value of the Strategic Initiatives which is a key driver of future profitability has been quantified at the EBIT level.
  - Availability of listed comparable companies for the calculation and analysis of implied EBIT multiples.
  - A sum-of-the-parts valuation is not possible as there is no publicly available information at the EBIT or EBITDA level for each of the divisions.
- *Desktop DCF Method* – We have undertaken a cross check utilising the DCF Method. Grant Thornton Corporate Finance has built a valuation model (GT Model) based on the cash flow projections prepared by Management and benchmarked assumptions (where appropriate) with publicly available information.
- *Quoted Security Price Method* – In the absence of the Scheme or other transactions, the trading share price represents the value at which minority shareholders could realise their investment in API and accordingly it is a relevant valuation benchmark.

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6 Valuation assessment of API

6.1 EBIT Multiple

As discussed in Section 5, we have adopted the EBIT Multiple as our primary valuation methodology. API has recently undertaken a number of strategic initiatives the benefits of which are not expected to be realised until FY23. Accordingly, for the purpose of our valuation assessment, we have relied on the FY23 EBIT Multiple which, in our opinion, reflects a more normalised financial performance of the Company. Our valuation assessment is summarised below.

FME Method - valuation summary A$ '000 (except where stated otherwise)	*Section Reference*	Low	High
Assessed FY23 EBIT	*Section 6.1.1*	90,000	95,000
Assessed FY23 EBIT Multiple	*Section 6.1.2*	11.5x	12.5x
Enterprise value of API		**1,035,000**	**1,187,500**
Less: Net debt as at 31 August 2021[1]	*Section 6.1.5*	(275,379)	(275,379)
Less: Other adjustments	*Section 6.1.6*	(24,600)	(25,600)
Add: Investment in SiSU Pty Ltd	*Section 6.1.6*	2,400	2,400
Less: Performance Rights Cancellation Consideration	*Section 6.1.7*	(10,248)	(10,248)
Equity value of API		**727,173**	**878,673**
Number of outstanding shares ('000s) (fully diluted)	*Section 6.1.7*	492,656	492,656
Value per share (A$ per API Share)		**1.48**	**1.78**

Source: GTCF analysis
Note (1): Unless stated otherwise, EBIT, EBIT multiple and Net debt are on a post-AASB 16 basis
Note (2): Net debt is on a post-AASB 16 basis and includes lease liabilities of c. A$175.433 million.

Based on the above, we have assessed the value per API Share using the EBIT Multiple method to be in the range of A$1.48 to A$1.78 per API Share.

6.1.1 FY23 EBIT assessment

Our assessment of the FY23 EBIT of API adopted for our valuation is an exercise of judgement that takes into consideration a number of factors. In the table below, we provide a benchmark with API's historical underlying EBIT and broker consensus estimates for FY22 and FY23. We note that the EBIT is presented excluding one-off expenses, such as restructure and re-organisation costs and impairment of assets. API adopted the AASB 16 accounting standard on 1 September 2019 and accordingly applied it in FY20 (without restating FY19) and FY21.

	From the Financial Statements[1]				Broker Forecast	
A$ millions (except where stated otherwise)	FY18	FY19	FY20	FY21	FY22	FY23
Revenue	4,026	4,011	4,020	4,005	4,146	4,237
Revenue growth		*(0.4%)*	*0.2%*	*(0.4%)*	*3.5%*	*2.2%*
Underlying EBIT	90.5	94.0	60.7	70.1	80.3	91.2
EBIT margin	*2.2%*	*2.3%*	*1.5%*	*1.7%*	*1.9%*	*2.2%*
EBIT growth		*3.9%*	*(35.4%)*	*15.4%*	*14.6%*	*13.6%*
Adopted FY23 EBIT range						**90 to 95**

Source: API Annual Reports, GTCF analysis
Note (1): Underlying EBIT is shown on a post AASB16 basis from FY20 onwards

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As set out above, we have assessed the FY23 EBIT in the range of A$90 million to A$95 million for the purpose of our valuation assessment. In the selection of the EBIT range adopted, we have considered the following:

Historical financial performance

- During FY20 and FY21, the overall performance of the Company was affected by the lockdown measures put in place by the State Governments which adversely impacted the retail operations with Priceline stores and Clear Skincare Clinics closed for extended periods in FY20 and FY21. The Pharmacy Distribution division reported growth in revenue driven by increase in prescription medicines whilst Clear Skincare Clinics growth in revenue was driven by existing stores maturing and new stores opening. However, the underlying EBIT of the Company was materially affected by the pandemic.

- Over the last few years, in response to challenging market conditions and competitive pressure, the Company has also put in place strategic and operating initiatives including the following (described in a non-exhaustive way):

  - The Company reduced the Priceline and Priceline Pharmacy network by 10 stores in FY21 and it re-launched the Sister Club membership program. API has also been investing heavily in its online product suites with a new ecommerce platform expected to be delivered by the end of FY22 which will supplement the current offers based on click-and-collect and click-and-deliver services to boost its online sales.

  - API has reduced its distribution centres from 15 to 7 and it is in the process of finalising its largest and fully automated distribution facility at Marsden Park, NSW (fully operational by FY23).

  - Historically, Priceline stores experienced negative or limited LFL sales growth and the Company has recently embarked on a campaign of premiumisation targeting new and exclusive product ranges/brands to create a destination experience for customers. During FY21, the Priceline stores launched 59 new and exclusive brands, including the Boots No7 skincare range.

  - Inventory optimisation initiatives based on AI to undertake ordering based on input from customer behaviour and buyer data from the Sister Club program.

  - Announced the closure of the manufacturing operations in NZ.

  - The Company formed a strategic supplier partnership with Arrotex Pharmaceuticals resulting in a change in pharmaceutical generic supplier. This helped the franchise partners to access the latest generic and biosimilar product ranges, better pricing, and provide API with savings from FY22.

  As a result of the aforementioned initiatives and other changes to the operations, the Company incurred substantial non-recurring costs which created a significant discrepancy between reported and underlying EBIT. In our opinion, this affects the quality of the underlying earnings. We have summarised below a reconciliation between reported and normalised EBIT.

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Reconciliation between Reported and Underlying EBIT		Pre-AASB16			
A$ millions	*Reference*	FY18	FY19	FY20	FY21
Reported EBITDA		110.6	123.1	91.9	116.2
Depreciation and Amortisation		(28.2)	(29.1)	(86.3)	(88.3)
Reported EBIT		82.4	94.0	5.6	27.8
Add back: Restructure and Reorganisation	*Note 1*	8.1		17.6	8.4
Add back: Impairment	*Note 2*			37.5	
Add back: Strategic Business Initiatives					1.8
Add back: Consumer Brands New Zealand	*Note 3*				32.0
Underlying EBIT		**90.5**	**94.0**	**60.7**	**70.1**

Source: GTCF analysis, API FY20 and FY21 Annual Reports and Investor Presentations

- *Note 1* – Depreciation and amortisation increased materially from FY20 after the implementation of AASB16.
- *Note 2* – For FY21, the restructure and re-organisation costs of A$8.4 million relate to expenses incurred in the business other than Consumer Brand NZ which is separately disclosed below in Note 4.
- *Note 3* – Impairment of A$37.5 million in FY20 is in relation to the Soul Pattinson Chemist brand.
- *Note 4* – Consumer Brands NZ takes into account the upfront one-off expenditure for the closure of the manufacturing facilities and switch to contract manufacturing. Such expenditure includes A$21.4 million for impairment, A$6.5 million related to redundancy expenses, and A$4.1 million for other restructuring expenses.

Market guidance and brokers' consensus

In assessing the FY23 EBIT, we have also considered the FY22 and FY23 broker forecasts which are summarised in the table below and they have been prepared taking into account the improving macroeconomic environment following negative impacts of COVID-19 on the retail division and the financial impact of the Strategic Initiatives.

Broker forecast - EBIT			
Broker	Date	FY22	FY23
Broker 1	07-Jan-22	79.6	105.7
Broker 2	28-Oct-21	81.0	93.0
Broker 3	28-Oct-21	78.0	89.0
Broker 4	08-Dec-21	78.5	84.0
Broker 5	12-Jul-21	82.9	103.9
Broker 6	12-Jul-21	88.0	89.0
Low		**78.0**	**84.0**
Average		**81.3**	**94.1**
Median		**80.3**	**91.0**
High		**88.0**	**105.7**

Source: Analyst Reports

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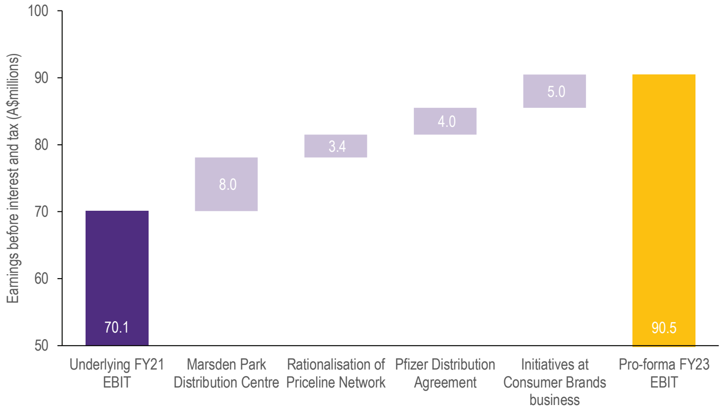
Conclusion on the FY23 EBIT

Based on the above, we have adopted a FY23 EBIT between A$90 million and A$95 million for the purpose of our valuation assessment based on the following:

- The low-end of the range is consistent with the underlying FY21 EBIT pro-forma adjusted for the benefits to be delivered by the Strategic Initiatives as outlined in the EBIT bridge below:

Pro-forma underlying FY21 EBIT post implementation of the Strategic Initiatives



Source: GTCF analysis, API FY21 Financial Information

- *Marsden Park Distribution Centre:* The Company is in the process of completing a fully automated distribution centre at Marsden Park which is expected to be operational by FY23.
- *Rationalisation of the Priceline Network:* As part of the store rationalisation discussed above, the Company has also undertaken investment in digital initiatives such as customer analytics software which will provide customer insights data based on spending patterns at Priceline stores and data from the Sister Club Loyalty Program. Management is also looking to reduce its company-owned store footprint and increase the franchise network.
- *Pfizer Distribution Agreement:* On 19 May 2021, Pfizer Australia announced that it would transition from its direct distribution model to a wholesale distribution model. From 1 September 2021, API will distribute Pfizer Australia's portfolio of medicines on a non-exclusive basis[76].
- *Consumer Brands business:* On 12 July 2021, as part of its strategic review, API announced that it will cease manufacturing personal care and over-the-counter products in New Zealand and outsource their manufacture.

- The selected FY23 EBIT is substantially in line with the underlying EBIT achieved by the business in FY18 and FY19 before the outbreak of COVID-19[77].

[76] This does not include Pfizer's COVID-19 vaccine.
[77] Even if this was before the introduction of AASB16 leasing accounting standard

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- There is significant latent value in the financial performance of the Clear Skincare Clinics business as a clinic takes c. 2.5 years to become cash flow positive and some further time to reach steady state operations. Out of the 86 clinics as at 31 August 2021, 42 clinics (representing c. 49% of the total number of clinics) have been operational for, on average, less than 2 years.

- Priceline stores are expected to return to positive LFL sales growth on the back of the refreshing of the product range and stronger online offering.

6.1.2 Trading multiples

For the purpose of trading multiple analysis, we have considered a range of companies belonging to the following categories – ANZ Pharmaceutical Distributors, ANZ Health and Beauty, and International Pharmacies. The multiples are set out in the table below:

Company	Country	Year-end	Market Cap A$m	Enterprise Value A$m	EV/EBIT Multiple FY21 Actual	FY22 Projected	FY23 Projected
Tier 1 - ANZ Pharmaceutical Distributors							
Sigma Healthcare Limited	Australia	31 Jan xx	445	673	12.9x	15.1x	13.4x
EBOS Group Limited	Australia	30 Jun xx	6,702	7,755	26.7x	23.5x	17.7x
Median - Tier 1					**19.8x**	**19.3x**	**15.5x**
Average - Tier 1					**19.8x**	**19.3x**	**15.5x**
Tier 2 - ANZ Health and Beauty							
Pacific Smiles Group Limited	Australia	30 Jun xx	417	476	22.7x	NM	22.3x
Blackmores Limited	Australia	30 Jun xx	1,629	1,595	NM	25.9x	18.9x
BWX Limited	Australia	30 Jun xx	571	564	20.5x	13.6x	9.9x
SILK Laser Australia Limited	Australia	30 Jun xx	210	182	20.9x	14.9x	9.3x
Virtus Health Limited	Australia	30 Jun xx	617	812	13.5x	13.4x	12.8x
Monash IVF Group Limited	Australia	30 Jun xx	384	423	12.2x	11.2x	10.9x
Median - Tier 2					**20.5x**	**13.6x**	**11.8x**
Average - Tier 2					**18.0x**	**15.8x**	**14.0x**
Tier 3 - International Pharmacies							
Henry Schein, Inc.	US	26 Dec xx	14,120	17,289	15.1x	13.9x	13.2x
Tesco PLC	UK	27 Feb xx	41,793	66,900	13.8x	12.6x	12.9x
Walgreens Boots Alliance, Inc.	US	31 Aug xx	61,634	117,754	21.4x	16.0x	15.7x
CVS Health Corporation	US	31 Dec xx	190,700	286,610	15.5x	12.1x	11.4x
AmerisourceBergen Corporation	US	30 Sep xx	38,195	45,918	12.3x	10.7x	10.1x
McKesson Corporation	US	31 Mar xx	52,512	61,254	13.6x	9.3x	10.0x
Median - Tier 3					**14.5x**	**12.4x**	**12.1x**
Average - Tier 3					**15.3x**	**12.4x**	**12.2x**

Source: Publicly available information, S&P Global, GTCF analysis
Notes: (1) Multiples as at 25 January 2022; (2) Enterprise Value includes net debt (interest bearing liabilities less non-restricted cash and cash equivalents), non-controlling interests and AASB16 liabilities; (3) Forecast trading multiples are based on the median of broker consensus estimates. (4) Enterprise value includes the book value of the non-controlling interests; (5) NM refers to not meaningful.

To determine the most appropriate and comparable categories, we have considered the revenue contributions from different divisions, the divisional profit margins where available, growth outlook and other factors such as regulatory considerations, size and scale of the business, market penetration, recent progress on strategic initiatives, operating efficiency measures such as cash conversion days, returns to equity holders and others.

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ANZ Pharmaceutical Distributors

The ANZ Pharmaceutical Distributors derive a large proportion of their revenue from products distribution with limited opportunity for differentiation, and these companies are highly regulated by the PBS and the 7CPA. However, they have also diversified into the retail BPC sector and into other high-growth retail businesses such as animal care (EBOS).

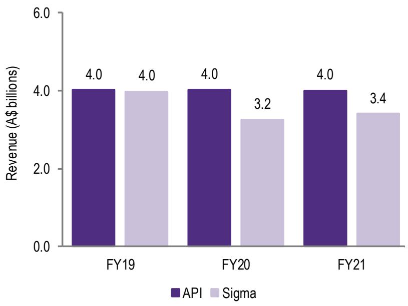
Sigma Healthcare Limited

Sigma is a diversified pharmaceutical company with operations comprising the following:

- Wholesale PBS medicines to community pharmacies as a national CSO Distributor (same as API).
- It operates one of Australia's largest retail pharmacy networks, across brands including Amcal, Guardian, Discount Drug Stores, Pharmasave, Chemist King and Wholelife ("collectively, Pharmacy Brands").
- Through the acquisition of Victorian hospital wholesaler Clifford Hallam Healthcare ("CHS") in 2014, it has expanded its distribution service to include hospital pharmacies and health facilities. In addition, Sigma provides dose administration services through its Medication Packaging Service ("MPS") as well as the supply of medical and allied products to hospitals, clinics, and pharmacies through its Medical Industries Australia ("MIA") business.
- Provides three party (3PL[78]) and four party (4PL[79]) logistics services.

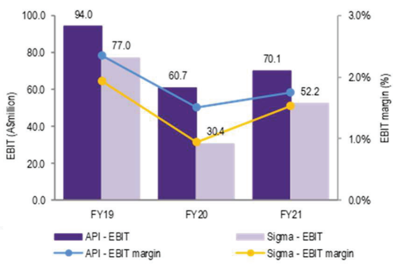
Relative to API, Sigma's operations primarily comprise that of a pharmacy retailer and distributor. In the following charts, we have compared specific KPIs between API and Sigma.

Total revenue over the last three years



Source: Company Annual Reports

Total underlying EBIT and EBIT margin over the last three years



Source: Company annual reports

[78] 3PL logistics means a manufacturer maintains oversight of their supply chain but outsources their transportation and logistics operations to a 3PL provider

[79] 4PL logistics means that providers oversee the organisation and management of a whole supply chain for manufacturers and wholesalers

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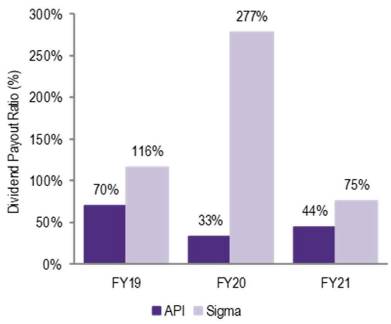
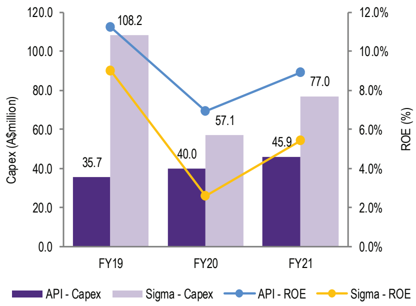
Dividend payout ratio over the last three years[1]



Historical capital expenditure and return on equity over the last three years



Source: Sigma and API Annual Reports, Analyst reports
Note: (1) The Directors of Sigma paid a final dividend of 1.0 cents per share after the end of FY21. Accordingly, this dividend was not provided for in the balance sheet at 31 January 2021.

In terms of revenue, Sigma and API have a comparable revenue base but Sigma's revenue has reduced substantially after it announced in FY19[80] that a contract with CWH was not renewed. However, in FY21, Sigma reported positive top line growth with wholesale sales (excluding CWH) up 11.4%[81] which was well above average market growth of 3.1%[82]. Further, in 1HFY22 overall wholesale sales increased by 13.6% on pcp[83], PBS sales growth of 6% and LFL sales in retail pharmacy brands of 8.7%. Sigma's underlying EBIT margins and return on equity have been improving although they continue to remain below FY19 levels.

To improve their respective performance, both companies have undertaken a review of their operations, implemented a number of strategic initiatives and incurred capital expenditure over the last three years for one-off projects. Sigma's underlying EBIT margin is lower than APIs and it also has higher[84] cash conversion days of 31 days compared to 17 days (API) which is a critical measure for a CSO Distributor.

As discussed in Section 1, on 27 September 2021, Sigma submitted a conditional non-binding indicative proposal to acquire 100% of the shares in API for a mixed consideration of cash and scrip which was subsequently withdrawn on 5 November 2021. Given this potential transaction, together with the volatility created from the outbreak of COVID-19, to determine an appropriate multiple for API, we have considered Sigma's EBIT multiples over a longer period of time as set out in the graph below.

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[80] Sigma has a financial year end of 31 January and thus FY19 will be 31 January 2019.
[81] Sigma FY21 Investor Presentation
[82] Sigma FY21 Investor Presentation, IQVIA Data
[83] Including the positive impact of CWH or 3% excluding CWH.
[84] All else equal, a higher cash conversion days is considered unfavourable as it suggests a longer duration for the cash invested into the business to be received by the company.

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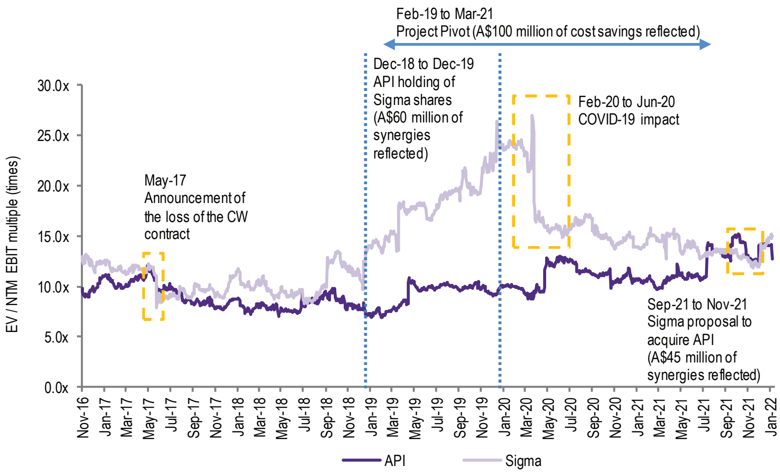
Rolling EV / NTM[85] EBIT Multiple of API and SIG



Source: S&P Global, GTCF analysis
Note (1): Enterprise values of API and Sigma include the book value of the non-controlling interest.

As set out above, at the beginning of the observed period, the EBIT multiples of API and Sigma were substantially consistent and more recently they have started to converge again towards one another. In the interim period, the EBIT multiple of Sigma increased materially up to 25x-30x.

There were some specific events during this period which created a one-off impact on the financial performance of Sigma which may have caused the market to reflect into the trading prices a through the cycle EBIT (underlying value of the business) rather than the EBIT expected for the NTM. In particular, we note the following:

- In May 2017, Sigma announced to the market that it had not yet agreed terms for a new contract with CWH and the matter was in mediation. In particular, one of the points of dispute was CWH's desire to use another CSO Distributor. Subsequently, in July 2018, Sigma confirmed that it had lost the contract with CWH (c. 25% of its total revenue) effective 1 July 2019. Following this announcement, the median consensus EBIT for FY19 decreased by c. 37%[86].

- Whilst the loss of such a significant contract would normally result in a significant contraction in the multiple, in December 2018, API made an offer to acquire all shares in Sigma and merge the two operations. The EBIT multiple stabilised at the higher level as the market awaited more information on the Sigma Board's decision on the proposal and the trading multiples reflected an element of premium for control with large synergies expected to be realised by the combination of the two businesses.

- On 11 February 2019, the Board announced the restructure of the business following the loss of the CWH contract. As part of the restructure, Sigma announced a A$100 million savings program (titled

[85] Next Twelve Months ("NTM").
[86] Median consensus EBIT declined from A$92 million the day before the announcement of the lost contract to A$67 million following the announcement of the contract.

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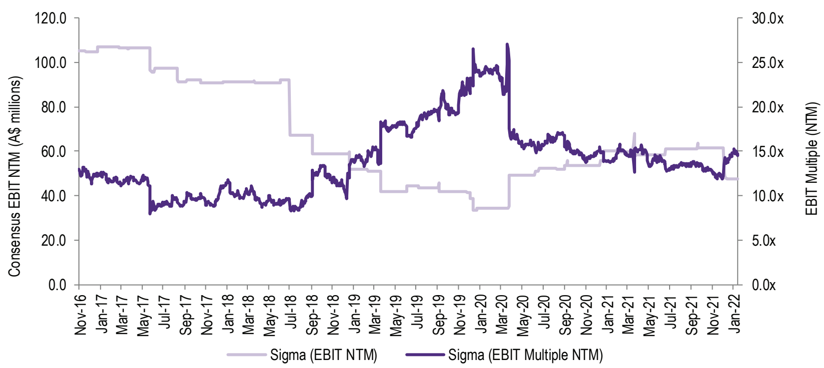
Project Pivot). Of this, 60% of the savings were largely variable costs reduction as a result of the loss of the CWH contract.

- On 13 March 2019, the Sigma Board rejected API's proposal, however API did not sell its interest in Sigma until the end of 2019 which may have continued to support Sigma share price amidst speculation about a combination of the two businesses.
- In February/March 2020, in conjunction with the outbreak of COVID-19, the EBIT multiple reduced materially as the trading prices of companies in the pharmacy and healthcare industry generally re-rated whereas the consensus EBIT forecast did not change.

As set out in the graph below, during 2019 and the beginning of 2020, the EBIT multiple moved in an opposite direction to the consensus forecast which supports our view that investors may reflect into the trading prices a through the cycle view of Sigma EBIT given the impact on the short term profitability of the events discussed above.

Sigma EV/NTM EBIT multiple and NTM EBIT consensus



Source: S&P Global, GTCF analysis
Note (1): Enterprise values of Sigma include the book value of the non-controlling interest

In more recent times, the EBIT multiple of Sigma has normalised and traded closer to the API NTM EBIT multiple. Since the Wesfarmer's Original Proposal, Sigma's NTM EBIT multiple has traded in the range of 12.5 times to 13.5 times. However, on 6 December 2021, Sigma announced a profit downgrade due to short-term operational issues caused from the roll-out of the new ERP system which caused Sigma to revise underlying EBITDA guidance for FY22 by a growth of 5% over FY21 underlying EBITDA to a contraction of 10%. Whilst the trading prices reduced by c. 8%[87], the NTM EBIT multiple increased again as set out in the graph below as, in our opinion, the trading prices may reflect a more normalised or through the cycle performance.

[87] Calculated as the trading price of 52.5 cents on 5 December 2021 and the trading price of 48.7 cents as at 10 January 2022.

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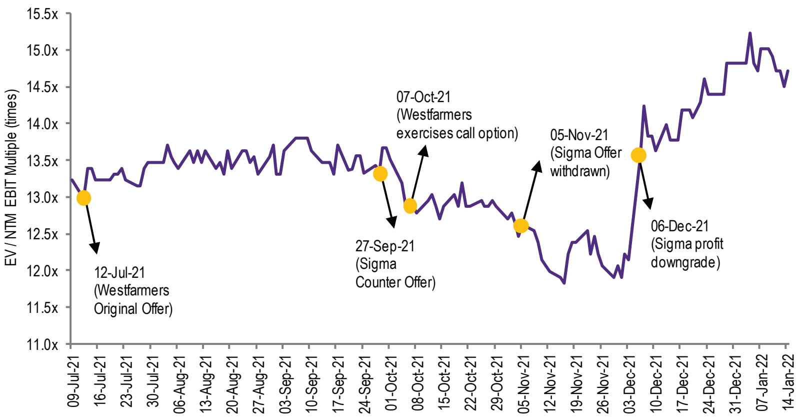
Rolling EV/NTM EBIT Multiple – 9 July 2021 to 14 January 2022



Source: S&P Global, GTCF analysis
Note (1): The rolling multiples presented above are on a minority basis. Enterprise value includes the book value of the non-controlling interests.

Overall, we are of the opinion that Sigma is a relevant reference point to assess the EBIT multiple applicable to API, however the historical rolling EBIT multiple should be considered with caution given the discussions outlined above. There are both pros and cons arising from a relative comparison between the two businesses which should be taken into account in the relative multiple assessment such as:

- API's operations are currently more streamlined generating higher EBIT margin and quicker cash conversion days which represents a key positive for the business. API is also closer to monetising the benefits of the strategic initiatives with c. A$20 million increased in EBIT to be realised by FY23. Whilst Sigma has completed its Project Pivot which delivered some cost savings, the underlying EBIT continues to remain subdued compared with historical levels. In spite of this, the latest guidance provided by Sigma Management in relation to the underlying FY23 EBITDA between A$95 million to A$100 million[88] is materially in excess of consensus FY23 EBITDA of A$81.6 million, however this remains unproven and appears challenging given Sigma's most recent profit downgrade announced on 6 December 2021.

- Sigma's business is not exposed to the competitive and volatile BPC retail environment as it is a pure pharmacy retailer and wholesaler, however, on the flip side, Clean Skincare provides API with better growth outlook.

- Sigma has been demonstrating significant top-line growth in H1FY22 with overall wholesale sales up 13.6% on pcp[89], PBS sales growth of 6%, LFL sales in retail pharmacy brands of 8.7% (after delivering 9%) in FY21 and hospital sales growth of 8.9% in FY21. Conversely, top line growth for API has been limited as the strong performance from the wholesale business has been offset by the lockdown of Priceline stores and Clear Skincare Clinics.

[88] Page 16 of 1H22 Results Presentation
[89] Including the positive impact of CWH or 3.0% excluding CWH

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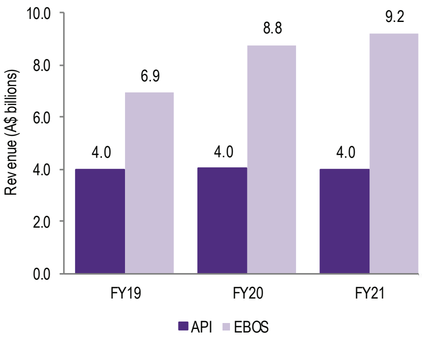
EBOS Group Limited ("EBOS")

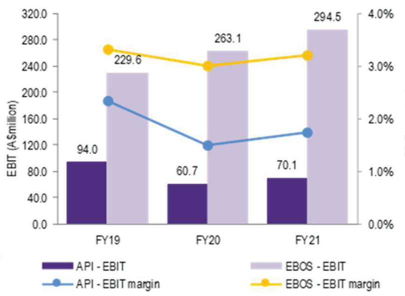
EBOS is a marketer, wholesaler and distributor of healthcare, medical and pharmaceutical products and services to retail pharmacies. It operates various banner retail pharmacies such as TerryWhite Chemmart and others and it is engaged in the marketing and distribution of consumer products and animal care brands. Relative to API, EBOS is highly diversified (geographically and operationally), with 43%[90] of gross profit generated from the community pharmacy segment in FY21 with the balance from the animal care, pharmaceutical wholesale and other divisions. Approximately 20%[91] of the revenue is derived from its New Zealand operations. In the charts below, we have compared the revenue by segment, underlying EBIT and EBIT margin, and capital expenditure for EBOS and API.

Total revenue over the last three years



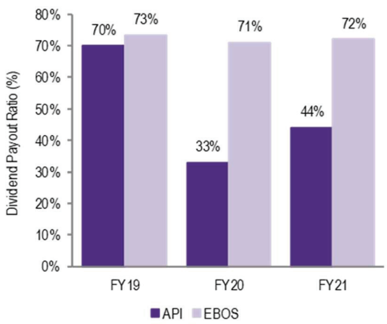
Source: Company Annual Reports

Total underlying EBIT and EBIT margin over the last three years



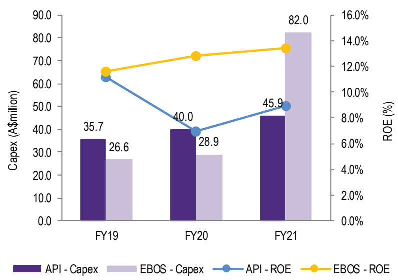
Source: Company annual reports

Dividend payout ratio over the last three years



Source: Sigma and API Annual Reports, Analyst Reports

Historical capital expenditure and return on equity over the last three years



Source: Sigma and API Annual Reports, Analyst Reports
Note: (1) FY21 capital expenditure for EBOS includes A$50.9 million for the Black hawk pet food facility and A$31.1 million for Business as usual capital expenditure

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[90] FY21 Investor Presentation.
[91] FY21 Investor Presentation.

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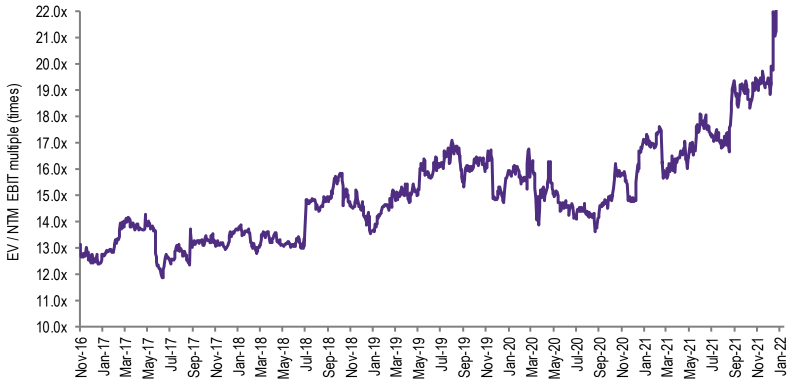
EBOS' wholesale distribution business is significantly larger than API in particular after having secured the contract to supply CWH with pharmaceutical products through to FY24. This contract was expected to generate over A$1.0 billion in revenue in FY20. Similar to API, EBOS has also undertaken significant capital expenditure initiatives over the last few years to improve performance. Notably, in FY21 EBOS spent A$50.9 million on a new pet food manufacturing facility for its Black Hawk pet brand, with a further A$29.1 million expected to be spent to complete the project in FY22. Along with investment in existing facilities, similar to API, EBOS continues to undertake bolt-on acquisitions or acquire allied businesses.

EBOS benefits from exposure to more diversified revenue streams, which relate to its Animal Care, Institutional Healthcare, Contract Logistics and Consumer Products, whereas API has more of a retail focus with exposure to the Priceline retail stores and the Clear Skincare Clinics business. It recently announced the acquisition of LifeHealthcare (discussed below).

Amongst the high growth businesses, EBOS's Animal Care segment has performed strongly over the last few years, catalysed by favourable market conditions towards the pet industry induced by ongoing COVID-19 tailwinds which have resulted in people spending more time at home with their pets.

Taking into consideration the above analysis, we would expect the EBIT multiple of API to be at a discount to EBOS's trading multiples. We have set out below EBOS's trading EBIT multiples over a period of 5 years as shown in the chart below:

EBOS Rolling EV/ NTM EBIT Multiple



Source: S&P Global, GTCF analysis
Note (1): The rolling multiples presented above are on a minority basis. The enterprise value includes the book value of the non-controlling interests.

Between November 2016 and June 2018, the trading EBIT multiple (on a minority basis) for EBOS traded between 11.9 times to 14.3 times. In July 2018, EBOS announced that it had won the tender to be the exclusive third party distributor of pharmaceutical products to more than 400 CWH and My Chemist stores in Australia. The contract, effective for 5 years from 1 July 2019, was estimated to generate around A$1.0 billion in revenue in FY20, and has the potential to be extended for a further 3 years post FY24. Following this announcement, EBOS's trading multiple increased to 13.9 times, reflecting an uplift in the consensus EBIT as well as share price appreciation. EBOS's EBIT multiple has continued to expand on the back of targeted inorganic growth through frequent acquisitions. In line with the company's strategy of investing for

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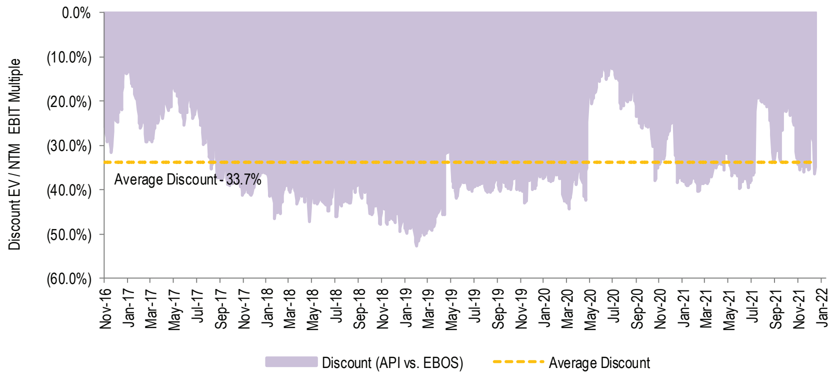
growth, EBOS has made more than 15 acquisitions across both healthcare and animal care since FY15[92], and has spent a total of over A$490 million on such acquisitions over the same time period. Recently, on 9 December 2021, EBOS announced the acquisition of LifeHealthcare, one of the largest independent distributors of third party medical devices in Australia, New Zealand and South East Asia. Accordingly, the acquisition is expected to further expand and diversify EBOS's earnings, providing greater exposure to the high growth medical devices sector as well as a measured entry into Asia.

Based on the analysis undertaken above, we expect EBOS's trading EBIT Multiple to continue to be at a premium to API's multiple as it has occurred over the last five years.

API Discount to EBOS EV/NTM EBIT Multiple



Source: S&P Global, GTCF analysis
Note (1): The rolling multiples presented above are on a minority basis. The enterprise value includes the book value of the non-controlling interests.

Domestic Beauty and Healthcare products

As part of our analysis, we have also considered domestic health and beauty listed peers given the Clear Skincare Clinics and Priceline stores operations of API. ANZ Health and Beauty Peers are able to offer a high degree of product differentiation and experience tailwinds from a growing addressable market driven by advancement in technology of laser and aesthetic body procedures and consumers behaviours. Unlike ANZ Pharmaceutical Distributors, the barriers to entry are limited in this sector as the level of regulation is low. Among the listed peers, we consider Silk Laser Clinics to be highly comparable to Clear Skincare Clinics. We have also discussed BWX Limited as it manufactures products that can be considered comparable to the Clear Skincare Clinics products and the consumer products division.

- *SILK Laser Australia:* SILK Laser provides skin and body treatment services under a franchise model and it listed on the ASX in December 2020. Similar to Clear Skincare Clinics, SILK Laser Clinics offers cosmetic injectables, laser hair removal, skin treatments services and also sells skin care and body care products. For FY21, total revenue was c. A$53.3 million and gross profit of A$38 million which are comparable to Clear Skincare Clinics (FY21 Revenue – A$55 million; gross profit – A$48 million). As at FY21, c. 18% of the SILK Laser clinics are recently opened compared with 48% for Clear

[92] Such acquisitions include Symbion, medical devices and distributions company Cryomed, Pioneer Medical, and the veterinary wholesale business of CH2.

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Skincare Clinics. SILK Laser Clinics new clinics typically takes 1 year[93] to become cash flow positive whereas Clear Skincare Clinics takes 2.5 years[94]. SILK has recently launched a new service category of body contouring. This new category is performing in line with management's expectations and further investment can be expected in this category. Clear Skincare Clinics does not have body contouring services and majority of its procedures are low margin laser hair removal services. Between FY18 and FY21, SILK Laser grew from 15 clinics to 118 clinics which was through a combination of franchising, acquisitions and joint ventures. During this period, Clear Skincare Clinics grew from 42 clinics to 86 clinics. FY23 EBIT multiple is expected to reduce materially compared to FY21 as the adverse consequences of lockdowns in FY21 are expected to fade away and the uplift in profitability from the recently opened clinics manifest.

- *BWX Limited:* BWX is a leading wellness business that primarily has five brands across six personal care categories. Additionally, BWX has a strong presence in the US, which is a larger market than Australia. The company's two key product ranges are Sukin and Andalou Naturals. Unlike Clear Skincare Clinics, BWX is a product company and it offers its products through multiple channels including online marketplaces. Presently, Clear Skincare Clinics products are only exclusively available at Priceline stores. In terms of revenue, BWX is larger (FY21 Revenue – A$194.1 million; gross profit – A$115 million) compared with Clear Skincare Clinics (FY21 Revenue – A$55 million; gross profit – A$48 million). Unlike Clear Skincare Clinics, BWX continues to invest in a direct-to-consumer strategy and most recently announced a partnership with CWH.

The other companies in this tier are not considered particularly comparable to any segment of API and accordingly have not been reviewed in detail.

International pharmacies

We have also included in our basket of comparable peers, the international listed pharmacies. Whilst the level of comparability is limited by their size, the competitive environment and the regulatory framework, they nonetheless provide directional evidence to assist in selecting the EBIT multiple for API.

6.1.3 Comparable transactions multiples

We have also considered multiples observed in recent transactions in the industry. However, most of the targets are privately held companies and there is limited information available in respect of these transactions. With the exception of the LifeHealthcare acquisition by EBOS, no information is available in respect of EBITDA or EBIT multiples for the other comparable transactions outline below.

Date	Target Company	Country	Bidder Company	Stake	Deal value (A$m)	EBITDA (A$m)	EBIT (A$m)	EV/EBITDA	EV/EBIT
Dec-21	LifeHealthcare	New Zealand	EBOS Group Limited	100%	1,286	112	75	11.5x	17.3x
Jul-19	Apotex Pty Ltd.	Australia	Arrow Pharmaceuticals Pty Ltd.	100%	n/d	n/d	n/d	n/d	n/d
Dec-18	Terry White Group Limited	Australia	EBOS Group Limited	49.9%	47	n/d	n/d	n/d	n/d
Oct-16	Terry White Group Limited	Australia	Chemmart (EBOS Group Limited)	50.1%	n/d	n/d	n/d	n/d	n/d
Dec-15	Clifford Hallam Healthcare Ltd ("CH2")	Australia	Management Buyout	45.5%	4	n/d	n/d	n/d	n/d
Jan-11	Sigma Pharmaceuticals Ltd., Pharmaceutical Division	Australia	Aspen Global Incorporated	100%	900	n/d	n/d	n/d	n/d
Feb-08	Orphan Australia Pty Ltd.	Australia	Sigma Pharmaceuticals Limited	100%	130	n/d	n/d	n/d	n/d
Dec-05	Arrow Pharmaceuticals Limited	Australia	Sigma Pharmaceuticals Limited	100%	872	n/d	n/d	n/d	n/d
May-03	HERRON Pharmaceuticals Pty Limited	Australia	Sigma Pharmaceuticals Limited	100%	123	n/d	n/d	n/d	n/d
Sep-01	FH Faulding & Co. Limited	Australia	Mayne Nickless Limited	100%	1,100	n/d	n/d	n/d	n/d

Source: Publicly available information, GTCF analysis Note (1): n/d refers to not disclosed

[93] SILK Laser Clinics Prospectus.
[94] API FY21 Investor Presentation.

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LifeHealthcare

LifeHealthcare is one of the largest independent distributors of third party medical devices, consumables, capital equipment and in-house manufactured allograft material in Australia, New Zealand and South East Asia. LifeHealthcare represents over 120 Original Equipment Manufacturers ("OEMs") and following the acquisition it would represent c. 8% of EBOS' medical devices revenue. Pre-synergies and non-recurring costs, the LifeHealthcare acquisition is expected to increase EBIT by c. 25%. For completeness, this acquisition has been announced but is not yet complete as at the date of this report.

6.1.4 Conclusion on the EBIT Multiples

Based on the analysis of listed comparable companies and comparable transactions, we have assessed an FY23 EBIT multiple for the valuation of API in the range of 11.5x to 12.5x on a control basis. Refer to the executive summary for details.

6.1.5 Net debt

The following table sets out our calculation of net debt on a post AASB-16 basis including lease liabilities of A$175.4 million.

Pro forma Net Debt as at 31 August 21 A$ '000	*Section Reference*	
External Debt		138,740
Lease liabilities		175,433
Less: Cash balance		(38,794)
Net Debt of API as at 31 August 2021		**275,379**

Source: API Annual Report

Given our multiples are selected on a post-AASB 16 basis, we have included the lease liabilities in our calculation of net debt and the closing net debt as at 31 August 2021. Based on publicly available information, API typically experiences significantly higher level of net debt throughout the year and reported an average gross debt of A$173.3 million before AASB-16 (excluding debt in connection with Clear Skincare acquisition and cash) in FY21. All else equal, a higher net debt number would result in a lower value per API Share. Whilst from a valuation perspective it is not unreasonable to adopt API's average net debt throughout the year rather than the net balance as at 31 August 2021, we have not selected this approach due to the following:

- API's net debt fluctuation is due to arrangements in place with the global suppliers which have been ongoing for a number of years. These global suppliers are common across all the CSO Distributors, so it is not unreasonable to assume that similar arrangements are in place across the industry. However, API's competitors do not disclose average net debt across the year and accordingly we are not capable of undertaking the same net debt adjustments to calculate their EBIT Multiple to ensure that the valuation is carried out on a like-for-like basis. We note that a higher average net debt across the year for the listed peers compared with the net debt at reporting date would result in a higher EBIT Multiple, and all other things being the same, may offset (partially or fully) the reduction in value of API due to the higher average net debt (which implies a higher EBIT Multiple). For instance, Sigma, as part of its FY21 and 1HFY22 Investor Presentations reported that net debt was expected to peak in October 2021 and November 2021 at c. A$140 million and A$130 million respectively (before AASB-16). This is higher than the net debt at reporting date of A$82 million (before AASB-16) used in the

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calculation of the Sigma's EBIT Multiple. If we assume for Sigma a net debt of A$130 million (before AASB-16), the Sigma FY23 EBIT multiple increases from 13.9x to 14.8x which may cause us to increase the EBIT Multiple applicable to API, all other things being the same. However, in our opinion, the above adjustment is speculative as there is not enough publicly available information on Sigma's net debt levels in the period between reporting dates to allow us to use average net debt. Given the lack of sufficient information, for consistency, we have used period-end net debts for the comparable companies and for API when undertaking our valuation assessment.

- We have undertaken our valuation assessment of API on a post-AASB-16 basis and accordingly we have deducted from the enterprise value lease liabilities of c. A$175 million (included in the net debt table above). We have set out in the table below the lease liabilities[95] as a proportion of total enterprise value for API and the listed peers.

Lease Liabilities as a % of Total Enterprise Value

Company	Lease Liabilities (% of Total Enterprise Value) FY21
Australian Pharmaceutical Industries Limited	16.9%
Tier 1 - ANZ Pharmaceutical Distributors	
Sigma Healthcare Limited	19.4%
EBOS Group Limited	3.2%
Tier 2 - ANZ Health and Beauty	
Pacific Smiles Group Limited	13.5%
Blackmores Limited	1.9%
BWX Limited	2.0%
SILK Laser Australia Limited	8.3%
Virtus Health Limited	11.0%
Monash IVF Group Limited	10.0%
Tier 3 - International Pharmacies	
Henry Schein, Inc.	2.7%
Tesco PLC	23.5%
Walgreens Boots Alliance, Inc.	29.1%
CVS Health Corporation	9.7%
AmerisourceBergen Corporation	3.3%
McKesson Corporation	4.3%

Source: Publicly available information, S&P Global, GTCF analysis

As observed in the table above, due to differences in the business model, the impact of undertaking a valuation assessment on a post-AASB16 basis and hence including the lease liabilities in the calculation of the net debt, is not consistent across all the listed peers with API being more adversely affected on average[96]. In other words, if we were doing the valuation on a pre-AASB16 basis, we would not include the lease liabilities from API (c. A$175 million) in the net debt and at the same time we will not add the lease liabilities when we calculate the enterprise value of the listed peers to assess the EBIT Multiple which will accordingly reduce. However, based on the above table, this adjustment

[95] Lease liabilities are taken as at FY21
[96] With the exclusion of Sigma, Tesco and Walgreens even if the last two are not considered comparable, the lease Liabilities as a % of enterprise value is the highest for API.

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will have a positive effect in the valuation of API as the reduction in the enterprise value of API as a consequence of the reduction in the EBIT Multiple of the listed peers will be less than the lease liabilities of c. A$175 million[97] included in our assessment of the net debt. We have again not adopted this approach as whilst we are capable of assessing the FY23 EBIT of API on a pre-AASB16 basis, this information is not available for the listed peers.

Based on the above, on balance, we are of the opinion that our approach is more objective and provides a balanced view of the fair market value of API based on the information available for API and the listed peers.

6.1.6 Other adjustments

In arriving at the equity value for API, the following additional adjustments have been made given that we have used the net debt as at 31 August 2021:

- Expenditure committed but not yet incurred – It refers to Grant Thornton's estimate of the interest component of the lease at the Marsden Park Facility.
- Clear Skincare Clinics acquisition payment – On 1 September 2021, API paid the last tranche of the purchase consideration in relation to its 2018 acquisition of Clear Skincare Clinics.
- API have an investment in SiSU Wellness Pty Ltd. We have considered the balance sheet value of this investment as representative of fair market value.
- On 10 September 2021, API entered a conditional sale and leaseback of its pharmaceutical manufacturing plant in New Zealand. The contract became unconditional on 21 October 2021 and settlement occurred on 3 December 2021. We have considered the net proceeds (net of selling costs and taxes) of A$6.6 million in our valuation assessment.
- We have undertaken our valuation on a cum-dividend basis and therefore no adjustment has been made for the FY21 Dividend of 2 cents per API Share and any Special Dividend.

6.1.7 Number of shares outstanding and performance rights

As at 25 January 2022, the Company had approximately 6.6 million performance rights on issue. If the Scheme is implemented, all performance rights will be cancelled and participants will be provided with Scheme Consideration in lieu of the cancellation. Given this, we have only considered 492.656 million shares in our calculation and have deducted the Cancellation Consideration of c. A$10.2 million[98] from our valuation assessment.

6.2 DCF Method

6.2.1 GT Model

For the purpose of our valuation cross-check using the DCF Method, Grant Thornton Corporate Finance was provided with Management's Internal Projections up to FY26 which we have used as a starting point to build a high level valuation model (GT Model). Prior to using the Internal Projections for the purpose of

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[97] The EBIT Multiple applicable to API needs to reduce by c. 2x to offset the increase in the value as a result of removing the lease liabilities.
[98] This has been calculated as 6,611,351 multiplied by the Scheme Consideration of A$1.55 per API Share.

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our valuation assessment, Grant Thornton Corporate Finance has undertaken a critical review and consideration of the following:

- Historical financial performance of API.
- Market updates from investment analysts who cover API's expected performance and the industry as a whole.
- Key performance indicators of comparable listed peers.
- Key industry risks, growth prospects and general economic outlook.

Whilst Grant Thornton Corporate Finance believes that the assumptions underlying the GT Model are reasonable and appropriate to be adopted for the purpose of our valuation, we have not disclosed them in our IER as they contain commercially sensitive information and because we have not commissioned an Investigating Accountant Report ("IAR")[99]. The assumptions adopted by Grant Thornton Corporate Finance do not represent projections prepared by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of similar businesses. We note that the assumptions are subject to uncertainty and there is scope for differences of opinion, such that the value of API could vary materially based on changes to certain key assumptions.

In relation to the Internal Projections prepared by Management, we note the following:

- They include the quantification of a number of strategic initiatives, growth opportunities and streamlining of operations in excess of those reported to the market as part of the Strategic Initiatives. These additional performance improvements initiatives are expected to be realised in the outer years of the discrete forecast period. Whilst we consider them reasonable to pursue, some of them are nonetheless hypothetical compared with the Strategic Initiatives with implementation yet to be approved/commenced.
- The Internal Projections have not been provided to interested parties and they have not been approved or reviewed by the Directors.
- Whilst we consider the financial model underlying the Internal Projections fit for purpose, it does not include an integrated profit and loss, balance sheet and cash flows and accordingly it is considered high level.
- Management has included in the Internal Projections a number of scenarios where the growth initiatives are risk adjusted to a certain degree.

We note that API is covered by 6 investment analysts which provide regular updates to the investors, including cash flows projections which form the basis for the Analyst Case.

Accordingly, we have prepared our valuation assessment under the DCF having regard to the two cases outlined below:

[99] ASIC Regulatory Guide 170 "Prospective Financial Information" and RG111 require to commission an IAR if the Expert intends to disclose the actual projections used in the valuation in the IER

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- *Analyst Case* – The underlying EBIT is expected to grow from A$70 million in FY21 to A$98 million in FY26. Whilst this may appear conservative considering that FY21 underlying pro-forma EBIT including the Strategic Initiatives is estimated by Grant Thornton at c. A$90 million (refer to Section 6.1.1 for details), API has a history of volatile earnings, challenging market conditions and increasing competition. Accordingly, whilst API may have an ability to deliver in some years an underlying EBIT higher than A$98 million, the Analyst Case seems to take into account the cyclicality of the business and the history of volatile financial performance. In particular, we note that there has always been a significant difference between reported and underlying EBIT due to restructuring, re-organisation and one-off costs incurred by the business. This affects the quality of earnings and it is taken into account by a pool of potential purchasers in their valuation assessment of the Company.

- *Risk-Adjusted Management Base Case* – API is a large and strategic business with a significant market position as one of the three national CSO Distributors and with a unique geographic footprint with the Priceline Pharmacy and Priceline stores network which would be difficult to replicate for a pool of potential purchasers. Further, the wholesale distribution business is protected by regulatory framework which provides certainty at least until the end of the 7CPA (30 June 2025). Given upon implementation of the Scheme, API Shareholders will give away any potential future upside from growing the business, we have captured into our valuation assessment some of the upside compared with the Analyst Case from the additional growth initiatives included in the Internal Projections.

6.2.2 Key valuation assumptions

Total Revenue

- *Wholesale Distribution:* Given the defensive nature of the sector and the limited number of national CSO Distributors, revenue and market shares tend to be stable (unless major contracts are lost/won or there are significant changes to regulation). Management have assumed growth in wholesale volume between 2% and 3% over the discrete forecast period which does not seem unreasonable considering historical volume growth and the fact that according to Medicines Australia, the CAGR growth from FY12 to FY20 in PBS headline funding was c. 4.2%.

- *Priceline and Priceline Pharmacy:* The store network is expected to grow from 464 stores as at 31 August 2021 to c. 550 stores as at 31 August 2026 through the selective reduction of underperforming owned stores whilst growing the franchise network. The target number of stores does not seem unreasonable if we consider that EBOS is targeting 500 TerryWhite Chemmart stores by 30 June 2022 compared with 465 stores as at 30 June 2021. LFL sales growth is expected to benefit from the recently implemented initiatives.

- *Clear Skincare Clinics:* API acquired the Clear Skincare Clinics business in FY18. Clear Skincare Clinics portfolio comprises 82 clinics of which c. 48% are relatively new whilst the balance have been operational for a number of years. Given this mix of new and existing clinics, Management assume significant revenue upside as the portfolio matures over time with the balance of the growth expected to be derived by the opening of between 10 and 15 clinics every year. In the three years, since acquisition, API has grown the network from c. 42 clinics to 86 clinics, in spite of the outbreak of COVID-19 during this period. As part of its prospectus, SILK Laser has stated that it intends to grow its network of clinics to 150 clinics. Given the sector is experiencing strong demand and market size is growing, it is likely first movers, like Clear Skincare Clinics, will be best placed to take advantage of the growing market size. Accordingly we consider the above assumption as reasonable. Whilst the growth in the number of clinics is significant, the net contribution to the increase in profitability is

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somewhat limited given the time that it takes new clinics to reach their full run rate and accordingly it materially mitigates the risk in relation to this assumption. There are also additional growth initiatives in the Internal Projections in relation to new treatments associated with the body contouring, however we have not captured them in our valuation assessment.

- *Consumer Products:* It reflects the recently implemented strategy of contract manufacturing.

EBIT margin

As a result of the various strategic initiatives, the EBIT margin for API is expected to increase from 1.7% in FY21 to 2.9% in FY26 under the Risk-Adjusted Management Base Case or 2% under the Analyst Case. We have set out in the table below the EBIT margins of the other CSO Distributors which appear to support the assumption in the GT Model.

	EBIT Margin (%)						
	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Company	Actual	Actual	Actual	Actual	Projected	Projected	Projected
Tier 1 - ANZ Pharmaceutical Distributors							
Sigma Healthcare Limited	2.2%	1.9%	1.0%	1.5%	1.3%	1.4%	1.6%
EBOS Group Limited	3.1%	3.3%	3.0%	3.2%	3.4%	4.2%	4.3%

Source: S&P Global, GTCF analysis

Capital expenditure

Historically, API's capital expenditure has been largely incurred towards maintenance expenditure, strategic initiatives and acquisitions, such as Sigma's shareholding in FY19 and the upfront and deferred payments for the Clear Skincare Clinics acquisition between FY18 and FY21. During the discrete forecast period, the capital expenditure is mainly in relation to completion of the Strategic Initiatives plus capex for the other growth opportunities such as for acquiring new clinics/stores in the Priceline/Clear Skincare Clinics portfolio, refurbishments of the existing stores/clinics.

Other cash flows assumptions

- *Tax rate:* We have assumed tax at the corporate tax rate of 30%.
- *Working capital:* API currently has a relatively low level of cash conversion days at c. 17.3 days in FY21. The Internal Projections do not include any further improvements in the cash conversion days.
- *Terminal value:* In the assessment of the terminal value, we have adopted an EBIT margin in line with FY26 EBIT margin which we have benchmarked as per the discussion above and a level of capital expenditure of c. A$40 million per annum in the Analyst Case and of c. A$50 million in the Risk-Adjusted Management Base Case. The perpetual growth rate has been estimated at 2% which is at the low end of the inflation target band and it takes into account the volatility in financial performance experienced by the business historically and the low growth of the wholesale distribution business.
- *Number of shares outstanding:* We have adopted the number of shares outstanding to be 492.6 million shares outstanding and deducted the Cancellation Consideration of A$10.2 million from our valuation assessment.

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- *Net debt:* We have considered the average net debt based on the monthly balances for FY21 in our valuation assessment.
- *Investment in SiSU Pty Ltd*: In determining the value per API Share, we have considered the Investment in SiSU Pty Ltd worth A$2.4 million as the dividends from these are not included in the DCF provided by Management.

Discount rate

We have adopted a discount rate between 7.1% and 8.1% under the Analyst Case which includes limited growth outside the Strategic Initiatives. Under the Risk-Adjusted Management Base Case, we have added a specific risk premium to take into account the risk associated with the execution of the Strategic Initiatives and the risks associated with sourcing capital required for these initiatives and adopted an overall discount rate between 8.2% and 9.6%. Refer to Appendix B for details.

We have benchmarked in the table below the assessed discount rate with the discount rates adopted by Sigma, EBOS and the ANZ health and beauty peers for impairment purposes which supports our valuation assessment.

Post-Tax Discount Rates Company	FY20 Post-Tax	FY21 Post-tax
Tier 1 - ANZ Pharmaceutical Distributors		
Sigma Healthcare Limited	7.3%	6.9%
EBOS Group Limited[1]	12.0%	11.4%
Median - Tier 1	**9.6%**	**9.1%**
Average - Tier 1	**9.6%**	**9.1%**
Tier 2 - ANZ Health and Beauty		
Pacific Smiles Group Limited	9.6%	10.0%
Blackmores Limited[2]	16.4%	12.2%
BWX Limited	8.0%	8.9%
SILK Laser Australia Limited	11.9%	12.1%
Virtus Health Limited	7.5%	7.3%
Monash IVF Group Limited	7.4%	7.3%
Median - Tier 2	**8.8%**	**9.4%**
Average - Tier 2	**10.1%**	**9.6%**

Source: Company annual reports
Notes: (1) For FY20 and FY21 we have shown the median of the range reported in EBOS's FY20 and FY21 Annual Reports of 9.3% to 14.6% and 8.6% to 14.2% respectively; (2) For FY21 we have shown the median of the range reported in Blackmores FY21 Annual Report of 8.0% to 16.4%.

6.2.3 Summary of values

We have set out below the summary of the values under the various scenarios.

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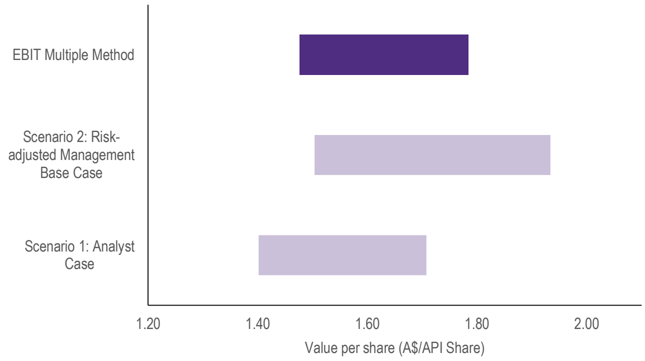
DCF Method – Valuation summary



Source: GTCF Calculations

Based on the above, we are of the opinion that the DCF Method provides support to our assessed value range of A$1.48 per API Share to A$1.78 per API Share.

6.3 Quoted Security Pricing Method

In our assessment of the fair market value of API shares, we have also considered the trading price of the listed securities on the ASX in the period prior to the Original Proposal.

The assessed value per share based on the trading price is an exercise of professional judgement that takes into consideration the depth of the market for listed securities, the volatility of the trading price, and whether or not the trading price is likely to represent the underlying value of API. The following sections detail the analysis undertaken in selecting the share price range.

6.3.1 Liquidity analysis

In accordance with the requirements of RG 111, we have analysed the liquidity of API Shares before relying on them for the purpose of our valuation assessment. We have set out below the trading volume from June 2020 to June 2021 as a percentage of the total shares outstanding as well as free float shares outstanding.

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Australian Pharmaceutical Industries - Liquidity Analysis Month end	Volume traded ('000)	Monthly VWAP ($)	Total value of shares traded ($'000)	Volume traded as % of total shares	Cumulative Volume traded as % of total shares	Volume traded as % of free float shares	Cumulative Volume traded as % of free float shares
Jun 2020	23,103	1.1603	26,806	4.7%	4.7%	6.0%	6.0%
Jul 2020	19,856	1.1105	22,050	4.0%	8.7%	5.1%	11.1%
Aug 2020	10,152	1.1129	11,298	2.1%	10.8%	2.6%	13.7%
Sep 2020	15,725	1.0390	16,339	3.2%	14.0%	4.1%	17.7%
Oct 2020	16,560	1.0624	17,594	3.4%	17.3%	4.3%	22.0%
Nov 2020	17,108	1.1350	19,418	3.5%	20.8%	4.4%	26.4%
Dec 2020	18,846	1.2517	23,590	3.8%	24.6%	4.9%	31.3%
Jan 2021	9,888	1.2303	12,166	2.0%	26.6%	2.5%	33.8%
Feb 2021	12,494	1.2032	15,033	2.5%	29.2%	3.2%	37.0%
Mar 2021	32,053	1.2502	40,072	6.5%	35.7%	8.3%	45.3%
Apr 2021	24,010	1.2678	30,440	4.9%	40.6%	6.2%	51.5%
May 2021	18,461	1.1374	20,998	3.7%	44.3%	4.8%	56.2%
Jun 2021	24,659	1.1371	28,041	5.0%	49.3%	6.4%	62.6%
Min				**2.0%**		**2.5%**	
Average				**3.8%**		**4.8%**	
Median				**3.7%**		**4.8%**	
Max				**6.5%**		**8.3%**	

Sources: S&P Global and GTCF Analysis

With regard to the above analysis, we note that:

- The level of free float for API shares is relatively high given that the top 3 shareholders own only 35.5% of the issued capital.
- The free-float shares percentage of the Company is in line with most of the other listed peers as set out in the table below.

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Liquidity analysis Company	Country	Free float (%)	Average volume traded as a % of total shares	Average volume traded as a % of free float shares	Cumulative volume traded as a % of total shares	Cumulative volume traded as a % of free float shares
Australian Pharmaceutical Industries Limited	Australia	80.7%	3.8%	4.8%	49.3%	62.6%
Tier 1 Comparables						
Sigma Healthcare Limited	Australia	95.4%	3.3%	3.5%	43.4%	45.5%
EBOS Group Limited	Australia	79.8%	3.6%	4.5%	46.7%	58.5%
Low - Tier 1		**79.8%**	**3.3%**	**3.5%**	**43.4%**	**45.5%**
Average - Tier 1		**87.6%**	**3.5%**	**4.0%**	**45.0%**	**52.0%**
Median - Tier 1		**87.6%**	**3.5%**	**4.0%**	**45.0%**	**52.0%**
High - Tier 1		**95.4%**	**3.6%**	**4.5%**	**46.7%**	**58.5%**
Tier 2 Comparables						
Pacific Smiles Group Limited	Australia	38.3%	1.5%	4.0%	19.8%	51.8%
Blackmores Limited	Australia	72.0%	6.3%	8.7%	81.5%	113.2%
BWX Limited	Australia	80.0%	5.3%	6.6%	68.6%	85.7%
SILK Laser Australia Limited	Australia	50.6%	2.0%	4.0%	12.1%	24.0%
Virtus Health Limited	Australia	97.8%	9.0%	9.2%	117.3%	119.9%
Monash IVF Group Limited	Australia	92.4%	5.5%	5.9%	71.4%	77.3%
Low - Tier 2		**38.3%**	**1.5%**	**4.0%**	**12.1%**	**24.0%**
Average - Tier 2		**71.9%**	**4.9%**	**6.4%**	**61.8%**	**78.7%**
Median - Tier 2		**76.0%**	**5.4%**	**6.3%**	**70.0%**	**81.5%**
High - Tier 2		**97.8%**	**9.0%**	**9.2%**	**117.3%**	**119.9%**
Tier 3 Comparables						
Henry Schein, Inc.	United States	99.1%	16.3%	16.4%	211.7%	213.7%
Tesco PLC	United Kingdom	97.3%	5.9%	6.1%	77.3%	79.5%
Walgreens Boots Alliance, Inc.	United States	82.8%	15.8%	19.1%	205.6%	248.2%
CVS Health Corporation	United States	99.8%	12.0%	12.0%	155.9%	156.2%
AmerisourceBergen Corporation	United States	72.1%	10.9%	15.2%	142.0%	197.1%
McKesson Corporation	United States	99.9%	14.6%	14.6%	190.2%	190.3%
Low - Tier 3		**72.1%**	**5.9%**	**6.1%**	**77.3%**	**79.5%**
Average - Tier 3		**91.8%**	**12.6%**	**13.9%**	**163.8%**	**180.8%**
Median - Tier 3		**98.2%**	**13.3%**	**14.9%**	**173.0%**	**193.7%**
High - Tier 3		**99.9%**	**16.3%**	**19.1%**	**211.7%**	**248.2%**

Source: S&P Global; GTCF analysis
Note: (1) Free float percentages have been calculated using June 2021 data and therefore excludes the period after Wesfarmers initial offer

- In the absence of a takeover or alternative transactions, the trading price represents the value at which minority shareholders could realise their investment.
- API provides regular updates to the market regarding its strategy and performance. In addition, the stock is covered by several investments' analysts which provide regular updates to investors.
- Where a company's stock is not heavily traded or is relatively illiquid, the market typically observes a difference between the 'bid' and 'ask' price for the stock as there may be a difference in opinion between the buyer and seller on the value of the stock. We have set out below the bid and ask price since July 2020.

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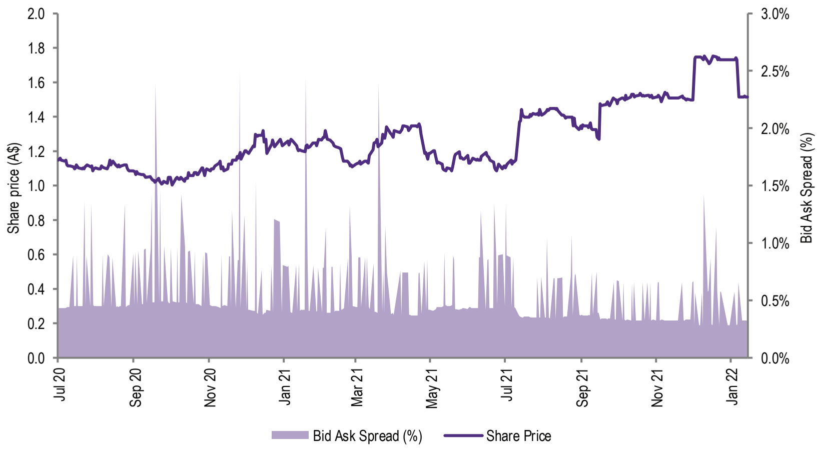
API – Bid/Ask Spread 1 July 2020 to 14 January 2022



Sources: S&P Global and GTCF Analysis

As set out in the graph above, we note that the historical average and median bid-ask spread has been 0.6% and 0.4% respectively since July 2020 with spikes around 2.5% in conjunction with large movements in the trading price.

Based on the analysis above, we conclude that there is sufficient liquidity in API's trading price for utilisation of the Quoted Security Price Method as required by pursuant to RG 111.

6.3.2 Analysis of the trading price

Notwithstanding that liquidity in the trading prices is sufficient, we are of the opinion that it is useful for the purpose of assessing the merits of the Scheme to undertake a detailed analysis of the trading prices to gain further insights into the performance of API.

The Scheme Consideration is at a significant premium of 35.4% to the undisturbed closing prices before the announcement of the Original Proposal and at the high-end of premium for control paid in Australia for successful takeovers between 20% and 40%. However, over the last couple of years, market conditions have been volatile due to the outbreak of COVID-19 and API has implemented a number of initiatives to future proof the business and to face some of the challenges experienced in relation to increased competition, change in the regulatory regime and gross margin pressure. Accordingly, we are of the opinion that it is necessary to analyse the trading price of API Shares over a longer period of time to draw the necessary conclusions on the Scheme Consideration.

We have discussed below the market conditions, key events and the performance of API from 1 July 2018 to the day before the Original Proposal.

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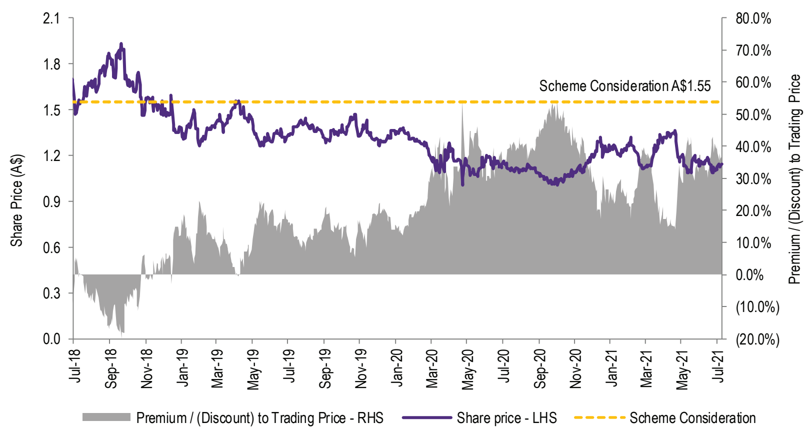
API – Historical share trading price and volume



Source: S&P Global, GTCF analysis

Since July 2018, API has briefly traded above the Scheme Consideration following the announcement of the Clear Skincare Clinics Acquisition at the end of June 2018 with the trading prices increasing from A$1.35 to A$1.70 on the announcement and then continuing the upward trend for a short period of time.

Shortly after, in December 2018, API announced a non-binding indicative proposal to acquire Sigma, after increasing its shareholding to 12.95%. Whilst the announcement caused API's trading price to initially increase from a previous close of A$1.47 to A$1.59, it trended downwards thereafter. On 13 March 2019, API announced that Sigma had rejected its indicative offer to merge the companies. Whilst the merger did not proceed, API retained its stake in Sigma until December 2019. During this period, the Company continued to face challenging market conditions such as weak Priceline LFL sales and margin pressures within its Wholesale Distribution division. These coupled with the uncertainty in the regulatory regime, with the 6CPA expiring on 30 June 2020, caused the trading prices to continue to trend downwards.

Notwithstanding the outbreak of COVID-19, API financial performance was robust in FY20 and FY21 with results in line with expectations and significant debt reduction in FY20 despite challenging retail conditions before debt levels partially raised again to fund the deferred payment for the Clear Skincare Clinics acquisition and the Strategic Initiatives. Towards the end of FY20, the uncertainty in relation to the regulatory environment was also removed with the announcement of the 7CPA whose outcomes were welcomed by API.

At the beginning of FY22, API announced an update on its annual strategic review with the exit of its manufacturing operations in New Zealand to focus resources and investments on its distribution and retail businesses. We note that API announced the strategic initiatives and the cash flow impact of these (A$20.5 million incremental EBIT) on 12 July 2021 with the Original Proposal announced on the same day. The trading update from API also reported that in the event lockdowns in Sydney and Melbourne continued beyond July, the EBIT reduction would be c. A$1 million per week during which the lockdown remains in effect. As part of this, the Company also reduced its guidance from A$75 million (provided at the half-year) to c. A$66 million to A$68 million. Further, on 11 October 2021, API communicated that it would exceed the profit guidance for FY21 communicated to the market on 12 July 2021. These announcements were not reflected in the trading prices before the Original Proposal.

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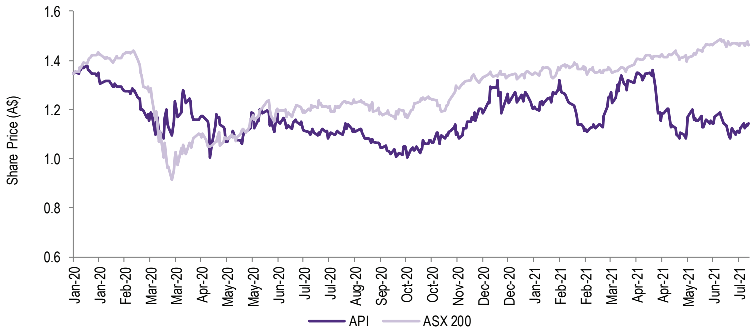
We have further compared below the trading prices of API with the ASX200 Index.

API and ASX200 trading prices up to the Original Proposal

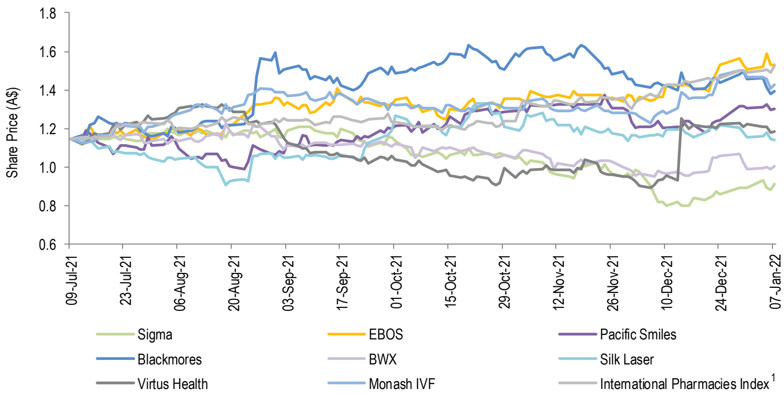


Source: S&P Global, GTCF analysis

During the initial outbreak of COVID-19 between March 2020 and June 2020, given the defensive nature of the business, API's decline in the share price was more modest compared to the ASX 200 Index. Once the uncertainty due to COVID-19 reduced, given the low interest rates environment and accommodating monetary policy, the ASX 200 outperformed API's trading price which experienced volatility due to the announcement of results and trading updates. As a result of this short-term volatility, the trading prices reduced from A$1.36 per share towards the end of April and in the subsequent period before the Original Proposal, they ranged between A$1.10 and A$1.20. Based on the above, whilst we have not noticed any anomalies in the trading prices of API, they appeared depressed immediately before the announcement of the Original Proposal.

Further, we have also considered the rebased trading prices of the peer set during the scheme negotiation period.

Rebased trading prices of comparable companies from 9 July 2021 to 7 January 2022



Source: S&P Global

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Note: (1) International Pharmacies Index includes Henry Schein Inc., Tesco PLC, Walgreens Boots Alliance Inc., CVS Health Corporation, AmerisourceBergen Corporation and McKesson Corporation

With the exception of Sigma which reported a profit downgrade, the trading prices of the comparable companies during the scheme negotiation period have remained largely range bound, providing support to our overall value range.

We have set out below the VWAP of API before the Original Proposal.

Australian Pharmaceutical Industries VWAP analysis				
		Low	High	VWAP
Up to	11 Jul 2021			
1 day		1.130	1.145	1.138
5 day		1.110	1.145	1.132
1 month		1.075	1.200	1.132
3 month		1.060	1.375	1.163
6 month		1.060	1.375	1.192

Source: IRESS, GTCF Calculations

Based on the above, the trading prices of API ranged between A$1.15 and A$1.20 before the announcement of the Original Proposal. The premium for control implied in the Consideration is at the high-end of the premium for control typically applied in Australia for successful takeovers. Refer to our discussion in the executive summary of why we believe this is reasonable.

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7 Sources of information, disclaimer and consents

7.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Annual reports/consolidated accounts of API for FY18, FY19, FY20 and FY21.
- Scheme Booklet.
- Management accounts.
- Management presentations and CFO reports.
- Management Projection Scenarios FY22 to FY25.
- Minutes of Board meetings.
- Access to other relevant documents in the Data Room.
- Transaction databases such as S&P Global Capital IQ and Mergermarket.
- IBISWorld.
- Industry reports provided by the Company.
- Various broker reports for the Company and for the listed peers.
- Other publicly available information.

In preparing this report, Grant Thornton Corporate Finance has also held discussions with, and obtained information from, Management of API and its advisers.

7.2 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by the Company, and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by the Company through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of the Company.

This Report has been prepared to assist the Directors of API independent of the Bidder in advising the Company's shareholders in relation to the Scheme. This Report should not be used for any other purpose. In particular, it is not intended that this Report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Scheme is fair and reasonable to API Shareholders.

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API has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by the Company, which the Company knew or should have known to be false and/or reliance on information, which was material information the Company had in its possession and which the Company knew or should have known to be material and which did not provide to Grant Thornton Corporate Finance. The Company will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

7.3 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Scheme Booklet to be sent to API shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and context in which it appears.

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Appendix A – Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses. This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model. Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction. Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company. The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

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Appendix B – Discount rate

Introduction

The cash flow assumptions underlying the DCF approach are on a nominal, ungeared and post-tax basis. Accordingly, we have assessed a range of nominal post-tax discount rates for the purpose of calculating the net present value of the cash flows.

The discount rates were determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgment.

Under a classical tax system, the nominal WACC is calculated as follows:

$$WACC = R_d \times \frac{D}{D+E} \times (1-t) + R_e \times \frac{E}{D+E}$$

Where:

- Re = the required rate of return on equity capital;
- E = the market value of equity capital;
- D = the market value of debt capital;
- Rd = the required rate of return on debt capital; and
- t = the statutory corporate tax rate.

Required rate of return on equity capital

We have used the CAPM, which is commonly used by practitioners, to calculate the required return on equity capital.

The CAPM assumes that an investor holds a large portfolio comprising risk-free and risky investments. The total risk of an investment comprises systematic risk and unsystematic risk. Systematic risk is the variability in an investment's expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion.

Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company's returns are correlated with

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the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market - it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (Re) is estimated as follows:

$$R_e = R_f + \beta_e (R_m - R_f)$$

Where:

- Rf = risk free rate
- βe = expected equity beta of the investment
- (Rm – Rf) = market risk premium

*Risk-free rate – **3.0%***

In the absence of an official risk free rate, the yield on government bonds (in an appropriate jurisdiction) is commonly used as a proxy. Accordingly, we have we have observed the yield on the 10-year Australian Government bond over several intervals from a period of 5 trading days to 15 trading years. The following table sets out the average yield on 10-year Australian Government Bond over the last 10 years.

Australia Government Debt - 10 Year				Daily average
As at 14 January 2022		Range		Nominal
Previous 5 trading days	1.84%	-	1.91%	1.87%
Previous 10 trading days	1.66%	-	1.91%	1.82%
Previous 20 trading days	1.54%	-	1.91%	1.71%
Previous 30 trading days	1.54%	-	1.91%	1.68%
Previous 60 trading days	1.54%	-	2.10%	1.74%
Previous 1 year trading	1.03%	-	2.10%	1.51%
Previous 2 years trading	0.60%	-	2.10%	1.22%
Previous 3 years trading	0.60%	-	2.32%	1.30%
Previous 5 years trading	0.60%	-	2.99%	1.84%
Previous 10 years trading	0.60%	-	4.44%	2.50%

Source: S&P Global

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Given the current volatility in the global financial markets in conjunction with COVID-19, quantitative easing by central banks, recent changes to government bond yields, we have placed more emphasis on the average risk free rate observed over a longer period of time. Accordingly, our adopted risk-free rate of 3.0% is based on the long-term yields on Australian 10-year government bonds.

Market risk premium ***– 6.0%***

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned. However, given the inherent high volatility of realised rates of return, especially for equities, the market risk premium can only be meaningfully estimated over long periods of time. In this regard, Grant Thornton studies of the historical risk premium over periods of 20 to 80 years suggest a risk premium between 5.5% and 6.0% for the Australia markets.

For the purpose of the WACC assessment, Grant Thornton Corporate Finance has adopted a market risk premium of 6.0%.

Equity beta – ***1.00 to 1.10***

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity. For the purpose of the report, we would normally have regard to the observed betas (equity betas) of listed companies involving diversified pharmaceutical companies, healthcare and consumer product companies.

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Beta analysis Company name	Country	Market Cap (A$m)	Equity beta	R Squared	Gearing Ratio	Ungeared Beta	Regeared Beta
Australian Pharmaceutical Industries Limited	Australia	746	0.36	0.03	34.3%	0.29	0.34
Sigma Healthcare Limited	Australia	470	0.24	0.01	34.3%	0.19	0.23
EBOS Group Limited	Australia	6,929	0.13	0.01	14.3%	0.12	0.14
Pacific Smiles Group Limited	Australia	453	1.45	0.27	12.6%	1.33	1.57
Blackmores Limited	Australia	1,607	0.35	0.01	1.8%	0.34	0.41
BWX Limited	Australia	547	1.36	0.11	6.1%	1.30	1.53
SILK Laser Australia Limited	Australia	225	Nm	0.12	-	Nm	Nm
Virtus Health Limited	Australia	567	2.26	0.44	46.7%	1.70	2.00
Monash IVF Group Limited	Australia	405	2.26	0.53	27.7%	1.90	2.23
Low (excl. API)							**0.14**
Average (excl. API)							**1.16**
Median (excl. API)							**1.53**
Max (excl. API)							**2.23**

Source: S&P Global and GTCF calculations
Note (1): Equity betas are calculated using data provided by S&P Global as at 14 January 2022. The betas are based on a five-year period with monthly observations based on the local index. Betas have been ungeared based on the average gearing ratio (i.e. net debt divided by shareholders' equity based on market values). Betas have been regeared based on the assumed regearing ratio of 25%.

It should be noted that the above betas are drawn from the actual and observed historical relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess their commercial reasonableness. That is to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks against which the equity beta used in estimating the cost of equity for the predevelopment assets, the selection of an unsystematic equity beta requires a level of judgement.

The asset betas of the selected companies are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparable companies, a process commonly referred as de-gearing. We have then recalculated the equity beta based on an assumed 'optimal' capital structure deemed appropriate for the business (regearing). This is a subjective exercise, which carries a significant possibility of estimation error.

We used the following formula to undertake the de-gearing and regearing exercise:

$$\beta_e = \beta_a\left[1 + \frac{D}{E} \times (1 - t)\right]$$

Where:

- βe = Equity beta
- βa = Asset beta
- t = corporate tax rate

The betas are de-geared using the average historical gearing levels of those respective companies over several years. We note that most comparable companies had net cash positions. We then re-geared based on a gearing ratio of 20% debt (see Capital Structure Section below for further discussions).

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As a result, for the purposes of our valuation, we have selected a beta range of between 1.0 and 1.1 to calculate the required rate of return on equity capital. In our beta assessment we had regards to brokers and the beta of the consumer discretionary segment.

*Specific risk premium – **Analyst Case – nil; Risk-adjusted Management Base Case – 1.5% - 2%***

The specific risk premium represents the additional return an investor expects to receive to compensate for country, size and project related risk not reflected in the beta of observed comparable companies.

We note that the selection of the specific risk premium involves a certain level of professional judgement and as a result, the total specific risk premium is not fully quantifiable with analytical data.

*Cost of debt – **4.0% - 5.0%***

For the purpose of estimating the cost of debt applicable to API, Grant Thornton Corporate Finance has considered the following:

- The weighted average interest rate on credit outstanding for large businesses over the last one to five years as published by the Reserve Bank of Australia.
- The historical and current cost of debt for API and the comparable companies.
- Expectations of the yield curve.

Based on the above, Grant Thornton Corporate Finance has adopted a cost of debt between 4.0% and 5.0% on a pre-tax basis. However, we note that since API has nil gearing, the assumption does not impact the assessment of the WACC.

Capital Structure

The appropriate level of gearing that is utilised in determining WACC for a particular company should be the "target" gearing ratio, rather than the actual level of gearing, which may fluctuate over the life of a company. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by:

- the quality and life cycle of a company;
- the quality and variability of earnings and cash flows;
- working capital;
- level of capital expenditure; and
- the risk profile of the assets.

For the purpose of the valuation, Grant Thornton Corporate Finance has adopted a capital structure based on 25-30% debt and 70-75% equity. In determining the appropriate capital structure, we have had regard to the current capital structure of API based on its average net debt based on monthly balance outstanding

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but also having regard to the selected comparable companies in pharmaceutical distribution and health and beauty sectors.

*Tax rate – **30%***

For the purpose of our valuation assessment we have assumed the Australian corporate tax rate of 30%.

Discount rate summary

WACC calculation	Analyst Case		Risk-adjusted Management Base Case	
	Low	High	Low	High
Cost of equity				
Risk free rate	3.0%	3.0%	3.0%	3.0%
Beta	1.00	1.10	1.00	1.10
Market risk premium	6.0%	6.0%	6.0%	6.0%
Specific risk premium	0.0%	0.0%	1.5%	2.0%
Cost of equity	**9.0%**	**9.6%**	**10.5%**	**11.6%**
Cost of debt				
Cost of debt (pre tax)	4.0%	5.0%	4.0%	5.0%
Tax	30.0%	30.0%	30.0%	30.0%
Cost of debt (post tax)	**2.8%**	**3.5%**	**2.8%**	**3.5%**
Capital structure				
Proportion of debt	30%	25%	30%	25%
Proportion of equity	70%	75%	70%	75%
WACC (post tax)	**7.1%**	**8.1%**	**8.2%**	**9.6%**

Source: GTCF Analysis

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Appendix C – Comparable companies descriptions

Company	Description
Australian Pharmaceutical Industries Limited	Australian Pharmaceutical Industries Limited engages in the wholesale distribution and retail of pharmaceutical, medical, health, beauty, and lifestyle products to pharmacies primarily in Australia, New Zealand, and Asian markets. It offers health and beauty products through a network of Priceline and Priceline Pharmacy franchise stores, company-owned Priceline stores, and Clear Skincare Clinics network of clinics. The company also provides non-invasive aesthetic beauty services. Australian Pharmaceutical Industries Limited was incorporated in 1910 and is based in Camberwell, Australia.
Sigma Healthcare Limited	Sigma Healthcare Limited, together with its subsidiaries, engages in the wholesale and distribution of pharmaceutical products primarily in Australia. It operates a network of branded and independent stores under the Amcal+, Chemist King, Discount Drug Stores, Guardian, WholeLife, and PharmaSave brands. The company also develops and support a range of private label products. In addition, it provides hospital pharmacy services, including data and programs supporting specialty medication services; dose administration aid and related services to the residential, aged care, and community pharmacy sectors; technology solutions and data analytics; and product development and support services for a range of private and exclusive label products, as well as supplies medical consumables and devices to aged care facilities, hospitals, and clinics. Further, the company provides third party and fourth party logistics services to pharmaceutical manufacturers and other supplier partners. Sigma Healthcare Limited was founded in 1912 and is headquartered in Rowville, Australia.
EBOS Group Limited	EBOS Group Limited engages in the marketing, wholesale, and distribution of healthcare, medical, pharmaceutical, consumer, and animal care products in Australia and New Zealand. It operates through Healthcare and Animal Care segments. The company provides healthcare logistics; medication management solutions; pharmacy management software; loyalty, generics, compliance, business intelligence, and store software services; and multi-brand retail pharmacy services. It also offers vitamins, minerals and supplements, herbal and fruit teas, and natural toothpastes, as well as functional foods, including molasses and manuka honey; community based health care services and programs; Pharmacy Choice, a five step integrated retail program for independent pharmacies; and healthSAVE, a community pharmacy banner that helps members drive their retail businesses. In addition, the company supplies health and wellness products to public and private hospitals, day surgeries, general practice, aged care facilities, specialist clinics, government, and non-profit health agencies, as well as clinically essential products; and provides pharmacy services to private and public hospitals, cancer centers, correctional facilities, and veterinary clinics. Further, it offers contract logistics services, such as healthcare distribution, warehousing, clinical trial management, and product registration services; and clinical trial logistics. Additionally, the company provides pet nutrition products, treats, clean-up products, grooming, and accessories; and wholesales veterinary products for companion animals, production animals, and equine athletes. The company was formerly known as Early Bros Dental & Surgical Supplies Ltd. and changed its name to EBOS Group Limited in 1986. EBOS Group Limited was incorporated in 1922 and is headquartered in Docklands, Australia.
Pacific Smiles Group Limited	Pacific Smiles Group Limited, together with its subsidiaries, owns and operates dental centers under the Pacific Smiles Dental Centres and the nib Dental Care Centres names in Australian Capital Territory, New South Wales, Victoria, and Queensland. The company provides services and equipped facilities to dentists, including support staff, materials, marketing, and administrative services. It also offers dental services, such as cosmetic dentistry, child dental care, dental check-ups, emergency dental, endodontics, gum disease treatment, Invisalign, orthodontics, periodontics, prosthodontics, root canal treatment, sleep dentistry, teeth cleaning, teeth whitening, tele dentistry, tooth extraction, and wisdom teeth removal, as well as offers dental crowns, dental implants, dentures, veneers, and SmileStyler clear aligners. The company operates 109 centers. Pacific Smiles Group Limited was incorporated in 2002 and is headquartered in East Maitland, Australia.
Blackmores Limited	Blackmores Limited develops, sells, and markets natural health products for humans and animals in Australia, New Zealand, Asia, China, and internationally. The company offers vitamins, and herbal and mineral nutritional supplements. It also provides products for various conditions related to arthritis, joints, bones, and muscles; brain health; cold, flu, and immunity; digestive health; energy and exercise; essentials; everyday health; and eye health. In addition, the company offers products in the areas of fish and nutritional oils; heart and circulation; infant nutrition; kids health; men's health; multivitamins; nails, hair, and skin; pet health; probiotics; pregnancy and preconception; stress relief and sleep support; weight management; and women's health. It provides its products through retail and online channels. The company was founded in 1930 and is headquartered in Sydney, Australia.
BWX Limited	BWX Limited, together with its subsidiaries, develops, manufactures, markets, distributes, and sells natural body, hair, and skin care products in Australia, the United States, and internationally. The company is also involved in the online sale of its products. In addition, it provides health, beauty, and wellbeing products sourced from third parties through the Nourished Life e-commerce site; and vegan, ethical, and sustainable products through Flora and Fauna. The company owns, produces, and distributes products under the Sukin, Mineral Fusion, Andalou Naturals, DermaSukin, Life Basics, and USPA personal care brands. BWX Limited was incorporated in 2013 and is headquartered in Dandenong, Australia.
Silk Laser Australia Limited	SILK Laser Australia Limited operates and franchises a network of specialist clinics that offer non-surgical aesthetic products and services. Its services include laser hair removal, non-invasive cosmetic injections, and skin and body contouring treatments. The company also engages in the retail sale of skincare products; and provides cosmetic treatments. As of June 30, 2021, the company operated 33 corporate clinics, 11 joint venture clinics, and 17 franchised clinics. The company was formerly known as SILK Laser & Skin Holdings Pty Ltd. SILK Laser Australia Limited was founded in 2009 and is headquartered in Parkside, Australia.

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Company	Description
Virtus Health Limited	Virtus Health Limited provides various healthcare services in Australia, Denmark, the United Kingdom, Ireland, and Singapore. The company operates through two segments, Healthcare Services Australia and Healthcare Services International. It provides fertility services, medical day procedure services, and medical diagnostics and pathology services. It also offers in-vitro fertilization (IVF) services. In addition, the company offers medical day procedure services, such as gastroenterologists, colorectal surgeons, plastic surgeons, urologists, gynecologists, ophthalmologists, dental surgeons, hand surgeons, and other surgeons. As of August 23, 2021, it operated through a network of 128 fertility specialists supported by approximately 1300 professional staff. Virtus Health Limited was founded in 2008 and is headquartered in Greenwich, Australia.
Monash IVF Group Limited	Monash IVF Group Limited provides assisted reproductive and specialist women imaging services in Australia and Malaysia. The company offers diagnostic obstetric, gynecological ultrasound, and fertility research and treatment services. It also provides tertiary level prenatal diagnostic and IVF treatment services. Monash IVF Group Limited was incorporated in 2014 and is based in Richmond, Australia.
Henry Schein, Inc.	Henry Schein, Inc. provides health care products and services to dental practitioners and laboratories, physician practices, government, institutional health care clinics, and other alternate care clinics worldwide. It operates in two segments, Health Care Distribution, and Technology and Value-Added Services. The Health Care Distribution segment offers dental products, including infection-control products, handpieces, preventatives, impression materials, composites, anesthetics, teeth, dental implants, gypsum, acrylics, articulators, abrasives, dental chairs, delivery units and lights, X-ray supplies and equipment, personal protective equipment, and high-tech and digital restoration equipment, as well as equipment repair services. This segment also provides medical products comprising branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products, X-ray products, equipment, and vitamins. The Technology and Value-Added Services segment offers software, technology, and other value-added services that include practice management software systems for dental and medical practitioners. This segment also provides value-added practice solutions, which comprise financial services on a non-recourse basis, e-services, practice technology, network, and hardware services, as well as continuing education services for practitioners, and consulting and other services. Henry Schein, Inc. was founded in 1932 and is headquartered in Melville, New York.
Tesco PLC	Tesco PLC, together with its subsidiaries, engages in retailing and retail banking activities. It provides food products in stores and online; and operates mobile virtual network. The company is also involved in the food wholesaling activities; and provision of banking, insurance, and money services. It operates in the United Kingdom, Republic of Ireland, the Czech Republic, Slovakia, and Hungary. Tesco PLC was founded in 1919 and is headquartered in Welwyn Garden City, the United Kingdom.
Walgreens Boots Alliance, Inc.	Walgreens Boots Alliance, Inc. operates as a pharmacy-led health and beauty retail company. It operates through two segments, the United States and International. The United States segment sells prescription drugs and an assortment of retail products, including health, wellness, beauty, personal care, consumable, and general merchandise products through its retail drugstores. It also provides central specialty pharmacy services and mail services. As of August 31, 2021, this segment operated 8,965 retail stores under the Walgreens and Duane Reade brands in the United States; and five specialty pharmacies. The International segment sells prescription drugs; and health and wellness, beauty, personal care, and other consumer products through its pharmacy-led health and beauty retail stores and optical practices, as well as through boots.com and an integrated mobile application. It also engages in pharmaceutical wholesaling and distribution business in Germany. As of August 31, 2021, this segment operated 4,031 retail stores under the Boots, Benavides, and Ahumada in the United Kingdom, Thailand, Norway, the Republic of Ireland, the Netherlands, Mexico, and Chile; and 548 optical practices, including 160 on a franchise basis. Walgreens Boots Alliance, Inc. was founded in 1901 and is based in Deerfield, Illinois.
CVS Health Corporation	CVS Health Corporation provides health services in the United States. The company's Pharmacy Services segment offers pharmacy benefit management solutions, including plan design and administration, formulary management, retail pharmacy network management, mail order pharmacy, specialty pharmacy and infusion, clinical, and disease and medical spend management services. It serves employers, insurance companies, unions, government employee groups, health plans, prescription drug plans, Medicaid managed care plans, plans offered on public health insurance and private health insurance exchanges, other sponsors of health benefit plans, and individuals. This segment operates retail specialty pharmacy stores; and specialty mail order, mail order dispensing, and compounding pharmacies, as well as branches for infusion and enteral nutrition services. Its Retail/LTC segment sells prescription and over-the-counter drugs, consumer health and beauty products, and personal care products; and provides health care services through its MinuteClinic walk-in medical clinics. This segment also distributes prescription drugs; and provides related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. As of December 31, 2020, it operated approximately 9,900 retail locations and 1,100 MinuteClinic locations, as well as online retail pharmacy websites, LTC pharmacies, and onsite pharmacies. The company's Health Care Benefits segment offers traditional, voluntary, and consumer-directed health insurance products and related services. It serves employer groups, individuals, college students, part-time and hourly workers, health plans, health care providers, governmental units, government-sponsored plans, labor groups, and expatriates. The company was formerly known as CVS Caremark Corporation and changed its name to CVS Health Corporation in September 2014. CVS Health Corporation was founded in 1963 and is headquartered in Woonsocket, Rhode Island.
AmerisourceBergen Corporation	AmerisourceBergen Corporation sources and distributes pharmaceutical products in the United States and internationally. Its Pharmaceutical Distribution segment distributes brand-name and generic pharmaceuticals, over-the-counter healthcare products, home healthcare supplies and equipment, and related services to various healthcare providers, including acute care hospitals and health systems, independent and chain retail pharmacies, mail order pharmacies, medical clinics, long-term care and alternate site pharmacies, and other customers. It also provides pharmacy management, staffing, and other consulting services; supply management software to retail and institutional healthcare providers; and packaging solutions to various institutional and retail healthcare providers. In

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Company	Description
	addition, this segment distributes plasma and other blood products, injectable pharmaceuticals, vaccines, and other specialty products; provides other services primarily to physicians who specialize in various disease states, primarily oncology, as well as to other healthcare providers, including hospitals and dialysis clinics; and offers data analytics, outcomes research, and additional services for biotechnology and pharmaceutical manufacturers. The company's Other segment provides integrated manufacturer services, such as clinical trial support, product post-approval, and commercialization support; specialty transportation and logistics services for the biopharmaceutical industry; and sells pharmaceuticals, vaccines, parasiticides, diagnostics, micro feed ingredients, and various other products to customers in the companion animal and production animal markets, as well as demand-creating sales force services to manufacturers. AmerisourceBergen Corporation was incorporated in 2001 and is headquartered in Conshohocken, Pennsylvania.
McKesson Corporation	McKesson Corporation provides healthcare supply chain management, retail pharmacy, community oncology and specialty care, and healthcare information solutions in the United States and internationally. It operates through four segments: U.S. Pharmaceutical, International, Medical-Surgical Solutions, and Prescription Technology Solutions (RxTS). The U.S. Pharmaceutical segment distributes branded, generic, specialty, biosimilar, and over-the-counter pharmaceutical drugs and other healthcare-related products. This segment also provides practice management, technology, clinical support, and business solutions to community-based oncology and other specialty practices; and consulting, outsourcing, technological, and other services, as well as sells financial, operational, and clinical solutions to pharmacies. The International segment offers distribution and services to wholesale, institutional, and retail customers in 13 European countries and Canada. The Medical-Surgical Solutions segment provides medical-surgical supply distribution, logistics, and other services to healthcare providers. The RxTS segment offers CoverMyMeds solution to help patients get the medications; RelayHealth, a workflow solution; RxCrossroads solution for therapies and interventions to biopharma manufacturers; and McKesson Prescription Automation, a customized pharmacy automation technology; and Multi-Client Central Fill as a Service, a pharmacy. McKesson Corporation was founded in 1833 and is headquartered in Irving, Texas.

Source: S&P Global

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Appendix D – Comparable transaction targets descriptions

Company	Description
LifeHealthcare Pty Ltd	LifeHealthcare is one of the largest independent distributors of third party medical devices, consumables, capital equipment and in-house manufactured allograft material in Australia, New Zealand and South East Asia. The Company was founded in 2006 and is based in North Ryde, Australia.
Arrow Pharmaceuticals Pty Ltd.	Arrow Pharmaceuticals Pty Ltd. offers pharmaceutical products' research and development services. The company was founded in 2015 and is based in Cremorne, Australia.
Terry White Group Limited	Terry White Group Limited provides franchise services to the TerryWhite Chemmart pharmacy networks in Australia. It provides baby and child, beauty, general health, personal care, skin care, vitamins, and weight products. The company also sells its products online. The company is based in Brisbane, Australia. Terry White Group Limited is a subsidiary of EBOS Group Limited.
Clifford Hallam Healthcare Pty Ltd.	Clifford Hallam Healthcare Pty Ltd. distributes medical consumables, pharmaceuticals, veterinary products, and equipment in Australia. It offers medical, surgical, pharmaceutical, and general consumable products, as well as healthcare equipment to public and private hospitals, medical consumable, pharmaceutical, and equipment products to primary care providers, such as medical centres, day surgery, dental surgery, radiology, and other clinics; continence, wound care, nutrition, and medical products for aged care lifestyle and healthcare needs, animal nutrition, medical supplies, and equipment to veterinary practices. The company also provides customer services; Wardbox, a technology that provides a streamlined direct to ward distribution system; CH2 Direct, a web-based ordering system; Simple Order System, an online ordering system; third party and fourth party supplier logistics services to manufacturers; and warehousing services. It offers its products through its distribution network and online shop. The company was founded in 1973 and is based in Eastern Creek, Australia with additional offices in Melbourne, Perth, Sydney, Adelaide, Newcastle, Hobart, and Brisbane, Australia.
Sigma Pharmaceuticals Ltd. (Pharmaceuticals Division)	Sigma Pharmaceutical Division includes Sigma's pharmaceutical products manufacturing, marketing and supply business in respect of all prescription, generic and private label consumer products. The division manufactures, markets and supplies generic versions of innovator drugs as well as branded drugs. The division does not undertake research and development. Prior to its sale to Aspen Incorporated, the division was the largest pharmaceutical manufacturer in Australia with five manufacturing sites.
Orphan Australia Pty Ltd.	Orphan Australia Pty Ltd., an Australian owned pharmaceutical company, develops novel therapies for treating patients suffering from life-threatening diseases. The company offers amphotericin B lipid complex, fentanyl citrate, disulfiram, busulfan, morphine sulfate, deferiprone, tiagabine hydrochloride monohydrate, sodium hyaluronate, carmustine and BCNU implants, cladribine, mesalazine, tetrabenazine, ursodeoxycholic acid, and potassium citrate products for various therapeutic conditions, such as infectious diseases, pain management, dependences, haematology, neurology/psychiatry, neurosurgery, gastroenterology, neurology/psychiatry, urology/nephrology, and hepatology. It serves physicians, surgeons, and hospital-based pharmacies in Australia and New Zealand. The company was incorporated in 1994 and is based in Dandenong, Australia.
Aspen Lennon Pty Limited (HERRON Pharmaceuticals Pty Limited)	Aspen Lennon Pty Limited produces and commercializes OTC products in Australia and New Zealand. The company offers products for treating headache, migraine headache, sinus headache, toothache, dental procedures, backache, muscular aches, arthritis, rheumatics, period pain, sore throat, osteoarthritis, and symptoms of cold and flu. Its products are available through pharmacies and grocery stores in Australia. Aspen Lennon Pty Limited was formerly known as HERRON Pharmaceuticals Pty Limited and changed its name to Aspen Lennon Pty Limited in March 2014. The company was founded in 1972 and is based in Brisbane, Australia. Aspen Lennon Pty Limited operates as a subsidiary of Aspen Asia Pacific Pty Ltd.
FH Faulding & Co. Limited	FH Faulding & Co. Limited was acquired by Mayne Group Limited in October 2001, and integrated with Mayne Group. FH Faulding & Co. Limited engages in the manufacture and distribution of pharmaceutical and other healthcare products. The company develops, manufactures, and distributes injectable pharmaceuticals, and health and personal care products. It also provides distribution and retail management services to pharmacies. The company's operations are located in Australia and the United States. FH Faulding & Co. Limited is based in Adelaide, Australia.

Source: S&P Global

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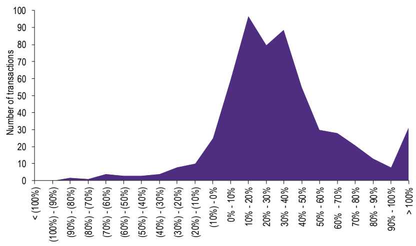
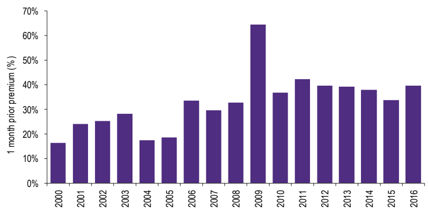
Appendix E – Control Premium study

Evidence from studies indicates that the premium for control on successful takeovers has frequently been in the range of 20% to 40% in Australia, and that the premium can vary significantly for each transaction.

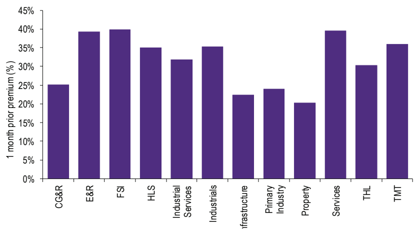
1 Month Prior Control Premium



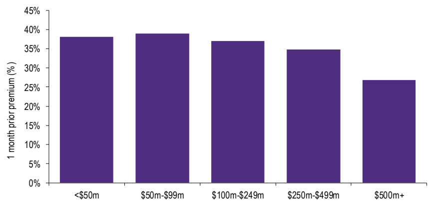
Control premium per completion date



Control premium per industry



Control premium and size



	Control premium
Average	34.33%
Median	29.34%

Source: GTCF Analysis

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

continued

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Appendix F – Glossary

$ or A$	Australian Dollar
7CPA	Seventh Community Pharmacy Agreement
AASB 16	Australian Accounting Standards Board 16 - Leases
ACCC	Australian Competition and Consumer Commission
AHI	Administration Handling and Infrastructure
ANZ	Australia and New Zealand
APES 225	Accounting Professional and Ethical Standard 225 "Valuation Services"
API Directors or the Directors	Directors of the Company
API or the Company	Australian Pharmaceutical Industries Limited
API Shares	A fully paid ordinary share in API
API Shareholders or Shareholders	Shareholders of API
Arrotex	Arrotex Pharmaceuticals
ARTG	Australian Register of Therapeutic Goods
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Base Case	The base case in GT Model
BPC	Beauty and Personal Care Sector
BWX	BWX Limited
CAGR	Compound Annual Growth Rate
CH2	Clifford Hallam Healthcare Pty Ltd
CODB	Cost of Doing Business
Scheme Consideration or Consideration	Wesfarmers cash consideration of A$1.55 per API share under the Scheme
Corporations Act	Corporations Act 2001 (Cth)
Corporations Regulations	Corporations Regulations 2001 (Cth)
CSO	Community Service Obligation
CSO Distributors	Barrett Distributors Pty Ltd and National Pharmacies
CWH	Chemist Warehouse
DCF Method	Discounted cash flow and the estimated realisable value of any surplus assets
DTP	Direct to Pharmacy
EBIT	Earnings before interest and tax expenses
EBIT Multiple	EBIT multiple method
EBOS	EBOS Group Limited
FMCG	Fast Moving Consumer Goods
FSG	Financial Services Guide
FY21 Dividend	API's resolution to pay a fully franked final dividend to 2 cents per share in respect to FY21
GT Model	Financial Model prepared by GTCF, projecting the post-tax free cash flows of API
GTCF, Grant Thornton, or Grant Thornton Corporate Finance	Grant Thornton Corporate Finance Pty Ltd (ACN 003 265 987)
IAR	Investigating Accountant Report
IER or Report	Independent Expert's Report
Internal Projections	Management's internal projections including the quantification of a number of strategic initiatives, growth opportunities and streamlining of operations in excess of those reported to the market as part of the Strategic Initiatives
LFL	Like-for-Like
LTIP	Long-term Incentive Plan
MIA	Medical Industries Australia

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ANNEXURE A – INDEPENDENT EXPERT'S REPORT

continued

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MPS	Medication Packaging Service
MTR	Marginal Tax Rate
NAB Index	NAB Online Retail Sales Index
NPAT	Net Profit After Tax
NTM	Next Twelve Months
OEM	Original Equipment Manufacturers
Original Proposal	Wesfarmers non-binding, indicative offer to acquire 100% of API shares for A$1.38 per share by way of Scheme of Arrangement announced to the market on 12 July 2021
OTC	Over-the-counter
PBS	Pharmaceutical Benefits Scheme
Performance Rights	API has 6,611,351 Performance Rights on issue under the LTIP and STIP plans
Permitted Dividend	A fully franked dividend payment, permitted under the SID, of up to a maximum of 5 cents per share, including any final dividend
Pharmacy Brands	Amcal, Guardian, Discount Drug Stores, Pharmasave, Chemist King and Wholelife
Quoted Security Price Method	Quoted price for listed securities, when there is a liquid and active market
Retail Divisions	The Priceline and Clear Skincare Clinics divisions
Revised Indicative Proposal	Wesfarmers revised non-binding, indicative proposal for the acquisition of API at a cash offer for A$1.55 per share on 16 September 2021
RG	Regulatory Guide
RG 111	ASIC Regulatory Guide 111 "Contents of expert reports"
RG 112	ASIC Regulatory Guide 112 "Independence of experts"
RG 60	ASIC Regulatory Guide 60 "Schemes of Arrangement"
Scheme	API announced that it had entered into a Scheme Implementation Deed with Wesfarmers under which Wesfarmers will acquire 100% of the issued API Shares for a cash consideration of A$1.55 per share
SID	Scheme Implementation Deed
Sigma	Sigma Healthcare Limited
Sigma Proposal	Sigma's conditional non-binding, indicative proposal to acquire 100% of the shares in API for a mixed consideration of 2.05 Sigma shares for each API share plus A$0.35 in cash per API share, which implied a total consideration of A$1.57 per share on 27 September 2021
SILK Laser or SLA	SILK Laser Australia Limited
Special Dividend	API's intention to pay a fully franked special dividend of up to 3 cents per share if the Scheme Implementation Deed is implemented
STIP	Short-term Incentive Plan
Strategic Initiatives	API has put in place a number of strategic initiatives expected to generate cost savings and improvements in profitability of c. A$20 million from FY23
Trading Multiples	The current trading multiples of broadly comparable companies
Transaction Multiples	The multiples implied by acquisitions of companies with broadly similar operations
Risk-Adjusted Management Base Case	GTCF valuation assessment capturing some of the upside compared with the Analyst Case from the additional growth initiatives included in the Internal Projections
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital
Wesfarmers or WES	Wesfarmers Limited
WHO	World Health Organisation
WHSP	Washington H. Soul Pattinson and Company Limited
WOW	Woolworths Limited

ANNEXURE B – SCHEME OF ARRANGEMENT

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Scheme of Arrangement

Australian Pharmaceutical Industries Limited
ACN 000 004 320

Scheme Shareholders

2022

AUS\JONGUYEN\680848184.06

ANNEXURE B – SCHEME OF ARRANGEMENT

continued

SCHEME OF ARRANGEMENT

Under section 411 of the Corporations Act

BETWEEN:

(1) **Australian Pharmaceutical Industries Limited** (ACN 000 004 320) whose registered office is at Level 5, 250 Camberwell Road, Camberwell, Victoria 3124 (**API**); and

(2) each Scheme Shareholder.

BACKGROUND:

(A) API is a public company incorporated in Australia under the Corporations Act. It is registered in New South Wales and is a company limited by shares. API is admitted to the official list of ASX and API Shares are quoted on ASX.

(B) Wesfarmers Limited (ACN 008 984 049) (**Wesfarmers**) is a public company incorporated in Australia under the Corporations Act. It is registered in Western Australia and is a company limited by shares. Wesfarmers is admitted to the official list of ASX and its fully paid ordinary shares are quoted on ASX.

(C) WFM Investments Pty Ltd (ACN 651 355 501) (**Wesfarmers Sub**), a wholly-owned subsidiary of Wesfarmers, is registered in Western Australia and is a company limited by shares.

(D) API, Wesfarmers Sub and Wesfarmers have agreed, by executing the Scheme Implementation Deed, to facilitate the implementation of this Scheme.

(E) This Scheme attributes actions to Wesfarmers Sub but does not itself impose an obligation on it to perform those actions. Wesfarmers and Wesfarmers Sub covenant in favour of the Scheme Shareholders, by executing the Deed Poll, to perform the actions attributed to them under this Scheme, including to provide or procure the provision of the Scheme Consideration in accordance with the terms of this Scheme.

(F) If this Scheme becomes Effective:

(1) in consideration of the transfer of the Scheme Shares to Wesfarmers Sub, Wesfarmers Sub must provide or procure the provision of the Scheme Consideration in accordance with the terms of this Scheme and the Deed Poll;

(2) all the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, must be transferred to Wesfarmers Sub; and

(3) API will enter the name of Wesfarmers Sub in the Register as the holder of all Scheme Shares.

OPERATIVE PROVISIONS:

1. **INTERPRETATION**

1.1 **Definitions**

The following definitions apply in this document:

API Share means a fully paid ordinary share in the capital of API.

API Shareholder means a person or persons (in the case of joint shareholdings) entered in the Register as a holder of API Shares.

ANNEXURE B – SCHEME OF ARRANGEMENT

continued

API Withholding Amount Shareholder means a Scheme Shareholder in relation to whom Wesfarmers Sub determines (acting reasonably) that a Withholding Amount must be paid to the Commissioner in relation to the acquisition of API Shares from such API Withholding Amount Shareholder.

ASIC means the Australian Securities and Investments Commission.

ASX means the Australian Securities Exchange or ASX Limited (ACN 008 624 691), as the context requires.

ASX Operating Rules means the operating rules of ASX.

ASX Settlement Rules means operating rules of the settlement facility provided by ASX Settlement Pty Ltd (ACN 008 504 532).

Business Day means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Melbourne, Victoria and Perth, Western Australia.

CHESS means the clearing house electronic subregister system for the electronic transfer of securities operated by ASX Settlement Pty Limited (ACN 008 504 532), which provides for the electronic transfer, settlement and registration of securities.

CHESS Holding has the meaning given in the ASX Settlement Rules.

Commissioner means the Commissioner of Taxation of the Commonwealth of Australia.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act agreed to in writing between API and Wesfarmers Sub.

Deed Poll means the deed poll under which Wesfarmers and Wesfarmers Sub covenant in favour of the Scheme Shareholders to perform the actions attributed to them under this Scheme.

Effective means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme.

Effective Date means the date on which this Scheme becomes Effective.

End Date has the meaning given in the Scheme Implementation Deed.

Excluded Shareholder means any API Shareholder who is a member of the Wesfarmers Group or any API Shareholder who holds any API Shares on behalf of, or for the benefit of, any member of the Wesfarmers Group and does not hold API Shares on behalf of, or for the benefit of, any other person.

Government Agency means a government, government department or a governmental, semi-governmental, administrative, statutory or judicial entity, agency, authority, commission, department, tribunal, or person charged with the administration of a law or agency, whether in Australia or elsewhere, including the ACCC, ASIC, ATO, ASX, any Office of State Revenue, the Takeovers Panel, and any self-regulatory organisation established under statute or by ASX.

Implementation Date has the meaning given in the Scheme Implementation Deed.

ANNEXURE B – SCHEME OF ARRANGEMENT

continued

Issuer Sponsored Holding has the meaning given in the ASX Settlement Rules.

PPSA means the *Personal Property Securities Act 2009* (Cth).

Register means the register of members of API maintained by API or the Registry in accordance with the Corporations Act.

Registered Address means, in relation to an API Shareholder, the address of the shareholder shown in the Register.

Registry means Boardroom Pty Limited (ACN 003 209 836).

Scheme means this scheme of arrangement under Part 5.1 of the Corporations Act between API and Scheme Shareholders, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed in writing between API and Wesfarmers Sub.

Scheme Consideration means the consideration to be provided by Wesfarmers Sub to each Scheme Shareholder for the transfer to Wesfarmers Sub of each Scheme Share, being $1.55 cash for each API Share held by a Scheme Shareholder as at the Scheme Record Date, subject to and as adjusted in accordance with clause 2.3(c) of the Scheme Implementation Deed (if applicable).

Scheme Implementation Deed means the Scheme Implementation Deed between API, Wesfarmers Sub and Wesfarmers dated 8 November 2021 relating to the implementation of this Scheme.

Scheme Meeting means the meeting of API Shareholders (other than Excluded Shareholders) to be convened, as ordered by the Court under section 411(1) of the Corporations Act, to consider this Scheme and includes any adjournment or postponement of that meeting.

Scheme Record Date has the meaning given in the Scheme Implementation Deed.

Scheme Share means an API Share on issue as at the Scheme Record Date (other than an API Share recorded in the Register as at the Scheme Record Date as being held by Wesfarmers Sub).

Scheme Shareholder means an API Shareholder recorded in the Register as at the Scheme Record Date (other than Wesfarmers Sub), taking into account registration of any transfer or transmission application or other request received in accordance with clause 5.1.

Scheme Transfer means a duly completed and executed proper instrument of transfer of the Scheme Shares for the purposes of section 1071B of the Corporations Act, in favour of Wesfarmers Sub as transferee, which may be a master transfer of all or part of the Scheme Shares.

Second Court Date means the first day on which the Court hears the application for an order under section 411(4)(b) of the Corporations Act approving this Scheme or, if the application is adjourned or subject to appeal for any reason, the first day on which the adjourned or appealed application is heard.

TAA means the *Taxation Administration Act 1953* (Cth).

Total Withholding Amount means the aggregate Withholding Amounts in respect of all API Withholding Amount Shareholders.

Trust Account has the meaning given in clause 4.1(a)(i).

ANNEXURE B – SCHEME OF ARRANGEMENT

continued

Wesfarmers has the meaning given in recital (B).

Wesfarmers Group means Wesfarmers and its subsidiaries.

Wesfarmers Sub has the meaning given in recital (C).

Withholding Amount means the amount that Wesfarmers Sub is required to pay to the Commissioner under Subdivision 14-D of Schedule 1 of the TAA in respect of the acquisition of any API Shares from a relevant Scheme Shareholder.

1.2 **Rules for interpreting this document**

Headings and catchwords are for convenience only, and do not affect interpretation. The following rules also apply in interpreting this document, except where the context makes it clear that a rule is not intended to apply.

(a) A reference to:

(i) a legislative provision or legislation (including subordinate legislation) is to that provision or legislation as amended, re-enacted or replaced, and includes any subordinate legislation issued under it;

(ii) a document (including this document) or agreement, or a provision of a document (including this document) or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;

(iii) a party to this document or to any other document or agreement includes a permitted substitute or a permitted assign of that party;

(iv) a person includes any type of entity or body of persons, whether or not it is incorporated or has a separate legal identity, and any executor, administrator or successor in law of the person; and

(v) anything (including a right, obligation or concept) includes each part of it.

(b) A singular word includes the plural, and vice versa.

(c) A word which suggests one gender includes the other genders.

(d) If a word or phrase is defined, any other grammatical form of that word or phrase has a corresponding meaning.

(e) If an example is given of anything (including a right, obligation or concept), such as by saying it includes something else, the example does not limit the scope of that thing.

(f) The words **entity**, **officer** and **security interest** have the same meanings as given by the Corporations Act.

(g) A reference to **$** or **dollar** is to Australian currency.

(h) The expression **this document** includes the agreement, arrangement, understanding or transaction recorded in this document.

(i) A reference to time in this document is a reference to time in Melbourne, Victoria.

ANNEXURE B – SCHEME OF ARRANGEMENT

continued

1.3 **Non-Business Days**

If the day on or by which a person must do something under this document is not a Business Day the person must do it on or by the next Business Day.

2. **CONDITIONS PRECEDENT**

2.1 **Conditions precedent to this Scheme**

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) as at 8.00 am on the Second Court Date, all the conditions set out in clause 3.2 of the Scheme Implementation Deed, other than the condition in item 3 (Court approval of Scheme) of clause 3.2 of the Scheme Implementation Deed, having been satisfied or waived in accordance with the terms of the Scheme Implementation Deed;

(b) as at 8.00 am on the Second Court Date, neither the Scheme Implementation Deed nor the Deed Poll having been terminated in accordance with their terms;

(c) approval of this Scheme by the Court under section 411(4)(b) of the Corporations Act, including with any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed in writing between API and Wesfarmers Sub;

(d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme and agreed in writing between API and Wesfarmers Sub having been satisfied or waived; and

(e) the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act approving this Scheme coming into effect, pursuant to section 411(1) of the Corporations Act, on or before the End Date (or any later date API and Wesfarmers Sub agree in writing).

2.2 **Certificate in relation to conditions precedent**

(a) Before 8.00 am on the Second Court Date, each of API and Wesfarmers Sub must provide to the Court a certificate signed by a duly authorised representative (or such other evidence as the Court requests), confirming (in respect of matters within their knowledge) whether or not the conditions precedent in clauses 2.1(a) and 2.1(b) have been satisfied or waived.

(b) A certificate provided under clause 2.2(a) constitutes conclusive evidence that the relevant conditions precedent have been fulfilled, waived or taken to be waived.

2.3 **Termination**

(a) The Scheme will lapse and be of no further force or effect if:

(i) the Effective Date does not occur on or before the End Date; or

(ii) the Scheme Implementation Deed or the Deed Poll is terminated in accordance with their terms,

unless API and Wesfarmers Sub otherwise agree in writing.

(b) Without limiting any rights under the Scheme Implementation Deed, in the event that the Scheme Implementation Deed is terminated in accordance with its terms

ANNEXURE B – SCHEME OF ARRANGEMENT

continued

before 8.00 am on the Second Court Date, API and Wesfarmers Sub are each released from:

(i) any further obligation to take steps to implement this Scheme; and

(ii) any liability with respect to this Scheme.

3. **IMPLEMENTATION OF THIS SCHEME**

3.1 **Lodgement of Court orders with ASIC**

(a) API must lodge with ASIC, in accordance with section 411(4)(b) of the Corporations Act, an office copy of the orders approving this Scheme as soon as practicable after the Court makes those orders, and in any event by no later than 4.00 pm on the first Business Day after those orders are made.

(b) Subject to clause 2.3, this Scheme will come into effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

3.2 **Transfer of Scheme Shares**

(a) On the Implementation Date, subject to the provision of the Scheme Consideration in the manner contemplated by clauses 4.1(b) and 4.1(c), all the Scheme Shares (together with all rights and entitlements attaching to those shares as at the Implementation Date) must be transferred to Wesfarmers Sub, without the need for any further act by any Scheme Shareholder (other than acts performed by API or its directors and officers as agent and attorney of each Scheme Shareholder), by:

(i) API delivering to Wesfarmers Sub the duly completed Scheme Transfers executed by API or any of its directors and officers as agent and attorney of each Scheme Shareholder as transferor; and

(ii) Wesfarmers Sub duly executing the Scheme Transfers as transferee and, if necessary, attending to the stamping of the Scheme Transfers and delivering them to API for registration.

(b) Immediately following receipt of the Scheme Transfers under clause 3.2(a)(ii), but subject to the stamping of the Scheme Transfers (if necessary), API must enter, or procure the entry of, the name and address of Wesfarmers Sub in the Register as the holder of all the Scheme Shares in accordance with this Scheme.

4. **SCHEME CONSIDERATION**

4.1 **Provision of Scheme Consideration**

(a) Wesfarmers Sub must, by no later than the Business Day before the Implementation Date:

(i) deposit, or procure the deposit, in cleared funds an amount equal to the aggregate amount of the Scheme Consideration payable to all Scheme Shareholders other than each Excluded Shareholder (less the Total Withholding Amount) into an Australian dollar denominated trust account operated by API as trustee for the Scheme Shareholders (other than each Excluded Shareholder) (**Trust Account**) (provided that any interest on the amounts deposited (less bank fees and other charges) will be credited to Wesfarmers Sub's account; and

(ii) provide written confirmation to API of that deposit.

ANNEXURE B – SCHEME OF ARRANGEMENT

continued

(b) On the Implementation Date, subject to funds having been deposited in the manner contemplated by clause 4.1(a)(i), API must pay or procure the payment of the Scheme Consideration to each Scheme Shareholder (other than each Excluded Shareholder) from the Trust Account.

(c) The obligations of API under clause 4.1(b) will be satisfied by API (in its absolute discretion, and despite any election referred to in clause 4.1(c)(i) or authority referred to in clause 4.1(c)(ii) made or given by the Scheme Shareholder):

(i) if a Scheme Shareholder has, before the Scheme Record Date, made a valid election in accordance with the requirements of the Registry to receive dividend payments from API by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election;

(ii) paying, or procuring the payment of, the relevant amount in Australian currency by electronic means to a bank account nominated by the Scheme Shareholder by an appropriate authority from the Scheme Shareholder to API; or

(iii) dispatching, or procuring the dispatch of, a cheque for the relevant amount in Australian currency to the Scheme Shareholder by prepaid post to their Registered Address (as at the Scheme Record Date), such cheque being drawn in the name of the Scheme Shareholder (or in the case of joint holders, in accordance with the procedures set out in clause 4.2).

(d) To the extent that, following satisfaction of API's obligations under clause 4.1(b), there is a surplus in the amount held by API as trustee for the Scheme Shareholders in the Trust Account, that surplus must be paid by API to Wesfarmers Sub.

(e) Wesfarmers Sub will remit the Total Withholding Amount to the Commissioner.

4.2 **Joint holders**

In the case of Scheme Shares held in joint names:

(a) subject to clause 4.1(c), the Scheme Consideration is payable to the joint holders and any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to either, at the sole discretion of API, the holder whose name appears first in the Register as at the Scheme Record Date or to the joint holders; and

(b) any other document required to be sent under this Scheme, will be forwarded to either, at the sole discretion of API, the holder whose name appears first in the Register as at the Scheme Record Date or to the joint holders.

4.3 **Fractional entitlements**

Where the calculation of the Scheme Consideration to be issued to a particular Scheme Shareholder (other than each Excluded Shareholder) would result in the Scheme Shareholder becoming entitled to a fraction of a cent, the fractional entitlement will be rounded down to the nearest whole cent.

4.4 **Unclaimed monies**

(a) API may cancel a cheque issued under this clause 4 if the cheque:

(i) is returned to API; or

ANNEXURE B – SCHEME OF ARRANGEMENT

continued

(ii) has not been presented for payment within six months after the date on which the cheque was sent.

(b) During the period of 12 months commencing on the Implementation Date, on request in writing from a Scheme Shareholder to API (or the Registry) (which request may not be made until the date which is 30 Business Days after the Implementation Date), API must reissue a cheque that was previously cancelled under this clause 4.4.

(c) The *Unclaimed Money Act 2008* (Vic) will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in section 3 of the *Unclaimed Money Act 2008* (Vic)).

(d) Any interest or other benefit accruing from the unclaimed Scheme Consideration will be to the benefit of Wesfarmers Sub.

4.5 **Orders of a court or Government Agency**

If written notice is given to API (or the Registry) or Wesfarmers Sub of an order or direction made by a court of competent jurisdiction or by another a Government Agency that:

(a) requires consideration to be provided to a third party (either through payment of a sum or the issuance of a security) in respect of Scheme Shares held by a Scheme Shareholder (other than each Excluded Shareholder), which would otherwise be payable or required to be issued to that Scheme Shareholder by API in accordance with this clause 4, then API shall be entitled to procure that payment is made in accordance with that order or direction; or

(b) prevents API from providing consideration to any particular Scheme Shareholder (other than each Excluded Shareholder) in accordance with this clause 4, or the payment of such consideration is otherwise prohibited by applicable law, API will be entitled to retain an amount, in Australian dollars, equal to the amount which would otherwise be payable to that Scheme Shareholder until such time as payment in accordance with this clause 4 is permitted by that (or another) order or direction or otherwise by law,

and the payment or retention by API (or the Registry) will constitute the full discharge of API's obligations under this clause 4 with respect to the amount so paid or retained (in the case of 4.5(b), until it is no longer required to be retained).

5. **DEALINGS IN API SHARES**

5.1 **Determination of Scheme Shareholders**

To establish the identity of the Scheme Shareholders, dealings in API Shares or other alterations to the Register will only be recognised if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant API Shares before the Scheme Record Date; and

(b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received before the Scheme Record Date at the place where the Register is kept,

and API must not accept for registration, nor recognise for any purpose (except a transfer to Wesfarmers Sub pursuant to this Scheme and any subsequent transfer by Wesfarmers Sub or its successors in title), any transfer or transmission application or other request

ANNEXURE B – SCHEME OF ARRANGEMENT

continued

received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

5.2 **Register**

(a) API must register all registrable transmission applications or transfers of the Scheme Shares in accordance with clause 5.1(b) before the Scheme Record Date, provided that, for the avoidance of doubt, nothing in this clause 5.2 requires API to register a transfer that would result in an API Shareholder holding a parcel of API Shares that is less than a 'marketable parcel' (as defined in the ASX Operating Rules).

(b) If this Scheme becomes Effective, a Scheme Shareholder (and any person claiming through that Scheme Shareholder) must not dispose of or otherwise deal with, or purport or agree to dispose of or otherwise deal with, any Scheme Shares or any interest in them on or after the Scheme Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no effect and API shall be entitled to disregard any such disposal or dealing.

(c) For the purpose of determining entitlements to the Scheme Consideration, API must maintain the Register in accordance with the provisions of this clause 5.2 until the Scheme Consideration has been provided to the Scheme Shareholders. The Register in this form will solely determine entitlements to the Scheme Consideration.

(d) All statements of holding for API Shares (other than statements of holding in favour of Wesfarmers Sub or any Excluded Shareholders) will cease to have effect after the Scheme Record Date as documents of title in respect of those shares and, as from that date, each entry current at that date on the Register (other than entries on the Register in respect of Wesfarmers Sub or any Excluded Shareholders) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

(e) As soon as practicable after the Scheme Record Date, and in any event by 5.00 pm on the first Business Day after the Scheme Record Date, API will ensure that details of the names, Registered Addresses and holdings of Scheme Shares for each Scheme Shareholder as shown in the Register as at the Scheme Record Date are available to Wesfarmers Sub in the form Wesfarmers Sub reasonably requires.

5.3 **Quotation of API Shares**

(a) API must apply to ASX to suspend trading on ASX in API Shares with effect from close of trading on the Effective Date.

(b) On a date after the Implementation Date to be determined by Wesfarmers Sub, API must apply:

(i) for termination of the official quotation of API Shares on ASX; and

(ii) to have itself removed from the official list of ASX.

6. **GENERAL PROVISIONS**

6.1 **API giving effect to this Scheme**

API must do anything (including execute any document) that is necessary to give effect to the Scheme and the transactions contemplated by it. Without limiting API's power under this Scheme, API has power to do all things that it considers necessary to give effect to this Scheme and the Scheme Implementation Deed.

ANNEXURE B – SCHEME OF ARRANGEMENT

continued

6.2 **Scheme Shareholders' agreements, consents and warranties**

(a) Each Scheme Shareholder:

(i) irrevocably agrees to the transfer of its API Shares, together with all rights and entitlements attaching to those Scheme Shares, to Wesfarmers Sub in accordance with this Scheme;

(ii) agrees to the variation, cancellation or modification of the rights attached to its API Shares constituted by or resulting from this Scheme;

(iii) agrees to, on the direction of Wesfarmers Sub, destroy any statements of holding or share certificates relating to its API Shares;

(iv) who holds its API Shares in a CHESS Holding agrees to the conversion of those API Shares to an Issuer Sponsored Holding and irrevocably authorises API to do anything necessary, expedient or incidental (whether required by the ASX Settlement Rules or otherwise) to effect or facilitate such conversion; and

(v) acknowledges and agrees that this Scheme binds API and all API Shareholders (including those who do not attend the Scheme Meeting, do not vote at that meeting or vote against this Scheme).

(b) Each Scheme Shareholder is taken to have warranted to API and Wesfarmers Sub on the Implementation Date, and appointed and authorised API as its agent and attorney to warrant to Wesfarmers Sub on the Implementation Date, that:

(i) all of its Scheme Shares (including any rights and entitlements attaching to those shares) which are transferred under this Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the PPSA) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that it has full power and capacity to transfer its Scheme Shares to Wesfarmers Sub together with any rights and entitlements attaching to those Scheme Shares; and

(ii) it has full power and capacity to sell and to transfer its Scheme Shares (including any rights and entitlements attaching to those shares) to Wesfarmers Sub under this Scheme.

(c) API undertakes that it will provide such warranty in clause 6.2(b) to Wesfarmers Sub as agent and attorney of each Scheme Shareholder.

6.3 **Title to and rights in Scheme Shares**

(a) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme to Wesfarmers Sub will, at the time of transfer of them to Wesfarmers Sub, vest in Wesfarmers Sub free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the PPSA) and interests of third parties of any kind, whether legal or otherwise and free from any restrictions on transfer of any kind.

(b) Immediately upon the provision of the Scheme Consideration to each Scheme Shareholder (other than each Excluded Shareholder) in the manner contemplated by clauses 4.1(b) and 4.1(c), Wesfarmers Sub will be beneficially entitled to the Scheme Shares to be transferred to it under this Scheme pending registration by API of Wesfarmers Sub in the Register as the holder of the Scheme Shares.

ANNEXURE B – SCHEME OF ARRANGEMENT

continued

6.4 **Appointment of API as attorney of Scheme Shareholders**

Each Scheme Shareholder without the need for any further act, irrevocably appoints API and each of its directors and officers, jointly and severally, on and from the Effective Date, as the Scheme Shareholder's agent and attorney:

(a) to execute any document or do any other act necessary, expedient or incidental to give effect to this Scheme and the transactions contemplated by it, including (without limitation) executing and delivering any Scheme Transfer; and

(b) to enforce the Deed Poll against Wesfarmers and Wesfarmers Sub (and API undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against Wesfarmers and Wesfarmers Sub on behalf of and as agent and attorney of each Scheme Shareholder),

and API accepts such appointment. API may as agent and attorney of each Scheme Shareholder sub-delegate any of its functions, authorities or powers under this clause 6.4 to all or any of its directors and officers (jointly, severally, or jointly and severally).

6.5 **Appointment of Wesfarmers Sub as attorney in respect of Scheme Shares**

Immediately upon the provision of the Scheme Consideration to each Scheme Shareholder in the manner contemplated by clauses 4.1(b) and 4.1(c) until Wesfarmers Sub is registered as the holder of all Scheme Shares, each Scheme Shareholder:

(a) irrevocably appoints Wesfarmers Sub as its agent and attorney (and irrevocably appoints Wesfarmers Sub as its agent and attorney to appoint any of the directors and officers nominated by Wesfarmers Sub as its agent and attorney) to:

(i) appoint the chair of the board of directors of API and, where applicable, corporate representative to attend API Shareholders' meetings;

(ii) exercise the votes attaching to the API Shares registered in the name of the Scheme Shareholder; and

(iii) sign any API Shareholders' resolution;

(b) must not attend or vote at any API Shareholders' meetings or sign any API Shareholders' resolution (whether in person, by proxy or by corporate representative) other than pursuant to clause 6.5(a)(iii); and

(c) must take all other action in the capacity of a registered holder of Scheme Shares as Wesfarmers Sub reasonably directs.

6.6 **Binding effect of Scheme**

This Scheme binds API and all API Shareholders from time to time, including those who do not attend the Scheme Meeting, do not vote at that meeting or vote against this Scheme (and, to the extent of any inconsistency, this Scheme overrides API's constituent documents).

6.7 **Alteration or condition to Scheme**

If the Court proposes to approve this Scheme subject to any alteration or condition:

(a) API may, by its counsel, but subject to the prior approval of Wesfarmers Sub (which may not be unreasonably withheld or delayed), consent on behalf of all persons concerned to those alterations or conditions; and

ANNEXURE B – SCHEME OF ARRANGEMENT

continued

(b) each Scheme Shareholder agrees to any such alterations or conditions which API has consented to.

6.8 **No liability when acting in good faith**

Each Scheme Shareholder agrees that neither API, Wesfarmers, Wesfarmers Sub nor any director, officer or employee of any of those companies shall be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

6.9 **Notices**

(a) Where a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to API, it will be deemed to be received on the date (if any) on which it is actually received at the registered of API or the Registry and on no other date.

(b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by an API Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

6.10 **Costs and stamp duty**

(a) Subject to clause 6.10(b), API will pay all the costs of this Scheme.

(b) Wesfarmers Sub will pay all stamp duty and any related fines and penalties in respect of this Scheme and the Deed Poll, the performance of the Deed Poll and each transaction effected by or made under this Scheme and the Deed Poll.

(c) Wesfarmers Sub will indemnify each Scheme Shareholder against liability arising from a failure to comply with clause 6.10(b).

6.11 **Governing law**

(a) This document and any dispute arising out of or in connection with the subject matter of this document is governed by the laws of Victoria, Australia.

(b) Each party submits to the non-exclusive jurisdiction of the courts of Victoria, Australia, and courts of appeal from them, in respect of any proceedings arising out of or in connection with the subject matter of this document. Each party irrevocably waives any right it has to object to any legal process being brought in those courts including any claim that the process has been brought in an inconvenient forum or that those courts do not have jurisdiction.

ANNEXURE C – DEED POLL

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EXECUTION VERSION

Deed Poll

Wesfarmers Limited
ACN 008 984 049

WFM Investments Pty Ltd
ACN 651 355 501

2022

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ANNEXURE C – DEED POLL

continued

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ANNEXURE C – DEED POLL

continued

THIS DEED POLL is made on 9 February 2022

BY:

Wesfarmers Limited (ACN 008 984 049) whose registered office is at Level 14, Brookfield Place, 123 St Georges Terrace, Perth, Western Australia 6000 (**Wesfarmers**); and

WFM Investments Pty Ltd (ACN 651 355 501) whose registered office is at Level 14, Brookfield Place, 123 St Georges Terrace, Perth, Western Australia 6000 (**Wesfarmers Sub**)

FOR THE BENEFIT OF:

Scheme Shareholders

RECITALS:

(A) Australian Pharmaceutical Industries Limited (ACN 000 004 320) (**API**), Wesfarmers Sub and Wesfarmers have agreed, by executing a Scheme Implementation Deed dated 8 November 2021 (**Scheme Implementation Deed**), to facilitate the implementation of the Scheme.

(B) In the Scheme Implementation Deed, Wesfarmers Sub agreed to make this deed poll and to procure that Wesfarmers make this deed poll.

(C) The Scheme attributes actions to Wesfarmers Sub but does not itself impose an obligation on it to perform those actions. Each of Wesfarmers and Wesfarmers Sub covenant in favour of the Scheme Shareholders (other than the Excluded Shareholders), by executing this deed poll, to perform the actions attributed to them under the Scheme, including to provide or procure the provision of the Scheme Consideration in accordance with the terms of the Scheme.

THE PARTIES AGREE AS FOLLOWS:

1. INTERPRETATION

1.1 Definitions

Words and expressions that are defined in the Scheme Implementation Deed, other than words and expressions defined in this document, have the same meaning in this document as given to them in the Scheme Implementation Deed, unless the context makes it clear that a definition is not intended to apply.

1.2 Rules for interpreting this document

The rules in clause 1.2 of the Scheme Implementation Deed apply in interpreting this document, unless the context makes it clear that a rule is not intended to apply.

1.3 Nature of deed poll

Wesfarmers and Wesfarmers Sub acknowledge that:

(a) this document is a deed poll and may be relied on and enforced by any Scheme Shareholder (other than any Excluded Shareholder) in accordance with its terms even though the Scheme Shareholders are not parties to it; and

(b) under the Scheme, each Scheme Shareholder (other than each Excluded Shareholder) irrevocably appoints API and each of its directors and officers, jointly

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ANNEXURE C – DEED POLL

continued

and severally, as its agent and attorney to enforce this document against Wesfarmers and Wesfarmers Sub.

2. CONDITIONS PRECEDENT AND TERMINATION

2.1 Conditions precedent

This document and the obligations of Wesfarmers and Wesfarmers Sub under this document are subject to the Scheme becoming Effective.

2.2 Termination

The obligations of Wesfarmers and Wesfarmers Sub under this document to the Scheme Shareholders (other than the Excluded Shareholders) will automatically terminate and the terms of this document will be of no force or effect if:

(a) the Scheme is not Effective on or before the End Date; or

(b) the Scheme Implementation Deed is terminated in accordance with its terms,

unless API, Wesfarmers and Wesfarmers Sub otherwise agree in writing.

2.3 Consequences of termination

If this document terminates under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to it:

(a) Wesfarmers and Wesfarmers Sub are released from their obligations to further perform this document except those obligations under clause 7.2; and

(b) each Scheme Shareholder (other than each Excluded Shareholder) retains the rights, powers or remedies it has against Wesfarmers and Wesfarmers Sub in respect of any breach of this document which occurred before it was terminated.

3. WESFARMERS AND WESFARMERS SUB COVENANTS

Subject to clause 2, each of Wesfarmers and Wesfarmers Sub covenants in favour of each Scheme Shareholder (other than each Excluded Shareholder) to:

(a) by no later than the Business Day before the Implementation Date, deposit, or procure the deposit, in cleared funds an amount equal to the aggregate amount of the Scheme Consideration payable to all Scheme Shareholders (other than the Excluded Shareholders) into an Australian dollar denominated trust account operated by API as trustee for the Scheme Shareholders (other than the Excluded Shareholders and provided that any interest on the amounts deposited (less bank fees and other charges) will be credited to Wesfarmers Sub's account); and

(b) undertake all other actions, and give each acknowledgement, representation and warranty (if any), attributed to it under the Scheme,

subject to and in accordance with the terms of the Scheme.

4. WARRANTIES

Each of Wesfarmers and Wesfarmers Sub represents and warrants in favour of each Scheme Shareholder (other than the Excluded Shareholders) that:

(a) (**status**) it is a validly existing corporation registered under the laws of the place of its incorporation;

ANNEXURE C – DEED POLL

continued

(b) (**power**) it has full legal capacity and power to enter into this document and carry out the transactions that this document contemplates in accordance with its terms;

(c) (**corporate authority**) it has taken all corporate action that is necessary to authorise it entering into this document and has taken or will take all necessary corporation action to carry out the transactions that this document contemplates in accordance with its terms;

(d) (**document effective**) this document constitutes its legal, valid and binding obligations, enforceable against it in accordance with its terms;

(e) (**Authorisations**) it holds each Authorisation that is necessary or desirable to:

(i) enable it to properly execute this document and to carry out the transactions that this document contemplates in accordance with its terms; and

(ii) ensure that this document is legal, valid, binding and admissible in evidence,

and it is complying with any conditions to which any such Authorisation is subject;

(f) (**no contravention**) neither its execution of this document nor the carrying out by it of the transactions that it contemplates in accordance with its terms, does or will contravene:

(i) any law to which it or any of its property is subject or any order of any Government Agency that is binding on it or any of its property;

(ii) any Authorisation held by it;

(iii) any undertaking or instrument binding on it or any of its property; or

(iv) its constituent documents; and

(g) (**no Insolvency Event**) neither it nor any of its subsidiaries is affected by an Insolvency Event.

5. **CONTINUING OBLIGATIONS**

This document is irrevocable and, subject to clause 2, remains in full force and effect until the earlier of:

(a) Wesfarmers and Wesfarmers Sub having fully performed their obligations under this document; or

(b) termination of this document under clause 2.

6. **NOTICES**

6.1 **How to give a notice**

A notice, consent or other communication under this document is only effective if it is:

(a) in writing, signed by or on behalf of the person giving it;

(b) addressed to the person to whom it is to be given; and

(c) either:

(i) delivered or sent by pre-paid mail (by airmail, if the addressee is overseas) to that person's address; or

ANNEXURE C – DEED POLL

continued

(ii) sent by email.

6.2 When a notice is given

A notice, consent or other communication that complies with this clause is regarded as given and received:

(a) if it is sent by mail, three Business Days after posting; or

(b) if it is sent by email, the earlier of:

(i) the time that the sender receives an automated notification that the email was successfully transmitted and read by the recipient;

(ii) the time that the recipient responds by reply email; or

(iii) four hours after the email was sent (as recorded on the device from which the sender sent the email),

provided that no notice of failure of transmission or other error message is received by the sender.

6.3 Address for notices

A person's address for notices are those set out below, or as the person notifies the sender:

Party	Attention	Address	Email
API	Anne Mustow, General Counsel and Company Secretary	Level 5, 250 Camberwell Road, Camberwell, Victoria 3124	Anne.Mustow@api.net.au
with a copy to (such copy not to constitute notice)	Elspeth Arnold, Partner Andrew Kim, Partner	Level 16, 80 Collins Street, South Tower, Melbourne, Victoria 3000	Elspeth.Arnold@ashurst.com Andrew.Kim@ashurst.com
Wesfarmers	Ed Bostock, Managing Director, Business Development	Level 14, Brookfield Place, 123 St Georges Terrace, Perth, Western Australia 6000	ebostock@wesfarmers.com.au vrobinson@wesfarmers.com.au
with a copy to (such copy not to constitute notice)	Adam Charles, Partner Baden Furphy, Partner	Level 22, 80 Collins Street, Melbourne, Victoria 3000	adam.charles@hsf.com baden.furphy@hsf.com
Wesfarmers Sub	Ed Bostock, Managing Director, Business Development	Level 14, Brookfield Place, 123 St Georges Terrace, Perth,	ebostock@wesfarmers.com.au vrobinson@wesfarmers.com.au

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ANNEXURE C – DEED POLL

continued

Party	Attention	Address	Email
		Western Australia 6000	
with a copy to (such copy not to constitute notice)	Adam Charles, Partner Baden Furphy, Partner	Level 22, 80 Collins Street, Melbourne, Victoria 3000	adam.charles@hsf.com baden.furphy@hsf.com

7. **GENERAL**

7.1 **Wesfarmers and Wesfarmers Sub giving effect to this document**

Wesfarmers and Wesfarmers Sub must do anything (including execute any document) that is necessary to give effect to this document and the transactions contemplated by it.

7.2 **Costs and stamp duty**

Wesfarmers Sub will:

(a) pay its own expenses incurred in negotiating, preparing, executing and registering this document;

(b) pay all stamp duty and any related fines and penalties in respect of the Scheme and this document, the performance of this document and each transaction effected by or made under the Scheme and this document; and

(c) indemnify each Scheme Shareholder (other than the Excluded Shareholders) against liability arising from a failure to comply with clause 7.2(b).

7.3 **Amendment or variation**

A provision of this document may not be amended or varied unless:

(a) before the First Court Date, the amendment or variation is agreed to in writing by API; or

(b) on or after the First Court Date, the amendment or variation is agreed to in writing by API and the Court indicates that the amendment or variation would not of itself preclude or otherwise prevent approval of the Scheme,

in which event Wesfarmers and Wesfarmers Sub must execute a further deed poll in favour of the Scheme Shareholders (other than the Excluded Shareholders) giving effect to that amendment or variation.

7.4 **Assignment**

(a) The rights created by this document are personal to Wesfarmers, Wesfarmers Sub and each Scheme Shareholder (excluding each Excluded Shareholder) and must not be dealt with at law or in equity without the prior written consent of Wesfarmers and Wesfarmers Sub.

(b) Any purported dealing in contravention of clause 7.4(a) is invalid.

7.5 **Variation of rights**

ANNEXURE C – DEED POLL

continued

The exercise of a right partially or on one occasion does not prevent any further exercise of that right in accordance with the terms of this document. Neither a forbearance to exercise a right nor a delay in the exercise of a right operates as an election between rights or a variation of the terms of this document.

7.6 **Operation of this document**

(a) Any right that a person may have under this document is in addition to, and does not replace or limit, any other right that the person may have.

(b) Any provision of this document which is unenforceable or partly unenforceable is, where possible, to be severed to the extent necessary to make this document enforceable, unless this would materially change the intended effect of this document.

7.7 **Governing law**

(a) This document and any dispute arising out of or in connection with the subject matter of this document is governed by the laws of Victoria, Australia.

(b) Each party submits to the non-exclusive jurisdiction of the courts of Victoria, Australia, and courts of appeal from them, in respect of any proceedings arising out of or in connection with the subject matter of this document. Each party irrevocably waives any right it has to object to any legal process being brought in those courts including any claim that the process has been brought in an inconvenient forum or that those courts do not have jurisdiction.

7.8 **Joint and several obligations**

Wesfarmers and Wesfarmers Sub are jointly and severally liable for each obligation imposed on both of them by the terms of this deed poll.

ANNEXURE C – DEED POLL

continued

EXECUTED as a deed poll.

Each person who executes this document on behalf of a party under a power of attorney declares that he or she is not aware of any fact or circumstance that might affect his or her authority to do so under that power of attorney.

SIGNED, SEALED AND DELIVERED by **WESFARMERS LIMITED**:

[signature]	V. Robinson
Signature of director	Signature of ~~director~~/secretary
Rob Scott	Vicki Robinson
Name	Name

ANNEXURE C – DEED POLL

continued

SIGNED, SEALED AND DELIVERED by **WFM INVESTMENTS PTY LTD**:

Signature of director

Rob Scott

Name

V. Robinson

Signature of ~~director~~/secretary

Vicki Robinson

Name

ANNEXURE D – NOTICE OF SCHEME MEETING

Australian Pharmaceutical Industries Limited
ACN 000 004 320

NOTICE OF SCHEME MEETING

Notice is hereby given that, by an order of the Court made on Monday, 14 March 2022 pursuant to section 411(1) of the Corporations Act, a meeting of API Shareholders will be held online, using technology to facilitate shareholder engagement and participation at 2.00 pm (Melbourne time) on Thursday, 17 March 2022 (this is the Scheme Meeting).

Purpose of the Scheme Meeting

The purpose of the Scheme Meeting is to consider and, if thought fit, to agree to a scheme of arrangement (with or without any alterations or conditions required by the Court to which API and Wesfarmers agree) proposed to be made between API and API Shareholders (**Scheme**).

A copy of the Scheme and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet, of which this notice forms part.

Capitalised terms used in this Notice of Scheme Meeting but not defined in it have the same meaning as set out in the Glossary in Section 10 of the Scheme Booklet.

Scheme Resolution

The meeting will be asked to consider and, if thought fit, pass (with or without amendment) the following resolution:

> *'That, pursuant to and in accordance with the provisions of section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between API and the holders of its ordinary shares, as contained in and more particularly described in the Scheme Booklet of which the notice convening this meeting forms part, is agreed to, with or without alterations or conditions as approved by Federal Court of Australia to which API and Wesfarmers agree.'*

Chair

The Court has directed that Mr Kenneth Gunderson-Briggs is to act as Chair of the Scheme Meeting (and that, if Mr Kenneth Gunderson-Briggs is unable or unwilling to attend, Lee Ausburn is to act as Chair of the Scheme Meeting).

Arrangements for the Scheme Meeting in light of COVID-19

In response to the potential health risks arising from the COVID-19 pandemic, the Scheme Meeting will be held virtually. Shareholders may participate via the online platform at Lumi. Shareholders and their authorised proxies, attorneys and corporate representatives who wish to attend and participate in the Scheme Meeting may do so by entering the following URL into the browser of their computer or mobile device: https://web.lumiagm.com/395-861-053.

Further details on how to participate in the Scheme Meeting are set out in the explanatory notes that accompany and form part of this Notice of Meeting and the Scheme Meeting User Guide on the API website: https://www.api.net.au/investor/share-registry.

Shareholders who are unable to, or do not wish to, attend the Scheme Meeting, or will not have access to a device or the internet, are encouraged to submit a directed proxy vote as early as possible and in any event by 2.00 pm (Melbourne time) on 15 March 2022 by completing and submitting a proxy form in accordance with the instructions on that form.

By Order of the API Board

Anne Mustow
Company Secretary

14 February 2022

ANNEXURE D – NOTICE OF SCHEME MEETING

continued

EXPLANATORY NOTES

1. General

This notice of scheme meeting relates to the Scheme and should be read in conjunction with API's scheme booklet dated on or about the date of this notice of scheme meeting (**Scheme Booklet**) of which this notice forms part. The Scheme Booklet contains important information to assist you in determining how to vote on the Scheme Resolution.

A copy of the Scheme is set out in Annexure B of the Scheme Booklet.

Capitalised terms used but not defined in this notice have the defined meanings set out in Section 10 of the Scheme Booklet, unless the context otherwise requires.

2. Shareholder approval

For the proposed Scheme to be binding in accordance with section 411 of the Corporations Act, the Scheme Resolution must be agreed to by:

- unless the Court orders otherwise, a majority in number of API Shareholders (other than Excluded Shareholders) present and voting (either in person or by proxy, attorney or, in the case of corporate API Shareholders, body corporate representative) at the Scheme Meeting; and
- at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting by API Shareholders (other than Excluded Shareholders) present and voting (either in person or by proxy, attorney or, in the case of corporate API Shareholders, body corporate representative).

3. Court approval

Under paragraph 411(4)(b) of the Corporations Act, the Scheme (with or without amendment or any alteration or condition required by the Court) is subject to the approval of the Court. If the Scheme Resolution is passed by the Requisite Majorities and the other Conditions to the Scheme (other than approval by the Court) are satisfied or waived by the time required under the Scheme, API intends to apply to the Court for the necessary orders to give effect to the Scheme.

In order for the Scheme to become Effective, it must be approved by the Court and an office copy of the orders of the Court approving the Scheme must be lodged with ASIC.

4. Entitlement to vote

It has been determined that the time for determining eligibility to vote at the Scheme Meeting is 7.00 pm (Melbourne time) on 15 March 2022. Only those API Shareholders entered on the Register at that time will be entitled to attend and vote at the Scheme Meeting, either in person, by proxy or attorney, or in the case of a corporate API Shareholder, by a body corporate representative. The remaining comments in these explanatory notes are addressed to API Shareholders entitled to attend and vote at the Scheme Meeting.

5. Attendance and participation

In response to the potential health risks arising from the COVID-19 pandemic, the Scheme Meeting will be held online, using technology to facilitate shareholder engagement and participation. There will be no physical meeting.

Voting entitlement

The API Board has determined that, for the purposes of the Scheme Meeting (including voting at the Scheme Meeting), API Shareholders are those persons who are the registered holders of API Shares at 7.00 pm (Melbourne time) on 15 March 2022.

Holders of API Shares may vote on the Scheme Resolution.

ANNEXURE D – NOTICE OF SCHEME MEETING

continued

Attending and voting online

API Shareholders who wish to attend and participate in the Scheme Meeting may do so by entering the following URL into the browser of their computer or mobile device: https://web.lumiagm.com/395-861-053. This will provide access to the online platform hosted by Lumi, which will give a reasonable opportunity for API Shareholders to participate in the Scheme Meeting. API Shareholders will be able to hear any discussion, submit written questions and vote.

We strongly recommend that shareholders who wish to participate log in to the online portal at least 15 minutes prior to the scheduled start time.

You can log in to the Scheme Meeting by entering:

1. your **username**, which is your **Voting Access Code** (**VAC**), which can be located on the first page of your proxy form or this Notice of Meeting; and
2. your **password**, which is the **postcode** registered to your holding if you are an Australian shareholder. Overseas shareholders should refer to the Scheme Meeting User Guide on the API website https://www.api.net.au/investor/share-registry/ for their password details.

For further information on how to participate in the Scheme Meeting online, please refer to the Scheme Meeting User Guide on the API website: https://www.api.net.au/investor/share-registry/.

If you have been nominated as a third party proxy or if you have any other queries relating to participating online, please contact Boardroom Pty Limited on 1300 737 760 or via enquiries@boardroomlimited.com.au.

API may be required to make changes to the arrangements for the Scheme Meeting at short notice. API will keep shareholders informed if this becomes necessary and details will be notified by an ASX release.

Asking questions

API Shareholders will have a reasonable opportunity to ask questions or make comments at the Scheme Meeting via the online platform.

To ensure that as many API Shareholders as possible have the opportunity to participate, it is requested that all API Shareholder questions should be stated clearly and should be relevant to the business of the Scheme Meeting.

API Shareholders who prefer to register questions in advance of the Scheme Meeting are invited to do so by entering the following URL into the browser of their computer or mobile device: https://web.lumiagm.com/395-861-053.

The Chair of the Scheme Meeting will endeavour to address as many of the more frequently raised and relevant questions as possible during the course of the Scheme Meeting.

Questions submitted in advance of the Scheme Meeting must be received by API no later than 5.00 pm, on 15 March 2022 (Melbourne time).

6. How to vote

Voting will be conducted by poll.

If you are an API Shareholder entitled to vote at the Scheme Meeting, you may vote by:

- attending the virtual Scheme Meeting and voting online;
- appointing one or two proxies to attend the Scheme Meeting and vote on your behalf, by returning a proxy form by post, email, hand delivery or fax to the Share Registry, or by lodging your proxy form online at https://www.votingonline.com.au/apisoa2022, in accordance with the instructions on that form;
- appointing an attorney to attend the virtual Scheme Meeting and vote on your behalf, using a power of attorney; or

ANNEXURE D – NOTICE OF SCHEME MEETING

continued

- in the case of a body corporate, appointing a body corporate representative to attend the Scheme Meeting and vote on your behalf, using a certificate of appointment of body corporate representative.

7. Voting

7.1 Voting in person

To vote in person, you must attend the Scheme Meeting online, which will be available at https://www.votingonline.com.au/apisoa2022.

7.2 Voting by proxy

An API Shareholder entitled to vote at the Scheme Meeting has a right to appoint a proxy, who need not be an API Shareholder, to attend and vote at the virtual Scheme Meeting as their proxy. An API Shareholder who is entitled to cast two or more votes at the Scheme Meeting may appoint one or two proxies. Each proxy will have the right to vote on the poll and also to speak at the Scheme Meeting.

To be effective for the Scheme Meeting, the proxy form (and any authority under which it is signed or a certified copy) must be received by API no later than 2.00 pm (Melbourne time) on 15 March 2022 (48 hours before the commencement of the Scheme Meeting).

Completed proxy forms can be:

- hand delivered during normal business hours to API'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 a 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 Scheme Meeting.

Proxy forms received after this time will be invalid.

If a proxy form is completed under power of attorney or other authority, the power of attorney or other authority, or a certified copy of the power of attorney or other authority, must accompany the completed proxy form unless the power of attorney or other authority has previously been noted by the Share Registry.

A vote given in accordance with the terms of a proxy appointment is valid despite the revocation of that appointment, unless:

- notice in writing of the revocation has been received by the Share Registry before the start of the Scheme Meeting (or, if the meeting is adjourned or postponed, before the resumption of the meeting in relation to the resumed part of the meeting) in any of the ways described above; or
- notice of revocation is given by the API Shareholder on registering their attendance at the Scheme Meeting at the registration desk located at the Scheme Meeting on Thursday, 17 March 2022.

If you wish to appoint a second proxy, a second proxy form should be used and you should clearly indicate on the second proxy form that it is a second proxy and not a revocation of your first proxy. Both proxy forms should be returned together in the same envelope. You can obtain a second proxy form from the Share Registry.

If you appoint two proxies, each proxy should be appointed to represent a specified proportion of your voting rights. If you do not specify the proportions in the proxy forms, each proxy may exercise half of your votes with any fractions of votes disregarded.

If you hold API Shares jointly with one or more other persons, in order for your proxy appointment to be valid, either API Shareholder may sign the proxy form.

You should consider how you wish your proxy to vote. That is, whether you want your proxy to vote 'for' or 'against', or abstain from voting on, the Scheme Resolution, or whether to leave the decision to the proxy after he or she has considered the matters discussed at the Scheme Meeting.

ANNEXURE D – NOTICE OF SCHEME MEETING

continued

If you do not direct your proxy how to vote on an item of business, the proxy may vote, or abstain from voting, as he or she thinks fit. If you instruct your proxy to abstain from voting on an item of business, he or she is directed not to vote on your behalf, and the shares the subject of the proxy appointment will not be counted in computing the required majority.

If you return your proxy form:

- without identifying a proxy on it, you will be taken to have appointed the Chair of the Scheme Meeting as your proxy to vote on your behalf; or
- with a proxy identified on it but your proxy does not attend the Scheme Meeting, the Chair of the Scheme Meeting will act in place of your nominated proxy and vote in accordance with any directions on your proxy form.

The Chair of the Scheme Meeting intends to vote all valid undirected proxies which nominate the chair in favour of the Scheme Resolution, in the absence of a Superior Proposal and the Independent Expert continuing to conclude that the Scheme is in the best interests of API Shareholders.

Your appointment of a proxy does not preclude you from attending in person, revoking the proxy and voting at the Scheme Meeting.

Replacement proxy forms can be obtained from the Share Registry.

7.3 Voting by attorney

You may appoint an attorney to attend and vote at the Scheme Meeting on your behalf. Your attorney need not be another API Shareholder. Each attorney will have the right to vote on the poll and also to speak at the Scheme Meeting.

The power of attorney appointing your attorney to attend and vote at the Scheme Meeting must be duly executed by you and specify your name, the company (that is, API), and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one.

The power of attorney, or a certified copy of the power of attorney, should be received by API's Share Registry by 2.00 pm (Melbourne time) on 15 March 2022 (or, if the meeting is adjourned or postponed, no later than 48 hours before the resumption of the meeting in relation to the resumed part of the meeting) in any of the ways specified for proxy forms in section 7.2 above. The power of attorney or a certified copy of the power of attorney cannot be lodged online or by mobile device.

A validly appointed attorney wishing to attend and vote at the Scheme Meeting via the online platform will require the appointing API Shareholder's username and password to access the online platform.

Your appointment of an attorney does not preclude you from attending in person and voting at the Scheme Meeting.

7.4 Voting by corporate representative

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 Scheme Meeting. The appointment must comply with the requirements of section 250D of the Corporations Act.

API Shareholders can download the "Appointment of Corporate Representative" form from the Share Registry's website: www.boardroomlimited.com.au/investor-forms.

The certificate must be received by the API Share Registry prior to the Scheme Meeting unless it has previously been given to API. The certificate and any power of attorney under which it is signed (or a certified copy of that power of attorney) must be submitted in any of the ways specified for proxy forms in section 7.2 above. The certificate and any powers of attorney cannot be lodged online or by mobile device.

ANNEXURE D – NOTICE OF SCHEME MEETING

continued

8. Jointly held securities

If you hold API Shares jointly with one or more persons, only one of you may vote. If more than one of you attempts to vote in person at the Scheme Meeting, only the vote of the holder whose name appears first on the Register will be counted.

See also the comments in paragraph 7.2 above regarding the appointment of a proxy by persons who jointly hold API Shares.

9. Technical difficulties

Technical difficulties may arise during the course of the Scheme Meeting. The Chair has discretion as to whether and how the Scheme Meeting should proceed in the event that a technical difficulty arises. In exercising their discretion, the Chair will have regard to the number of shareholders impacted and the extent to which participation in the business of the Scheme Meeting is affected. Where the Chair considers it appropriate, the Chair may continue to hold the Scheme Meeting and transact business, including conducting a poll and voting in accordance with valid proxy instructions. For this reason API Shareholders are encouraged to lodge a proxy by 2.00 on 15 March 2022 even if they plan to attend online.

10. Advertisement

Where this notice of Scheme Meeting is advertised unaccompanied by the Scheme Booklet, a copy of the Scheme Booklet can be obtained by anyone entitled to attend the Scheme Meeting from the ASX website (www.asx.com.au) or by contacting the Company Secretary of API or the Share Registry.

CORPORATE DIRECTORY

Australian Pharmaceutical Industries Limited

ACN 000 004 320

Level 5
250 Camberwell Road
Camberwell Victoria 3124

ASX code: API

www.api.net.au

Directors

Kenneth Gunderson-Briggs

Richard Vincent

Lee Ausburn

Jennifer Macdonald

Janine Allis

Clive Stiff

George Tambassis

Company Secretary

Anne Mustow

API Shareholder Information Line

1300 103 401 (within Australia)

+61 2 9066 4063 (outside Australia)

The API Shareholder Information Line is open on Business Days between 8.30 am and 5.00 pm (Melbourne time) Monday to Saturday, excluding public holidays.

Legal adviser

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Financial adviser

Macquarie Capital (Australia) Limited
Level 35
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Melbourne Victoria 3000

Independent Expert

Grant Thornton Corporate Finance Pty Ltd
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Share Registry

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Australian Pharmaceutical Industries Limited

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