

Thank you peter and Good everyone.

I am delighted to accept a new role in a broadened business that in essence is a good news story. The merger of API and NPR is good for both companies in that it provides a platform for growth in a dynamic industry.

- It is good for pharmacists - they will now have access to the best wholesale/distribution network and retail competencies - a powerful combination.
- Its good for shareholders - in that the deal is EPS accretive, a new direction is being forged and strong leadership will be provided.
- Its good for suppliers, a third force in retailing is now legitimised.
- Its good for all employees and franchisee's - the deal provides security for all.

Given that I am an unknown quantity to many of you, I thought I would provide you with a quick overview of who I am and where I have come from.

Thereafter provide an insight into an industry that is dynamically changing is forcing change. The reasons for this transaction will become apparent. Having set up the context of the transaction I will take you through the business case at a high level, identifying by division how we intend moving forward.

Importantly, I will point to the 'how' we intend delivering on the objectives set, in essence through an invigorated culture that will enable the organisation to achieve its stated goals.

Finally, I will summarise the key messages and outline a timetable of activities over the ensuing period.

So, who I am I.

I was born in JHB, South Africa and was educated at the Witwatersrand Uni, before immigrating to Sydney in 1978 to attend Sydney Uni. I lived in Sydney for 18 years before moving to Melbourne to take up a senior role at Priceline when it was still owned by John Gandel and Jack Goldin. I have had a long history of involvement in the retail industry.

In more recent years, the Priceline business was acquired by New Clicks Holdings - South Africa, at which time I was appointed to the Main Board as an executive director, with transnational responsibility for a business that was turning over around R4 billion rand, employing some 14,000 people.

My most recent role is that of Group Leader for all activities in Australia. In Feb of this year I led a buyout of the business in Australia and with 8 other

colleagues. Over the time I have been the Group Leader of the business it has developed from a \$180m in turnover to \$551 m in this last financial year, producing an EBITDA of \$22.5 million, employing some 3000 employees.

In feedback I receive from others, my strengths include, being an innovator, a strategist with a determination to succeed. Success for me is driven by a keen passion for the development of people through an inclusive culture in which people are encouraged to be authentic in the work place and explore through the notion of creative dismantling the opportunity to better tomorrow than they are today.

Indeed through this approach I have developed a strong track record of performance, which I intend bringing to the new API.

In my introduction I suggested that the industry was facing dynamic change, and it was this change that had been a critical part of the decision to embrace a new direction for API. I would like to summarise my perspective of the industry and the forces surrounding it. Initially, I will look at the broader retail industry and then specifically at the pharmacy industry, it is simply not possible to look at them in isolation - they are intrinsically linked.

The retail industry in Australia is only growing just ahead of inflation and given the number of enterprises competing for a relatively small market, the game will always be a fight for market share.

It is in a late stage of maturity; with very few niche opportunities remaining available. Evidenced by the fact that there has been static growth in the number of retail establishments during the period 1995 - 2001.

The top 20 private and public retailers account for 53% of retail sales. Supermarkets share of the market grew from 30.7% of sales in 1983, to 36.9% in 2002. Coles Myer represents about 21% of total sales, with Woolworth's at around 19%.

The consequence of this is that it is forcing the industry to be polarised into high volume market share dominant players on the one hand and retail specialists on the other - those stuck in the middle will suffer low and diminishing profitability.

Furthermore, there are high levels of substitutes to most offers and barriers to entry are low, also Consumer switching costs are low, making loyalty hard to achieve for any retailer. AC Nielsen indicated in their latest survey that retail spending growth has been slower in the 1990's than during the 1980's for two main reasons, slower population growth and lower inflation.

Consumers today are focusing on self-reliance, realism, tempered optimism, quality of life and relationships. The Super - Consumer is a more informed, skeptical consumer with increasingly high expectations. They want value for money but are demanding extended choice. As a result of market convergence and the prevalence of retail formats within any one category, consumers are spreading their shopping across many stores indeed they are channel grazing

Just in time shopping has become more prevalent - driven by being time poor, consequently Consumers are more likely to purchase in outlets where they experience value add - placing high expectations on service provision.

It is against this assessment; that it became apparent that the industry is under some structural pressure.

It is my contention that the essence of retailing is change. Never has this been more true than today - retailers across Australia no matter what category they trade in are facing intensified competition, the introduction of new competitors or alternative channels of distribution, an economy that has potentially peaked and rapidly changing demographics and consumer buying patterns.

As a direct consequence of the impact technology has had on our lives, we do stand on the threshold of a new age - as Gary Hamel in his book, *Leading the revolution* claims, we are on the precipice an age of Revolution, an age of upheaval, where fortunes will be made or lost at head snapping speed, for change has changed, no longer does it move in a linear fashion, it is ambiguous, discontinuous, abrupt and seditious.

The cost of storing a megabyte of data has dropped from thousands of dollars to literally nothing and with this the cost of connectivity and the transportation of large volumes of data has become achievable and within reach of a large portion of the population. The consequence of this on retailers is that our competitors are no longer easily identifiable; the ubiquity of the Internet has rendered geographies meaningless and with a worldwide focus on deregulation coupled with globalisation perched on the lips of many corporate leaders, the threats to the standard formats of retail have never been as apparent.

In recent years we have seen many examples of retail formats being consolidated in the hands of fewer corporates. Aggregation of brands together with the dominance of the two significant majors will present challenges to all of us as we seek to hold onto market share in geography with limited population growth, low inflation and around 3% GDP growth.

Given the market dominance of the big 2, suppliers have been placed under significant pressure to adopt EDLP strategies. Through their sheer size and increased need for greater cost efficiency and market share, the big 2 have successfully instigated a margin squeeze.

Finally, the consolidation that is taking place in the key property trusts in Australia, together with the escalation in property values has and will put pressure on Occupancy costs. As the trusts consolidate, so the asset managers are under increasing pressure to meet shareholders expectations. This can only be achieved through a growth in income and thus through rental increases.

In Summary, the retail industry is facing its most challenging period for some time. As outlined there are some significant inhibitors to the retail industry, each of these can and will affect the way we go to market in the future. My concern is that given the history of the industry, which is built around fragmentation, little effective networking or information sharing, these market forces may, if not addressed, may permanently stunt industry effectiveness.

When one overlays the current market forces in the pharmacy industry, such as the changes to the government guild agreement, the supply chain pressure resulting in a margin squeeze, the impact the generic market and free trade agreement is likely to have, and the challenge presented by supermarkets who have a stated intention of growing their presence in the Health and Beauty market - it is clear that the pharmacy industry is in the midst of dynamic change.

The traditional lines in the pharmacy supply chain are converging and blurring - manufacturers are going direct to retail, pseudo corporates are emerging putting pressure on the price/value equation, direct mail from here and overseas has emerged as a threat, buying groups are emerging as are mini banner groups, consolidation is happening every where, indicative of a industry shift as pharmacists try and hold their market position.

In this environment, Traditional full-line wholesalers are and will remain under pressure as the distribution value chain fragments. To validate my point I will refer in the next few slides to work that BCG did in reviewing the market, the following represents a summary of their findings.

As other forms of retail expand their Health and Beauty offer, in a market that is driven by market share, traditional pharmacies have seen a decline in Front of store sales.

Dispensary sales have consequently increased. This is now a long-term trend and there is little reason for the trend to be reversed - the downside is that there is little to protect falling margins.

The concern is that with the ageing population and the emergence of 'lifestyle' drugs the growth in PBS spending is expected to continue. Whilst this protects the pharmacists at the sales line, it does little to protect the diminishing margin.

The pharmacy wholesale sector already operates on relatively low margins, these are expected to get further compressed by the proposed changes to PBS.

Industry analysis suggests that by 2010 - margins could drop by as much as 2%.

Whilst the wholesalers will feel the brunt of the changes, there is little doubt that these will be passed onto the pharmacists.

On reviewing the supply chain and industry structure, BCG found that the drug manufacturers have been the beneficiaries of the available margin at the expense of wholesalers and pharmacists.

Evidence points to the fact that pharmacists have been disenfranchised by these market shifts and many have tried to develop their own infrastructures to defend against falling margins. When one looks at the data there has been a decline of nearly a 1000 banner group members in the past 6 years. Pharmacists who are forced to compete in a retail area have been dissatisfied with the offer provided by a wholesale dominant mindset.

Significantly, BCG found that Supermarkets with or without an entry directly into the pharmacy industry will gradually expand their pharmacy/H&B capabilities over the next 5-10 years. For those of you who have not visited the most recent formats of both Coles and Woolworth's you should do so, they have expanded both the depth and width of the H&B ranges underpinned by some hard edged marketing.

They have clearly signalled their intention. -Initial analysis suggests that the 'natural' share of supermarkets will be in the order of ~30-40% of the total H&B market in the next 10 years.

No guessing why - it's about market share. Six Of The Top 20 Fastest Growing Grocery Categories By Value Fall Into The Health And Beauty Or OTC Segments

In summary - the evidence is compelling Market conditions are driving change.

It is patently clear that to be successful in this market, there will be a heightened need to deliver a customer proposition that meets or exceeds

customer expectations, one that is competitive relative to supermarkets and other pharmacies on 4 key dimensions

A Differentiated and broader product range

Value for money

Trusted advisory - that is having a prominent pharmacist in store

And via Convenience locations (high streets and free standing)

To successfully implement a superior customer proposition in the Australian market, API believed that it had to change and move to a model that can demonstrate a sales and margin uplift through a centralised buying approach, supported by an efficient distribution service model that delivers compliance and reduces operational costs. Furthermore, it was recognised that the business needed to provide an attractive career option and business development paths for individual Pharmacists and Pharmacist Owners.

It is our view that this ground shift can only be materialised by a retail led strategy. Indeed this is now the stated future for API.

For, As Dwight Eisenhower once said

Indeed we need to recognise that the old ways are dissolving and Margaret Wheatley has suggested in her book the science of leadership, we need to journey through the chaos to the new.

So what is the business case behind this transaction?

Having spent considerable time exploring and reviewing the market place it became apparent that the industry is under pressure.

Each of the three wholesalers, who supply product and service to pharmacists, had not differentiated their business models sufficiently and in market that is in the late stages of maturity, market share and low margins would always prevail. It is against this background that the API board agreed to adopt what we are terming retail led strategy. In this it is our intention to clearly put our retail skills to work, underpinned by the most efficient distribution network, as such develop a sustainable point of difference.

The integration of API/NPR provides an opportunity for synergies, productivity and efficiency gains to be delivered. To achieve this however, it is going to be necessary to redesign the organisation structure to ensure that the retail strategy can be delivered. This does not mean a dilution of the wholesale

business. The skill sets of the two businesses are complimentary; it is about harnessing the value from both.

In structural terms, three separate operating divisions will emerge and a new management team will be established to deliver on the strategic intent of enhancing shareholder value, whilst maintaining a focus on the outcomes for pharmacists, franchisee's, employees and suppliers.

Some of this work is already underway it will now be expedited. Key to the structure is the formation of a shared service structure both at the corporate and division level. The objective is to reduce costs and remove duplication, whilst enhancing service delivery to all customers. As I will highlight later in this presentation it is my intention to conduct a full strategic review of the business before resolving the structure entirely.

To clarify what is meant by the term 'retail - led', there will be a paradigm shift in the business model, from a more traditional wholesale push model, where the business responds to the demands of 2500 businesses, to a model that recognises the end consumer in the equation.

By enhancing the consumer offer through category management and defined marketing programs, the business will become responsive to the market - thus pulling more volume through the whole supply chain. This will be achieved through a commitment to a multi brand strategy in which each retail brand will take its legitimate place in the market through clear brand positioning and marketing.

Key to achieving this result is the need to have the pharmacies adopt a set of operating standards that are consistent with what is happening in the market place. This is critically important in light of the various challenges the retail pharmacy industry is facing and will, with increasing momentum face into the future.

Suppliers to the business understand the language of efficient consumer response and have been operating in this frame with most other retail channels for some time. In this regard the pharmacy industry has been slow to adapt. It is our intention to work with all suppliers to ensure this change materialises, as always this will be done in a co-operative and strategic way.

To be competitive, a shared service structure will be developed that will leverage strongly off the skills apparent in the wholesale, distribution and manufacturing businesses. More than ever these businesses will focus on a shared set of goals, rather than the autonomous way in which they have

operated to date. A fully integrated business model will emerge, where the words of leverage, efficiency, customer focus will become apparent.

Let me explore the division strategies in more detail. Firstly to the retail division.

As already mentioned the retail division will support a multi branded approach, a key competency of the former NPR management. Each operating brand's market position will be fiercely defended and resources applied at the customer interface to ensure that there is a focus on performance. Any integration will happen away from the customer and in the support structures.

Importantly the retail brands of Soul Pattinson, Chemworld, API Healthcare, Pharmacists advice and Priceline Pharmacy will be differentiated in terms of product, place, promotion, people and the value equation.

To this end, there is no intention to rubber stamp all pharmacies that are aligned to API with the Priceline logo, it is about choice, its just the parameters around choice will become much more visible. All banner group members and indeed wholesale customers will now be able to leverage off the retail skills in NPR, I guess the enemy is now inside the tent. - This is positive for all, in that the brands by working together will be able to plan promotions to ensure that they are not competing on the same product at the same time.

Indeed it is our intention to use the existing buying power from Priceline to deliver a better outcome for all. It is our stated intention to responsibly and deliberately transition company owned Priceline stores to franchised pharmacies over time - API aligned pharmacists will be provided a first right of refusal on these stores, where the economics makes sense.

Finally, it should be noted that the Franchise businesses of House and Price Attack will remain as an important cog in the overall multi brand structure.

The Wholesale division will continue building on the solid relationships it has with its independent customers and in this regard there will be an ongoing focus on customer satisfaction.

With the banner group responsibility moving to the retail division, the wholesale/distribution division will become more logistics focussed, with all customers receiving better service and support.

The team in the wholesale business have already commissioned a number of key projects that will ensure that API remains the first choice for product

distribution. Indeed having seen some of what is planned, I am satisfied that the best is still to come.

There is an opportunity to consolidate the NPR product distribution into the existing API network, this has obvious synergies benefits, however, this will not be deliverable in the immediate short term given the technology upgrade taking place at API right now.

The focus for the logistics team will be to continue to aggressively grow their share of market, something they have been doing really well over the past few months.

The manufacturing plant has had its difficulties as enunciated by Peter earlier, however, with board approved plan to redevelop the Kingsgrove plant in Sydney there is light at the end of the tunnel. Having visited this plant recently, I am really impressed by the work that is going on there to re-establish the production line after a very challenging period.

When complete it will be a best of breed facility. In the interim, the team are focussed on completing the product validation process and will bring quality product back to the market in a diligent and deliberate way. The strategy now in place will provide this division will long term sustainability and enhanced profitability; however, a return to full capacity is going to take time.

A key factor in the re-emergence of this division has been the leverage and learning out of the New Zealand manufacturing plant, resources are being shared and capability transferred where necessary. I have no doubt that with some patience API will be able to satisfy the needs of the banner groups looking to restore their private label programs.

Finally, it should be noted that both Priceline and Price Attack have well-established private label programs and these can at the appropriate time be channelled to the manufacturing division - the additional volumes will add significant upside.

The Key message I would like to leave you with at this stage is that this transaction allows API to avoid being forced into competing only through a low cost proposition, we now have the opportunity to reshape the business and by uniquely configuring the various components of the business, we will develop a significant barrier to entry.

In so doing significant benefits will be derived.

- A fast track entry for API into a retail led strategy
- Greater security and choice for pharmacists

- Provides API with a strong point of difference to the others in the wholesale space
- The wholesale and distribution capabilities will be enhanced

Moving from the business case to the action plan, there are a number of important steps that need to be effected, including

Remaining focussed on the current business Objectives

- Christmas is vital in this regard
- Maintain focus on current Budget performance
- Continue with the Cost maintenance program
- Expedite the Manufacturing Business Plan
- Continue with the separation of Retail and wholesale divisions.

As I alluded to earlier I will be conducting a full review of all businesses, the intent to formulate a clear mission for each. It is my intention to have this prepared within 60 days at which time; we will again invite you to hear about our plans.

Without stating the obvious, the initial focus will be on

- Formulating a new Management team structure
- Developing a detailed integration plan.

Finally, the identified Synergy Opportunities will be activated including:

- Changing the organisational design and integrating the support structures.
- Centralising the buying process to enable supply chain efficiency.
- And establish a business case for the Logistics consolidation.

To achieve all of what is being proposed it is necessary to work hard at the cultural integration of the businesses. To this end it will be an evolving process as we begin to understand the differences and integrate them in a positive process orientated way.

To ensure that the new API leverages off the vast array of skills and capability, the integration approach will be driven by a shared set of values. History has shown that organisations who uphold a set a values as a guiding principle are likely to be more successful. Shared behavioural principles provide all stakeholders a reference point and establish a platform for how people work together. It is my intention to engage the heads and hearts of the people in the organisation and through open, inclusive dialogic processes determine what these principles of behaviour ought to be.

At the core of this objective, it is my inherent belief that if the organisation develops a robustness to it, it can remain focussed on the issues rather than the politics that dog other organisations. In so doing, it will develop a comparative and competitive advantage through it's ability to react appropriately to the ambiguity change naturally brings. Through a values based culture, I believe this can be done without sacrificing humanity.

In the interim you can expect us to be -

Be honest and open

-Be committed to doing things properly

-Be ethical and principled

Indeed our relative histories have been built on developing relationships.

"Superior performance is built on superior relationships and we regard our relationships as absolutely integral to our future business."

In concluding, I would like to point to the future and the next steps.

In the immediate short term, we will focus on the completion requirements under the sale agreement.

- Finalise the process in respect of the integration plan.
- Conduct Roadshows for key stakeholders to ensure alignment
- Work hard at engaging the heads and hearts of all employees.
- Start building the new API into an investable brand

Let me leave you then with the key messages of my introductory speech as the new Leader for API.

- This acquisition fast tracks API's retail led strategy.
- API will now have a clear point of difference.
- There is now a clear strategy, focus, confirmed leadership.
- This is a Good News story for all stakeholders.
 - For pharmacists - secures a future in the face of declining margins
 - For independent customers - business as usual, with greater choice.
 - For existing franchisee's - business as usual, best practice retail services
 - For employees - greater security & opportunity
 - For shareholders it is an earnings positive outcome.