

PETER ROBINSON

ADDRESS FOR AGM / SUPPLIERS / PHARMACISTS

Cover Slide: API Logo

It is with great pride and pleasure that I welcome you to today's AGM.

The 2003/2004 year has been a momentous one for API.

It has been a year of great change and consolidation. It's also a year which ultimately came to a head with the announcement yesterday / last week / some days ago of our acquisition of New Price Retail, the holding company of Priceline, Priceline Pharmacy, House and Price Attack.

Slide 1: Jeff Sher/NPR

Along with this acquisition I am delighted that Jeff Sher has agreed to become the Group Leader and Chief Executive of API.

Jeff's appointment shows your Board's commitment to a retail led strategy, which we will be telling you more about in a few moments. Jeff has had more than 20 years experience in retail and has a deep understanding of the retail marketplace in Australia. Jeff is highly skilled at managing multi-brands and leads an experienced and proven retail team.

(For Shareholders/AGM only): I am particularly pleased that we were able to announce the acquisition of New Price Retail in time for me to speak to you personally about this today. Ideally, I would have preferred the announcement was able to be made about two weeks ago- to give shareholders more time to digest the news prior to today. Frankly, though, it was more likely that the deal would only have been finalised AFTER the AGM, meaning I'd be here today not able to even tell you about

it. Teams on both sides worked exceptionally hard to ensure we were at a stage to announce at the latest yesterday and – by doing so- giving me the opportunity to explain this positive development in detail to you today, and indeed to answer your questions on this. ***(End of Shareholder only section)***

Slide 2: Key Focus

Today, I will focus my talk on *a review of the year to April 2004* and give you some of the *details and prospects* behind the NPR deal.

After that I will hand over to Jeff who will deal with the business case behind the transaction more fully, why your Board felt there was a need to change and some of his thoughts and plans for the next few months.

Slide 3: Review of the Year ended April 2004

API announced a profit after tax of \$18.44m for the year ended April 2004, a 21.7% decline compared to last year.

The company's profit was affected by a number of significant expense items including:

- The continued impact of the voluntary suspension of the company's TGA licence in September 2003;
- Higher redundancy costs due to the restructure of management in API Pharmacy and;
- The inclusion in 2004 of a charge relating to the development of a new information and warehouse management system.

The total of those significant expense items was \$14.247m.

In addition to those significant expense items, we increased provisions for doubtful debts and obsolete stock by \$4.576m.

Slide 4: Profit

Profits were also affected by the absence this year of a contribution from API Finance, which sold its loan bank to BankWest in April 2003. Included in last year's result was a profit before tax contribution of \$3.493m from API Finance.

Our profit result was based on revenue growth of 18.6% driven by the full year contribution of the recent acquisitions of Halas Dental, PSM Manufacturing and ProPharma as well as sales revenue growth in Hospital Supplies of Australia.

Despite the reduced profit I am happy to report the company has maintained its full year dividend of 13.0¢ per share fully franked.

During the year the company has bought back 3.269 million shares via its Share Buyback program.

Since the departure of the previous Managing Director in January of this year, I have worked closely with senior management in reviewing all aspects of API's corporate structure along with strategies aligned with each of the operating divisions. Management is now directly focused on controlling costs and to this end; results for the first quarter 2005 are encouraging.

I would now like to look at each Operating Division in more detail.

Slide 5: API Pharmacy (Wholesale)

API Pharmacy posted sales revenue of \$1.988 billion for the year, a 5.9% increase on the same period last year.

Sales revenue was affected in the first half of the year by the relocation of our major warehouse facility from Northmead to Camellia. The second half revenue performance showed an increase over last year of 8.2% with the final quarter revenue increase over last year at 11.1%. This trend has continued through into the first quarter of the '04-'05 year with sales up 10.5% on the same period last year.

Unfortunately, the corporate structure could not be sustained and as a result of the review, more than 40 senior and middle management staff were made redundant in March and April. The savings in salaries and on-costs will amount to \$3.5 million per annum. Other cost savings initiated during this review are likely to produce a further \$1.5 million in savings.

Since the relocation to Camellia we found that approximately 40% of the warehouse space was under utilised. A number of third party logistics contracts have been signed resulting in this space being fully occupied by the end of this calendar year. This will more than cover the higher rental costs on an annualised basis.

Slide 6: Hospital Supplies of Australia

This division recorded sales growth of 26.7% in 2004 as it continues to gain market share from competitors in all states. Sales growth in the new financial year has continued with sales for the first quarter being 23.5% up on last year.

Slide 7: Halas Dental

Halas recorded sales of \$116m and a profit before tax of \$4.515m in 2004. Whilst this was a pleasing result the market has somewhat softened, particularly in the dental equipment area. Sales in the first quarter were behind budget. Management have responded by instituting a number of cost saving initiatives to ensure the EBIT target is attained for this financial year.

Slide 8: Healthcare Manufacturing

The loss incurred by the Healthcare Manufacturing Group was the company's biggest set back in 2004. Further delays in implementing new validation procedures have continued into the new financial year and compounded the losses resulting from the closure of the plant.

Although production has recommenced at Kingsgrove it will not be until late this year that sufficient throughput will be achieved to cover the substantially higher costs in operating the current facility. Until this time the Kingsgrove facility will run at a loss.

The pharmaceutical manufacturing sector is under increasing pressure as the Therapeutic Goods Authority (TGA) calls for new standards to be met.

To conform to the new TGA guidelines and standards and to improve performance, a decision was made to build a new manufacturing plant at the existing Kingsgrove site at a cost of \$10m. Work has commenced with the new facility planned for completion in April 2005. Until this time manufacturing continues in the existing plant.

Your board of directors have every confidence that the Manufacturing Division will regain momentum throughout the 2005 calendar year.

The closure of manufacturing plants in Australia will lead to increased demand for locally produced healthcare products from those plants that are TGA compliant.

We believe that our Healthcare Manufacturing Group will be well placed to capitalize on these changed market conditions once the new plant is operating.

Slide 9: ProPharma (NZ)

Our New Zealand company recorded sales of \$570m compared with \$311m last year (7 months). ProPharma has a dominant 54.4% market share of the New Zealand pharmaceutical wholesaling industry.

Margins in all sectors of the healthcare industry in New Zealand are under intense pressure as the New Zealand government endeavours to lower its healthcare costs as a percentage of GDP. ProPharma sales for the first quarter of this current financial year are running 4.2% ahead of the same period last year.

The New Zealand pharmaceutical industry continues to undergo significant change in the areas of stat dispensing, ownership deregulation, the increasing influence of Pharmac and the joint trans-Tasman therapeutic agency (Medsafe/TGA).

As the industry consolidates, ProPharma is responding by extracting economies of scale benefits, by targeting the hospital market and continuing to focus on lowering costs and increasing efficiency.

Slide 10: The API/NPR Deal

I'd now like to look forward and discuss the New Price Retail transaction.

API has entered into an agreement to acquire New Price Retail for \$112.4million.

Slide 11: Main Benefits

Our acquisition delivers the following main benefits:

- Fast-tracks our retail strategy which Jeff will be talking to you about in a moment
- Further secures the future for API pharmacies
- Enhances our manufacturing, wholesale and distribution businesses
- Allows NPR to continue to grow and deliver best practice retail services to all their franchisees
- API's due diligence suggests synergies are achievable from the acquisition of NPR, predominantly in the areas of buying and distribution.

Slide 12: Key Indicators

And, importantly, it will be earnings per share positive in the first year.

When we look at the transaction more carefully the NPR businesses acquired have a combined annual turnover of \$370 million (as well as \$186 million MAT for franchised brands), giving the enlarged API a combined annual turnover of approximately \$3.5 billion.

NPR is expected to contribute EBITDA of \$26 million on a full financial year basis.

Slide 13: Financing The Acquisition

As consideration for the acquisition, API will issue 33.5 million shares, plus cash consideration of \$28.7 million. There is also a potential deferred consideration amount based on the future share price performance of API and payable in shares or cash at API's option. The deferred consideration will be calculated approximately 3 years from the date of acquisition, and will be the amount by which the API share price exceeds \$3.00, multiplied by 20 million.

The acquisition of NPR is expected to be accretive to shareholder value, as measured by the anticipated impact on EPS. The acquisition is expected to be EPS positive, after the amortisation of goodwill.

Slide 14: Synergies

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Slide 15: Structuring

On completion, the NPR vendors will hold approximately 13% of the new API of which Investec Wentworth Private Equity, Investec Bank Australia Limited and NPR management will hold 11%.

Slide 16: The Road Ahead

Today marks the commencement of a retail-led, market-driven strategy for API.

Our focus is the consumer, which will in turn drive our Retail banner brands and independent customers which will flow through to improved business for our manufacturing and wholesale divisions.

To tell you more about it and a bit about himself, please let me introduce you to the new Group Leader and CEO of API, Jeff Sher.....