api

australian pharmaceutical industries

FY06 results presentation

Introduction

- Unprecedented circumstances for API
- Action taken by the Board of Directors viewed in the long term interests of shareholders
- Future trading in API shares and lodgement of statutory accounts
- Dividend payment adjusted
- New Chief Executive Officer and Managing Director, Stephen Roche

Background to suspension

- Discrepancies in balance sheet reports have led to a one-off $17.2 million charge in "Other Expenses" for FY2006
- Problem emerged during final consolidation of April 2006 balance sheet, following changeover to a new ERP system
- Thorough investigation required prior to finalising accounts and the process was progressed as quickly as possible

Initial response to the matter

- Initial internal assessment identified the scope of discrepancies
- Board formed sub-committee to oversee investigation
- Specialist external accounting and IT teams recruited to assist in the process
- Trading halt, followed by suspension, agreed by ASX and ASIC
- Board engaged forensic Ernst & Young team to review and report on management process

The review findings

- The discrepancies resulted from processes related to the redundant IT systems
- The new ERP system is robust and functioning as expected after testing
- FY2007 financial reporting is not affected
- At this point in time, there has been no evidence of fraud

The outcome of the review process

- All financial processes and controls are being reviewed and upgraded
- The board and management are committed to API's strategy, which has momentum and provides a sustainable long term future for the company

australian pharmaceutical industries

FY06 results presentation

FY06 Profit Result
As detailed in the 4E

$m	**FY06**	**FY05**	**% Ch**
Revenue	2,582	2,323	**+11**
EBITD	51.1	63.7	-20
Depreciation	(11.7)	(9.1)	
EBIT	39.4	54.6	**-28**
Profit from Associates	0.3	-	
Net Interest	(13.3)	(9.3)	
Pre tax profit	26.4	45.3	
Tax	(7.8)	(12.9)	
Profit after tax	18.6	32.4	-43
Contribution discontinued bus.	1.7	2.4	
Net Profit[1]	20.4	34.8	-41
EPS (c)	7.3	13.5	
DPS (c)	9.25	13.0	
Weighted ave shares (m)	257.3	242.6	

[1] after minorities

FY06 Overview

- Revenue growth from continuing businesses up 11% year on year, while normalised EBITD up 3% (excluding accounting related "Other Expenses" of $17.2m and one off items totalling $4.7m pre tax)
- Underlying Profit After Tax of $34.1m, down 9% (FY05 $37.6m)
- Working capital management inadequate
- Assessed and dealt with non core businesses
- High growth of pharmacy retail services
- Pharmacy Distribution – lower margins in tough market conditions but confident in longer term position
- Centralised consumer products manufacturing in New Zealand

Underlying FY06 Profit Result –
adjusted for one-off Other Expenses and costs

$m	**FY06**	**FY05**	**% Ch**
Revenue	2,582	2,323	**+11**
EBITD	73.0	70.9	+3
Depreciation	(11.7)	(9.1)	
EBIT[1]	61.3	61.8	**-1**
Profit from Associates	0.3	-	
Net Interest	(13.3)	(9.3)	
Pre tax profit	48.3	52.5	-8
Tax	(14.2)	(15.0)	
Underlying Profit after tax	**34.1**	**37.6**	**-9**
Contribution discontinued bus[2]	1.7	2.4	
Underlying Net Profit	**35.8**	**40.0**	
One-off Other Expenses (after tax)	(12.0)	-	
One-off costs (after tax)	(3.3)	(5.2)	
Reported Net Profit	20.4	34.8	
Underlying EPS[3] (c)	**13.3**	**15.5**	**-14**
Weighted ave shares (m)	257.3	242.6	

[1] continuing operations after unallocated expenses [2] includes gain on sale net of tax
[3] pre one-off other expenses and costs and discontinued business contribution

Adjustments to reported profit

	FY06	FY05
Add back		
Other expenses	17.2	
One off costs:		
- Kingsgrove plant closure		5.8
- Retail pharmacy research/rollout	2.2	
- Redundancy costs	1.4	1.5
- IT system implementation	1.1	
TOTAL	**21.9**	**7.3**

Group Performance
Balance sheet

As at 30 April $m	FY06	FY05
Trade & other receivables	212.0	376.2
Inventories	251.1	277.7
Assets held for sale	-	114.4
Cash and equivalents	39.1	30.0
Receivables	49.8	16.3
Intangible assets	212.9	225.7
Property, plant and equipment	72.6	74.6
Other non current assets	39.5	14.1
Total assets	**877.0**	**1129.1**
Trade and other payables	(412.6)	(495.0)
Interest bearing borrowings	(11.3)	(73.1)
Liabilities held for sale	-	(81.6)
Other liabilities	(24.2)	(32.6)
Total liabilities	**448.1**	**682.2**
Net assets	**428.9**	**446.9**
Net debt/equity (%)	na	10.8

Group Performance

Balance Sheet – Working Capital/Debt Management

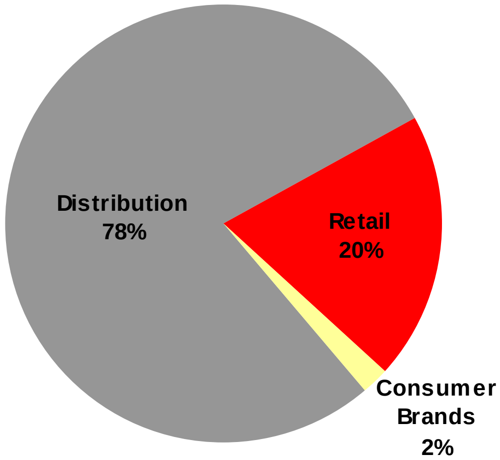
- Working capital management requires greater focus across the business
- Securitisation benefit of $200m of receivables as at 30 April 2006
- Debt free on a net basis at balance date

Group Performance
Cash flow

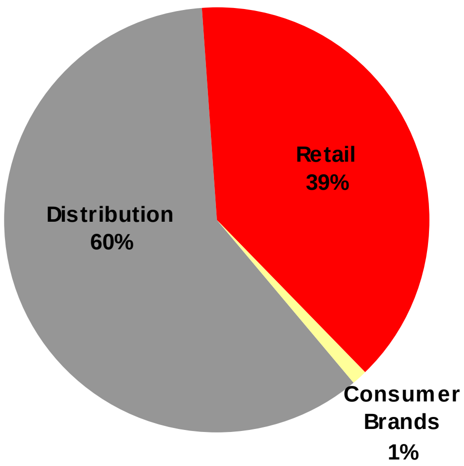
$m	FY06	FY05
Operating cash flows before tax	110.3	148.7
Tax and interest	(21.8)	(21.2)
Net cash inflow from operating activities	**88.5**	**127.5**
Capital expenditure	(22.5)	(9.4)
Dividends paid	(33.5)	(31.2)
Deposit for securitised receivables	38.3	-
Loans to assoc's	(18.8)	-
Loans to pharmacies	(4.1)	-
Payment for intangibles	(6.2)	(7.0)
Proceeds of share issue	-	0.7
Repayment of debt	(56.9)	(61.3)
Proceeds on sale of property	4.2	11.6
Acquisition/disposal of subsidiary	21.1	(11.3)
Change in net cash	**10.0**	**19.6**

Group Performance
Relative contribution by division

FY06 Revenue Continuing Businesses



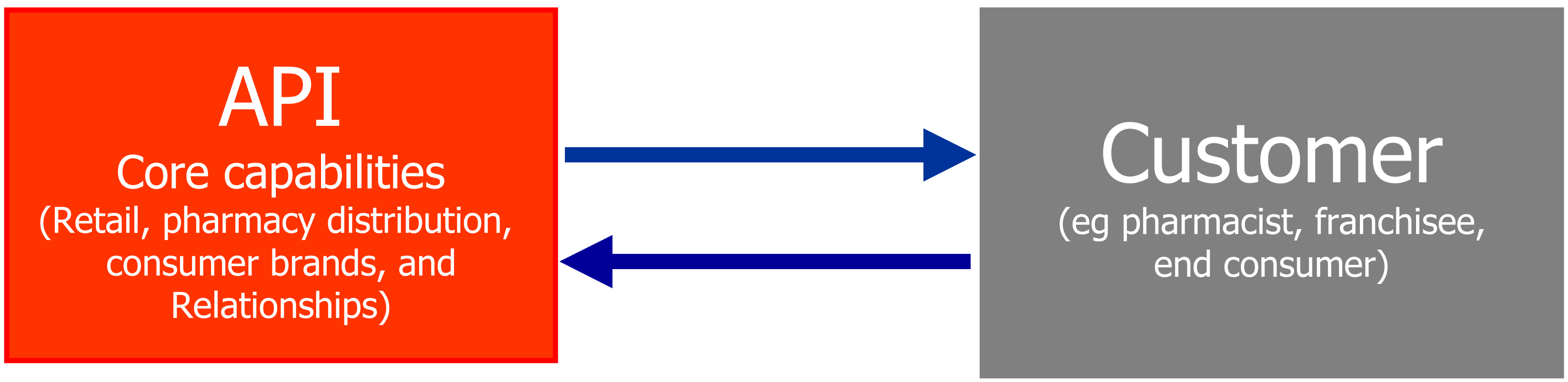
FY06 EBITD Continuing Businesses



australian pharmaceutical industries

Strategy and operational overview

Strategic intent continues



Leverage our core capabilities to increase the bond with our key decision makers

Operational Overview

Retail

Retail
Performance by half

$m	2H06	1H06	2H05
Retail			
Revenue	301.8	219.1	251.8
EBITD[1]	22.7	9.8	18.1
Margin %	7.5	4.5	7.2
Depreciation	2.8	2.7	2.6
Underlying EBIT	19.9	7.1	15.5

[1] Excluding one-off costs relating to retail pharmacy research, development and roll out costs (2H06 $0.2m, 1H06 $2.0m)

Retail
FY06 Performance

- Revenue growth reflects rapid store roll out programme
- Seasonal earnings profile with second half including Christmas trading
- Priceline Pharmacy demand continues to build with 68 sites now trading and more than 35 in various stages of development
- Retail pharmacy groups stabilised and reinvigorated
- Extensive utilisation of retail services by over 1,000 independent pharmacists
- Price Attack rapid expansion of store numbers and successful execution of strategy resulted in pleasing performance
- House continues to improve performance in a highly competitive homewares market and private label strategy is starting to take hold

Retail
Long term position

- Pharmacists able to access retail services for their individual requirements
  - Provides choice to pharmacists based on local demands
- The full franchise structure for Priceline gaining greater acceptance
  - A long term approach to deal with the threats of supermarkets
- Provides a point of difference from the other wholesalers for franchised and independent customers
- Retail trading conditions are competitive, however positioning of key brands is sound in current market

api

australian pharmaceutical industries

Operational Overview

Pharmacy Distribution

Pharmacy Distribution
Performance

$m	**FY06**	**FY05**
Pharmacy Distribution		
Total Revenue	2,020.4	2018.8
EBITD[1]	50.0	63.2
EBITD Margin	2.5%	3.1%
Depreciation	5.3	4.8
Underlying EBIT	44.7	58.4

[1] Before Other Expenses in FY06 ($17.2m) and one off items totalling $2.5m in FY06 and $1.5m in FY05 comprising:

redundancy costs	$1.4m (FY06)	$1.5m (FY05)
IT system implementation	$1.1m (FY06)	

api

Pharmacy Distribution
FY06 Performance

- Lower margins in tough market conditions but confident in longer term position
- Revenue flat on prior corresponding period reflecting PBS stagnation
- Overall maintenance of market share - market share gains in WA, SA, Vic offset by decline in NSW
- Operational performance affected during the year due to restructuring to achieve lower cost base at year end
  - Responded with increased productivity
  - Higher service levels achieved at the end of the period
  - FTE numbers reduced by more than 20% from November 05 to July 2006
- Continued growth with our generics partners including Sandoz Hexal and Alphapharm

Pharmacy Distribution
Priorities for FY07

- Continued focus on cost reduction and productivity
- Build further momentum to pharmacist alignment and loyalty program – simplified, unique offer to pharmacists presented in July
- Increase distribution agreements – 400+ signed and already in place with key customers
- CSO management

api

australian pharmaceutical industries

Operational Overview

Consumer Brands

Consumer Brands
Performance

$m	FY06	FY05
Consumer products		
Total Revenue	40.8	34.2
Operating Costs		
EBITD[1]	0.9	(11.0)
Margin %	2.2	n/m
Underlying EBIT	0.0	(12.0)

[1] Before unallocated expenses/income and one-off items relating to Kingsgrove closure ($5.8m in FY05)

Highlights

- Relocation of manufacturing successfully completed
- Business profitable in the second half and break even for the year
- Private label restoration program continued
- New Zealand sales business growth
- Factory upgrade completed to meet future demand

api

australian pharmaceutical industries

Conclusion

Summary

- Circumstances reported today are exceptional and unprecedented
- API has acted decisively

Outlook

- Despite retail division sales in May and June being approximately 13% up on last year, first half will be impacted by:
  - Current trading environment
  - Introduction of CSO
  - Cost of investigation into other expenses item

Priorities for FY07

- Simplicity – focus on the key issues with earnings growth and working the balance sheet harder
- Focus on strategy – continued growth of retail strategy and position of pharmacy distribution
- Competency – ensure that we have the right skill sets to execute
- Urgency – the process has commenced today being led by divisional management

Questions