



**ASX and media release
21 August 2006**

API 2006 Statutory Report and update

Australian Pharmaceutical Industries Limited (API) today lodged with the Australian Stock Exchange (ASX) and the Australian Securities & Investments Commission (ASIC) its 2006 Statutory Report (Final Accounts).

Following the release of its 4E Preliminary Final report for the year ended 30 April 2006 and associated ASX and media release, further detail is provided on the circumstances generating the one-off Other Expenses of \$17.2 million and activity undertaken to address all the issues identified during the audit and reconciliation process.

The \$17.2 million

- The \$17.2 million one-off Other Expenses referred to in the FY06 results relates to unreconciled balance sheet items.
- The unreconciled balance of \$17.2 million relates only to the Pharmacy Distribution business, with the other divisions operating on platforms developed for their particular needs.
- The company, along with external experts, were unable to resolve the outstanding amount. A possible cause identified through the audit process is the requirement for a series of complicated manual journal entries in relation to inventory held as part of its Third Party Logistics business (3PL).

Review by API and external experts

The thorough review process undertaken has covered debtors, creditors, cash, inventories, transactions relating to its 3PL business and other related areas.

- As a result of the review conducted it is the view of the company that these discrepancies related to the conversion from the previous legacy IT systems to the new IT platform. The review also identified improvements in the financial processes, controls and resourcing which were inadequate during the conversion process.
- Through the review the new IT platform was tested and is functioning as intended.
- There has been no evidence of fraud identified at this point in time.

Current and future steps to be undertaken by API

- Further software developments and improvements will be made to the new platform to assist wherever possible in the reduction of risk and to improve process efficiency.



- Steps have been taken to strengthen the company's financial team, processes and controls and this had already commenced and will continue.
- Particular focus will be paid by the company to the manual processes in relation to 3PL inventory and the financial team have commenced, and will continue to develop procedures to reduce the complexity and risk which currently exists as a result of the manual journal entries referred to above
- Both the forensic and investigative review continues within the business with external experts as required.

In addition, API understands that if the discrepancy recognised as the \$17.2 million one-off Other Expense (or any part of it) is identified during the current FY07 year and should have been recognised as an asset or liability in FY 06, then under the new Australian International Financial Reporting Standards, API is required to restate any material amount in the FY06 accounts. This identification would therefore have no impact on the FY07 accounts (other than the comparative FY 06 numbers would differ).

The Board believes it is taking the appropriate steps and instituting the changes necessary to ensure this issue does not recur.

API will provide the market with updates if there are any material developments prior to the Annual General Meeting on 28 September.

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