



**Media Release
8 October 2007**

API and Alphapharm form new strategic partnership

- API to become preferred distributor for Alphapharm's generic pharmaceuticals
- Alphapharm to be the preferred provider to API's branded pharmacies
- The agreement is for an initial term of five years
- Agreement to take effect from end of October and will be immediately earnings positive for API

A new strategic partnership has been formed between Australian Pharmaceutical Industries Limited (API) and Alphapharm that will provide pharmacists the option to combine the services of the leading generic pharmaceuticals supplier with the leading pharmacy retail brand provider and distribution company in Australia.

Key aspects of the strategic partnership are:

- API will become the preferred distributor for Alphapharm's products. Alphapharm leads the national generic pharmaceutical market in value and volume;
- Alphapharm will be the preferred generic pharmaceutical supplier to API's branded pharmacies, including Priceline Pharmacy, Soul Pattinson, Chemworld and Pharmacist Advice;
- Together the companies will offer a comprehensive product package, competitive pricing, plus marketing and development programs to help their pharmacy customers with long term growth;
- API expects to commence supplying Alphapharm products by the end of October; and,
- It is immediately EBIT positive for API and has an expected annualised EBIT benefit for API of approximately \$7.5 million once fully operational

API will purchase stock from Alphapharm and sales from API will be eligible to qualify for the Community Service Obligation (CSO) payments. API can accommodate the working capital requirements for the partnership.

API and Alphapharm believe the partnership streamlines the industry supply chain and is a platform to improve pharmacy relationships and grow business for both companies.

Stephen Roche, API's Managing Director and Chief Executive Officer, said that the partnership with Alphapharm was a unique opportunity to leverage the strengths of both companies in the pharmacy industry as an avenue for growth while also providing better options to pharmacists.

"Together API and Alphapharm bring industry leading positions and a commitment to building a better future with our pharmacy customers by increasing choice and service available to them," Mr Roche said.

"API has the best retail pharmacy options for pharmacists, and that has been a critical element in developing this strategic partnership with the leading supplier of generic



pharmaceuticals. The partnership is an important step in advancing API's total pharmacy offer because the generics sector is growing at approximately 10% per year," he said.

"API now has the most comprehensive solutions in pharmacy retailing and for the dispensary, which our research identified was highly valued by pharmacists for the growth of their businesses."

John Montgomery, Alphapharm's Chief Executive Officer & Regional Director for Asia-Pacific, said that this relationship would be important through times of significant change in the industry.

"Alphapharm has the market leading position in generic pharmaceuticals in Australia and this alliance offers pharmacists choices that were previously unavailable," Mr Montgomery said.

"API and Alphapharm both recognise that the changes in our industry mean that strong partnerships are vital to our future and by bringing leading brands together, this partnership offers the best options to pharmacists," he said.

"With competition in the market growing, a strategic partnership with a leading pharmacy company that understands the market, has strong retail brands, a wide distribution network and high customer service levels will provide new opportunities."

Benefits to pharmacists

Under the new strategic partnership, pharmacies will be able to order their major source of generic pharmaceuticals as well as their normal wholesale requirements from API thereby streamlining ordering requirements.

Pharmacies aligned to API's brands, such as Priceline Pharmacy, Chemworld and Soul Pattinson, will have access to Alphapharm's preferred offer.

API will continue to have products available from other generic pharmaceutical suppliers and likewise, Alphapharm products will still be available from other wholesalers.

"Choice is very important for all pharmacists and this package brings together the most comprehensive range of generics at competitive prices, which will only strengthen the opportunities open to our customers," Mr Roche said.

Implementation

API and Alphapharm have commenced a transition process for distribution arrangements and once stock is transferred, order fulfilment is expected to start from the end of October.

Customers of both companies will be briefed on the implementation plans in the intervening period.

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About API

API Industries Limited (API) is one of Australia's leading health and beauty companies. API's Pharmacy business provides wholesale distribution, business and marketing services to community pharmacies across Australia. The Retail division is a leader in the health and beauty market managing retail brands such as Priceline. The Consumer division is a niche player in over-the-counter pharmaceuticals and is based in New Zealand.

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API & Alphapharm strategic partnership

Background information

- The Australian generic pharmaceuticals market annual turnover is currently valued at just over \$800 million.
- The Australian generic pharmaceuticals market is growing at up to 10% per annum.
- Alphapharm is the Australian generic pharmaceuticals industry market leader.
- Alphapharm is the largest supplier by volume to the Pharmaceutical Benefits Scheme.
- Alphapharm is the most recognised generic pharmaceutical brand in Australia.
- Alphapharm products are carried by more than 4000 pharmacies in Australia.
- Alphapharm will transfer its product distribution to API.
- Alphapharm will be the preferred generics supplier to API's pharmacy brands.
- API provides a full line daily product delivery service to pharmacists nationally, including all products listed on the Pharmaceutical Benefits Scheme.
- API is a national Community Service Obligation (CSO) accredited distributor.
- API services more than 2,500 pharmacies daily and has relationships with more than 3,500.
- API operates the Priceline Pharmacy, Soul Pattinson, Chemworld and Pharmacist Advice brands. It has more than 1,000 customers that participate in its API Member program.
- Priceline Pharmacy is the fastest growing retail brand in the pharmacy market, it has 130 outlets and is opening 50 new stores per year.
- The Alphapharm sales team will retain relationships with customers.
- The agreement has an initial term of five years.
- Either party can terminate the arrangement if:
 - the other party breaches its obligations under the agreement and does not remedy that breach with a specified period;
 - the other party is affected by an insolvency event;
 - there is a change in control of API and the entity which caused that change in control owns a material portfolio of generic pharmaceutical products available for sale in Australia or has any pre-existing arrangement which could materially prejudice Alphapharm's business; or
 - there is a change in control of Alphapharm.