



## **API HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 31 OCT 2005**

- **Results prepared under Australian International Financial Reporting Standards (AIFRS)**
- **Revenue up 16.6%; EBITD up 23.9%; PBT up 7.6%**
- **Interim dividend of 6.25 cents declared**
- **Early Christmas retail sales encouraging**

Integrated healthcare services company API today reported its financial results for the six months ended 31 October 2005, representing a reasonable outcome given the transition timetable undertaken in the past 15 months. The results are API's first prepared under the Australian International Financial Reporting Standards (AIFRS), and reflect the impact of these new standards.

API reported sales revenue of \$1.56 billion for the six months to 31 October 2005, an increase of 16.6% over the corresponding six month period ended 31 October 2004 ("corresponding period"). Earnings before interest, tax and depreciation was \$32.5 million, up 23.9% on the corresponding period. Profit before tax was up 7.6% to \$20.8 million. Net profit after tax was \$14.0 million, up 1.2% compared to the corresponding period (adjusted and after discontinued operations).

API Group Leader Mr Jeff Sher said the company's turnaround strategy was progressing well.

"API has made significant progress in the first year of its three year turnaround strategy. We have taken hard decisions to resolve under performing aspects of the business, including divesting non-core assets. Momentum is building, and with the distraction of the clean up out of the way, the focus on growth opportunities is now a priority.

"API's second half includes the Christmas period, and traditionally the company makes approximately 60% of its profits in the months from October – January. API is well positioned coming into this key period, with encouraging early Christmas retail sales," Mr Sher said.



The First Half results were impacted by several one-off items, including redundancies in both the Pharmacy Distribution business and the Manufacturing Division, IT related costs associated with the slowing up of the rollout of Movex and implementation costs derived from the development of the Priceline pharmacies.

In conjunction with Half Year results API also announced the opening of the 50<sup>th</sup> Priceline Pharmacy store in Australia, an important milestone as API continues to roll out the Priceline Pharmacy retail concept. API now expects to open another 50 Priceline Pharmacy stores by the end of calendar 2006.

In line with its recently announced strategy to further support independent pharmacists, API has signed up more than 300 pharmacists to the Dolphin program, which is designed to enhance the value proposition for all API aligned pharmacists, in particular those in the banner groups of Soul Pattinson, Chemworld, Pharmacist Advice and API Healthcare. API has committed significant resources to the program to ensure its success, and the official launch is on track for January 2006. API is targeting 2,500 pharmacists for the Dolphin program.

The Board of Directors has declared an interim dividend of 6.25 cents a share fully franked, maintaining API's interim dividend. The dividend will be paid on 31 January 2006 to shareholders registered at 17 January 2006.

API's Pharmacy Distribution Division recorded revenue of \$1.04 billion, up 0.6% on the corresponding period. The Retail Division performed well, recording \$219.1 million revenue. The Retail Division comprises a portfolio of differentiated brands in pharmacy, health and lifestyle, including Soul Pattinson, Priceline, Priceline Pharmacy, Chemworld, Pharmacist Advice, API Healthcare, House and Price Attack.

Commenting on the business performance, Mr Sher said:

"Volumes and margins in our Pharmacy Distribution Division were impacted in the First Half by a range of factors, including PBS slowdown and uncertainty around the Guild-Government agreement. Pleasingly though market share has held and in a relative sense API's position in the market has improved.

"Our Pharmacy Distribution Division continues to implement its low cost distribution model, and has an aggressive focus on costs to maintain margins.

"The Pharmacy Distribution Division now has clarity of outlook, following the recent agreement between the Federal Government and the Pharmacy Guild of Australia in relation to wholesaler margins for the distribution of PBS medicines.



While the new arrangements will have a slight impact on margins in Pharmacy Distribution, API has strategies in place to minimise the impact.

"Our Retail Division has been making strong progress in building brand equity behind our retail brands, with a clear positioning of each brand based on research. By focusing on the whole of store, the Retail Division is providing differentiated consumer brands and private label, which will drive volume through our Manufacturing and Distribution Divisions.

"The Manufacturing Division has now completed its relocation to New Zealand, and is focused on manufacturing API's range of private label and exclusives products. We are looking forward to the Manufacturing Division continuing to make real gains into 2007," Mr Sher said.

API announced last week the sale of its New Zealand healthcare logistics business Pharmacy Retailing (New Zealand) Limited, trading as Healthcare Logistics and ProPharma, for NZ\$40 million. The decision to divest was based on market conditions in New Zealand and in no way flags an intent in Australia. The Board at API is entirely committed to the distribution business in Australia and are committing resources to its growth.

API remains the owner of significant assets in New Zealand. These include the wholly owned Healthcare Manufacturing Group, which manufactures a range of health and beauty products from two manufacturing plants in Auckland, including API's Private Label range.

API is also a 50 per cent joint venture partner in Pharmacybrands Limited (PBL), a pharmacy retail operator and owner of several leading pharmacy brands in New Zealand.

Jeff Sher said API is focused on retail strategies in New Zealand, which include providing the banner group members in New Zealand with greater choice and service than they have ever received.

"The pharmacy industry in New Zealand is partially deregulated, and API and PBL is focused on implementing an infrastructure to support pharmacists in this deregulated environment. This support is centered on developing the offer and extending services to independent operators and to those who are members of our retail brands – Amcal, Unichem and Dispensary First. In addition, we are launching a fully compliant pharmacy model, Smart Pharmacy. Three pilot Smart Pharmacy sites will open in 2006," Mr Sher said.



## **Outlook**

Mr Sher said the company was well positioned to continue to deliver improving underlying business performance, led by the Pharmacy Distribution, Retail and Manufacturing Divisions.

“We are achieving our targeted revenue growth. The second half of API’s current financial year – which includes the important Christmas trading period – is crucial for API.

“Good progress is being made in relation to the turnaround,” Mr Sher said.

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