ASX Release
30 October 2008

API reports full year results

- EBIT of $49.7 million in line with guidance
- NPAT of $15.2 million
- Dividend reinstated
- Demonstrated operational improvement
- Key strategic goals on target
- Fully funded for ongoing operations and Revitalise investment

Australian Pharmaceutical Industries Limited (API) today reported its full year results for the 12 month period to 31 August 2008*, with total revenue of $3,238.9 million and earnings before interest and tax (EBIT) of $49.7 million. The company has restored a sustainable profit position and recorded a full year net profit after tax (NPAT) of $15.2 million.

Compared to API's last full 12 month period which ended 30 April 2007, total revenue has increased 22.2%, underlying EBIT is up 32.2% and reported NPAT increased by $26.5 million.

The Board is confident in the company's position and has reinstated a dividend to shareholders. A final dividend of 1 cent per ordinary share (fully franked) has a record date of 28 November 2008 with payment to be made on 15 December 2008. Shares will trade excluding entitlement to the dividend on 24 November 2008.

In early 2008 API commenced a review of its capital requirements and the Board has advised that the company is in a position to fully fund its daily operations, as well as the Revitalise supply chain project, within its current debt facilities. These facilities are in place until April 2010.

API's Managing Director and Chief Executive Officer, Stephen Roche, said that the results demonstrated a focus on strategic objectives and continued operational improvement.

"The performance was very pleasing, particularly in light of the slower retail trading environment and managing the implementation of the largest ever change in pharmaceutical pricing through the PBS Reforms in July and August," Mr Roche said.

"During the year the Retail division grew its presence with the Priceline brand opening its 300th store, and it has continued to manage the transition from corporate ownership to franchise stores. The Pharmacy division built its revenue base and earnings, while also realising the benefits of the Alphapharm partnership," he said.

"The supply chain reform agenda, through the Revitalise program, has made very good progress and we are on track to integrate the first warehouse in Melbourne in 2009. The

* This is the first time API has reported 12 month financial results for the period to 31 August. The Appendix 4E references the last recorded full period audited result being the four month period ended 31 August 2007. The last full 12 month period audited result was to 30 April 2007.

results for the New Zealand based consumer products division have been encouraging and also improved in line with our long term plans."

The company's net profit was affected by a loss of $2.2 million from its hospital supplies joint venture, Clifford Hallam Healthcare. During the period it acquired Cottman's, a hospital supplies business in SA and WA, and recorded one-off costs due to the integration. Clifford Hallam Healthcare also incurred costs involved in establishing its finance facilities for the next three years which will allow it to continue restoring its market position with confidence.

Working capital requirements have been well controlled although the company's growth has kept pressure on this area. The average debtors days outstanding improved marginally during the period and inventory was tightly managed. Overall interest costs were still in line with the company's expectations.

Divisional performance

Retail

The Retail division reported sales of $615.6 million, up 7% from the prior comparable 12 month period to August 2007. The divisional EBIT of $24.8 million was achieved with an EBIT margin of 4.0%. It is the first period in which the Retail division has traded without the Price Attack or House franchise operations which were sold in 2007.

Comparable store growth for the year in the franchised Priceline Pharmacy stores was 9.8% and in company owned stores was 2.6%. The Priceline Pharmacy model is proving successful in generating strong growth in non-dispensary sales through using the less cyclical prescription sales as a base for store traffic.

"We expected a challenging second half for Priceline sales, however we managed our expenses and our margins to still achieve a good result," Mr Roche said.

There are now more than 300 stores under the Priceline brand. During the year API brought the total number of franchise stores to 178. There remains a strong pipeline in place of approximately 50 stores for 2009. API continued its strategy of divesting company-owned stores to convert to franchise stores, with profit on sales realising $10.3 million before tax.

In June the company launched a new brand plan for Priceline, covering merchandise, training, store environment and visual identity. The plan was driven by research from customers, pharmacists and suppliers to focus on key areas that appealed to the target market.

"The brand repositioning has mapped out the future path for Priceline and provides a strong and clearly differentiated direction. It will be an integral part of our plans to reach our target of 400 Priceline stores in 2010, and we believe we have a robust retail model that will appeal to consumers throughout the economic cycle," Mr Roche said.

Pharmacy division

Revenue in the Pharmacy division was $2,478.2 million, up 22% from the prior comparable 12 month period to August 2007. The divisional EBIT of $43.1 million was achieved with an EBIT margin of 1.7%, a continuing improvement on prior periods. The earnings margin has climbed steadily, reflecting better management and significantly improved revenue.

The Alphapharm partnership has been successful and realised the anticipated benefits. Alphapharm has maintained a very competitive position in the generic pharmaceuticals market.

Transport costs increased by approximately 15% in the second half of the year when compared to the same period last year, due to higher fuel and labour costs. These were mitigated through better labour management and operating efficiencies that enabled margin to be incrementally lifted.

In July the company implemented the PBS Reform package, which was the largest ever price reduction in the history of the PBS. API's strategy was to provide clear price information to enable ordering patterns to be quickly re-established. API experienced a rapid rebound in ordering and volumes returned to normal in August. Immediately after the price decreases were implemented the API Distribution Centres (DCs) moved record volumes.

"Pharmaceutical wholesaling has just been through a year of exceptional change, cost increases were above most industry expectations and price changes were significant, to have delivered underlying improvements in revenue and earnings was pleasing," Mr Roche said.

The provision of services has continued to be valuable leverage in attracting pharmacists. The new Soul Pattinson format, the Pharmacist Advice professional service model and the API Member program have all contributed to the improved results.

"We have steadily built on the range of services we offer to pharmacies and with a consistently reliable distribution capability it has underpinned our market position," Mr Roche said.

Revitalise – the supply chain program

In April this year API announced the Revitalise program that would be responsible for re-engineering its supply chain to generate expected annual cost savings of $18 million once completed. The program requires a capital investment of $60 million which will generate an internal rate of return of more than 30% when completed. Revitalise will bring together API's separate Retail and Pharmacy supply chains, resulting in significant savings through improved efficiency.

Revitalise will also help API improve its capacity to grow the Priceline brand and result in a relative reduction in working capital requirements to service a higher number of stores.

The Board has approved the integration of API's two Melbourne DCs into its existing facility at Dandenong. The site will be reconfigured and fitted with mechanisation to allow both Retail and Pharmacy operations to function from the one site. It is expected to be completed and functioning in mid calendar 2009. Implementation of the new Warehouse

Management System (WMS) has also commenced which will facilitate the integration of each divisional IT system into the new DC facilities to enable more transparent planning and operations.

The Board has approved the business plan for the Brisbane DC and operations are planned to commence at the end of calendar 2009. Planning for the Sydney DC is being finalised during the remainder of 2008.

API is bringing forward the capital expenditure program to generate savings earlier than first anticipated. The company expects a minimum of $10 million in savings in FY11 and to exceed the previously projected annualised savings of $18 million when completed. The timing of the full benefits will depend on the finalisation of the Brisbane site and the Sydney DC plans.

"Revitalise is critical to meeting our strategic and financial targets. The progress has been very good, providing us with confidence that we can execute the plans sooner and bring forward the benefits," Mr Roche said.

Outlook

The company anticipates that trading conditions may continue to be challenging throughout the next financial year. Revenue growth has continued positively in pharmaceutical wholesaling, however there is still some uncertainty about the exact nature of the future retail conditions in Australia in the coming 12 months.

API expects further improvement in earnings in 2009, although this will be influenced by the Christmas trading period and ongoing economic conditions. API will provide a business update at its Annual General Meeting on 20 January 2008.

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About API

Australian Pharmaceutical 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 through its Priceline retail brand. The Consumer division is a niche player in over-the-counter pharmaceuticals and is based in New Zealand.