

API half year results update

- Normalised EBITD of approximately \$17 million is expected in the first half
- One off items of \$24 million incurred in the first half primarily due to a review process at the half year
- New focussed management team has initiated measures to improve second half EBITD in the current year and is expected to be restored to that of the prior corresponding period of approximately \$39 million (prior to one off items)
- No recurrence is expected of the issue that related to the unreconciled balance at the 2006 full year results which has now been substantially resolved

Australian Pharmaceutical Industries Limited (API) advises that it anticipates normalised earnings before interest, tax and depreciation ("EBITD") for the six months ended 31 October 2006 will be approximately \$17 million prior to incurring one off costs of approximately \$24 million. Reported EBITD will be a loss of approximately \$7 million. These are preliminary figures and are still the subject of final audit review.

The one off expenses are related to obsolete stock, stock shrinkage, completion of the FY06 accounts and other restructuring provisions. The company has also reviewed its processes and some of the issues may relate to prior periods. None of the one offs are related to the unreconciled \$17.2 million that was part of the 2006 full year financial results.

API's Chief Executive Officer and Managing Director, Mr Stephen Roche, said that after completing reviews at the half year and incurring the one off expenses the company would be able to move forward with confidence.

"While it is disappointing to report this impact on our result, addressing the issues now means API can more quickly restore its position in the industry with our assets, skills and brands across both pharmacy and retail because we are confident that we have the right strategic capability and direction," he said.

"The initial review discussed at the AGM focused primarily on the reduction of corporate expenses by \$5 million for the full year and the elimination of our shared services platform. Since that review a number of additional actions have been taken including:

- Reorganisation of corporate staff and administration that will result in annualised savings of \$5.2 million;
- An increased depth of financial expertise within the business has been recruited; and,
- A detailed stock review at the half year end across all business units resulting in one offs noted above."

Interim result

As advised to the ASX on 27 September this year the first half result was expected to be below that of the prior corresponding period, as a result of the effect of the share trading suspension and additional costs associated with the full year results completion. The company also advised that depreciation costs would be 20% higher than last year following the IT implementation and interest costs would also be above last year due to previously poor working capital management.

The normalised EBITD of \$17 million for the first half compares to \$29.6 million in the prior corresponding period. The company is forecasting that second half EBITD for the current year will be comparable to that of the second half of the previous financial year of

approximately \$39 million (prior to the one off item of \$17.2 million related to that period).

The difference in underlying operating performance in the current half compared to the prior corresponding period is mostly related to:

- the high cost base of shared services;
- the increased effect of the share trading suspension on the NSW pharmacy business; and,
- distraction of the business from core operations during the period.

“We believe we are well advanced in addressing these areas and with a concerted focus and a renewed team we are confident of our performance for the second half,” Mr Roche said.

“In addition, the fundamentals of the business are still there. Retail sales for the first half have grown by 11% and Priceline Pharmacy continued to experience high demand and is now at 87 stores. Gross sales in the first half for the Pharmacy business are broadly in line with the prior corresponding period although overall the business lost market share,” he said.

Trading to date for the second half has been in line with expectations.

FY06 completion issue

The investigations into the unreconciled \$17.2 million have been concluded by the Board following further investigations by external and internal teams. The Board is satisfied that there was no fraud and that the cause of the discrepancy was mainly related to inventory adjustments as part of the systems changeover. As such the Board believes that treatment of the issue as a profit and loss adjustment was appropriate.

At the end of the half year full stocktakes were done and reviewed by KPMG and no unreconciled discrepancies were identified. Ernst & Young have recently been appointed internal auditors and have commenced a review of major business processes. Their initial findings have not indicated any repetition of the issues experienced in the previous financial year.

API intends to release its interim results to the ASX on 19 December after finalisation of its half year accounts. At the results announcement the company will provide a full presentation of its actions and plans and it will also provide further guidance on the full year progress once the third quarter is concluded.

Ends

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EBITD for continuing businesses¹

\$m	1H06	2H06
Reported EBITD	29.6	21.5
Adjusted EBITD²	29.6	38.7

¹ Excludes Propharma from originally reported 1H06

² Includes \$17.2m one off adjustment