Australian Pharmaceutical Industries Limited

API PROFIT RESULT FOR YEAR ENDED 31 AUGUST 2012
IMPROVED NET PROFIT AND OPERATIONAL PERFORMANCE

- **Net profit after tax of $30.3 million following prior year loss of $23.3m**
- **EPS lift to 6.2¢, with underlying net profit after tax up 12.8% on the previous year**
- **Fully franked final dividend of 1.5¢ per share, bringing full year dividend to 3¢ per share, a 20% lift**
- **RoFE 9. 6%, with 60bp lift in underlying returns on the previous year**
- **Priceline delivers top tier retail sales performance and network grows to 350 stores**
- **Pharmacy delivers solid performance, against a background of sector reform**
- **Successful completion of insurance claims following the Queensland floods**
- **Securitisation facilities renegotiated and debt reduced**

Summarising the full year result, API's Managing Director and CEO, Mr Stephen Roche, said it reflected solid performances by both the Priceline and pharmacy distribution businesses.

"We continue to see the benefits of good management of our pharmacy business by working with our customers to manage the ongoing impact of PBS reforms. As a consequence, we have seen our second half revenue performance increase 1.8% on the first half. In addition, the second half of the year has seen significant acceleration in the growth of our Priceline network which increased by a net 20 stores during the year," said Mr Roche.

API reported a solid uplift in Returns on Funds Employed, with underlying returns up 8% on the corresponding period, a reduction in net debt of $8.7 million and a successful renegotiation of securitisation facilities to May 2015.

Priceline continues to deliver

Priceline continued to reap the rewards of its position as the favourite destination for health and beauty products for women. Despite poor consumer confidence levels and an increasingly competitive retail market, Priceline stores delivered front-of-store retail sales growth of 3.5% on the corresponding period and comparable store sales growth of 2.3%.

"Our strategy of offering women an unrivalled, competitively priced choice of health and beauty products in an attractive environment continues to deliver superior sales results. Our Sister Club loyalty program has now topped 3.9 million members who typically spend 50% more per basket than non-members shopping at Priceline," said Mr Roche.

On 24 September 2012, API advised the ASX that Priceline had expanded its store network to 350 stores and described the expansion as 'a significant vote of confidence in the Priceline Pharmacy proposition'.

"The upsurge in the number of pharmacists engaging in serious discussions about joining our Priceline network continues. We are currently in advanced discussions with another 20 pharmacists and we anticipate that the majority of these will convert to Priceline Pharmacy stores in the coming year.

"I expect that pharmacists' increased interest in joining Priceline Pharmacy will be maintained. The next two to three years will see pharmacists experience an accelerating decline in PBS income and competition from the supermarkets and discounters will only intensify. Combine this environment with our proven ability to deliver sustainable profit growth for our franchisees, most notably through our 3.9 million Sister Club members and it is clear to see why the Priceline Pharmacy network will continue to expand.

"Our focus in the coming year will be to stimulate more activity from within our Sister Club base. Most of our members are already heavily active in the beauty segment so we will be increasing our focus on our health offering. We will also be highlighting our "Better Health" offer via a major sponsorship with Channel Seven's Better Homes and Gardens and supporting media," said Mr Roche.

API confirmed that its full online Priceline offering, which was launched earlier this month, is being well received by the public.

"It is early days yet and we opted for a soft launch but consumer traffic is already growing steadily and we believe that within a year or two sales from the site will equate to one of our larger bricks and mortar stores.

Pharmacy distribution delivers strong result

API confirmed that the pharmacy distribution sector had stabilised and that the company had made market share gains during the year which offset market share losses in the prior year.

"We continue to have a highly competitive offering for pharmacists and our Soul Pattinson, Pharmacist Advice and API Premium offerings to independent pharmacists continue to provide growth," said Mr Roche.

"Given the ongoing PBS reforms and the impact of Pfizer's decision, API took a leadership position within the pharmacy distribution business by reconfiguring its distribution model to reduce costs and by working with our customers to reduce discounts. As the PBS reforms process continues, we will make further annual adjustments as necessary," said Mr Roche.

Furthermore, Mr Roche signalled API's intention to contribute more robustly to the next Australian Community Pharmacy Agreement to ensure that wholesalers are adequately compensated to deliver on the Government's own commitment to supply the full range of PBS medicines to any community pharmacy via a daily delivery.

"Government needs to consult with the wholesalers in relation to this – otherwise there may well be unintended consequences for the wholesaling industry and for consumers, especially in regional and rural areas," said Mr Roche.

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API reported continued growth in its New Zealand business with the ongoing success of its partnership with Blackmores Ltd and the signing of an exclusive agreement with the Cancer Society of New Zealand.

Dividend

The API Board has declared a fully franked final dividend of 1.5 cents per share, bringing the full year dividend to 3.0 cents per share, a 20% increase on the previous year. The latest dividend is to be paid on 14 December 2012. The record date for the dividend is 16 November 2012

Outlook

API said it expected that continued improvements in operational efficiencies, further expansion by Priceline and greater revenue from the pharmacy distribution business will drive a further underlying earnings lift.

This outlook is subject to no material change in consumer or customer demand, a stable economic climate and no unforeseen adjustments to either the regulatory environment or the Pharmaceutical Benefits Scheme.

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This release should be read in conjunction with the Appendix 4E and Full Year Results presentation.

Underlying NPAT is a non-statutory measure used by the Chief Operating decision maker to measure the financial performance of the group following the financial guarantee charge in February 2011 and the Queensland floods in January 2011.

This announcement contains certain non-IFRS measures that API believes are relevant and appropriate for the understanding of the business. Refer to Appendix 1 in the Full Year Results presentation for further information.