

6 December 2010

ASX ANNOUNCEMENT

Australian Pharmaceutical Industries Ltd (API) expects the impact of the recent notification from Pfizer Australia (Pfizer) that it will cease distributing its prescription medicines through wholesalers (including API) from 1 February 2011, combined with initiatives by the Federal Government to reduce the cost of the Pharmaceutical Benefits Scheme (PBS), will leave API with no choice but to look at measures to recover lost income.

At this point in time, API expects its annual revenues to be negatively impacted by the Pfizer announcement in the range of 10-15%.

The impact of announced reforms to the PBS is calculated to cost the wholesale sector in the order of \$220 million between 2010 and 2015. This equates to approximately \$8,800 per pharmacy per year over the five year term of the recently adopted Memorandum of Association.

The consequential impact of both these changes on earnings has yet to be fully determined, however API will put in place measures to address the impact of these changes by reducing customer trading terms, and reviewing its cost base.

API is currently working through the precise magnitude of the changes required, and it will inform its customers of the new trading terms as soon as possible to help them manage the impact on their businesses. The reductions will apply from 1 February 2011.

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