API CHAIRMAN
2019 AGM ADDRESS

As the next order of business, our Chief Executive Officer and Managing Director, Richard Vincent will provide a review of operations, an overview of our current performance in 2019 and outlook.

Before passing to Richard, I would like to provide shareholders with an update on our overall strategy, our environment, our financial position and our proposed merger with Sigma Healthcare Ltd.

With regard to Sigma, on 16 December 2019 we informed the market that we had sold our shareholding in Sigma. We originally purchased 12.95 per cent of Sigma's shares to provide us with options in relation to our merger proposal to Sigma.

At the time, we made a non-binding indicative proposal to the Sigma Board in October 2018, there was a strategic imperative that, from our perspective, made the merger a compelling proposition for both sets of shareholders. Our offer was 75 cents per Sigma share, which represented a significant 42.2% premium to the Sigma weighted average share price of 52.8 cents from 2 July 2018. The Sigma share price as of 10.30am today was 60.5 cents. Since the time of our October offer, the Sigma Board has made it clear that Sigma will pursue its own business transformation agenda.

Along the way the relativities between our respective share prices moved unfavourably and the efficiencies that could have been achieved in a merged entity have reduced significantly since our initial approach. For instance, Sigma is committed to implementing an SAP platform - a system we implemented in 2015 - and has made other capex and business decisions that have reduced the value of the available synergies. Consequently, we decided to sell our shareholding in Sigma as a merger would no longer yield the same value to shareholders. And as you would appreciate, a true merger required both parties to support it.

In the context of our overall strategy to diversify earnings into new growth vehicles, I would like to stress that our growth was never dependent on the success of the merger proposal. Our Board is fully committed to API's strategy of growing its portfolio of complementary businesses and leveraging existing infrastructure and market expertise to further diversify our earnings.

We remain confident that the combination of our Priceline Pharmacy, Clear Skincare, Consumer Brands and our Pharmacy Distribution businesses will deliver sustained shareholder value in the coming years. This expectation is reflected in our 2019 Long Term Incentive Plan for which we have reset the targets to a range of 26.48% to 43.03% for the cumulative 3-year

Return on Equity and the Earnings per Share compound annual growth rate to a range of 3.65% to 5.92%. This reflects our expectation of providing solid growth over the period and is consistent with our strategy.

I would like to now comment briefly on the year just gone and current market conditions.

2019 was another sound year for API. I believe the 2019 result can best be characterised as steady growth in a market that remains challenging. We recorded a solid operational performance and in doing so demonstrated API's strong capabilities in both healthcare and retailing that will deliver sustainable returns for you, our shareholders, in the years to come.

The Group's total revenue, excluding the impact of PBS reforms and Hepatitis C medicine, increased by 4.1 per cent on 2018 to $4.0 billion. Underlying net profit after tax was up 3.2 per cent on 2018 to $56.6 million and underlying EBIT increased 3.9 per cent on 2018 to $94.0 million.

Our underlying return on capital employed was 16.29 per cent which demonstrated continued efficient capital management and strong cash generation from operations.

It is worth highlighting our Priceline Pharmacy store network finished the year with 488 stores, up a net 13 stores on last year.

Our Clear Skincare business grew revenue strongly by 20% in its first full year with API, increasing clinics by 8 to 52 clinics across Australia and New Zealand.

Our solid operational performance allied to a healthy balance sheet led your Board to declare a fully franked final dividend of 4 cents per share, resulting in a full year dividend of 7.75 cents per share, which represents a payout ratio for the full year of 70 per cent.

As a Board, we have a number of other key priorities.

We remain determined to achieve as close to zero workplace injuries as possible. Management has continued to make progress in this regard by strengthening Safety Management Systems and we retained accreditation to the highest safety standard: ISO45001.

Since 2016 the number of injuries has significantly reduced with a 62% reduction in Medical Treatment Injuries and a 45% reduction in Lost Time Injuries over that period.

We understand that superior performance can only be achieved by a motivated and highly engaged team. Management is committed to building on our already high levels of employee engagement by offering its people satisfying and meaningful work, by caring for people's wellbeing both at work and at home – including by supporting them to achieve healthy work-life balance - and by being transparent about all our activities, including from a safety and environmental perspective.

This year's Sustainability Report shows our progress in key areas, including waste management where we made great progress by introducing reusable totes in our Distribution Centres, and by introducing paper bags into our Priceline stores that eliminated in the order of 20 million plastic bags per year.

We are leveraging our continuous improvement culture and applying it to key environmental challenges, including assessing climate change impacts.

API's exposure to climate change risk is limited and under continual review. Electricity costs and supply chain disruptions are part of our risk review process. A newly created Sustainability Working Group has climate change risk and response in its scope. We also have a focus in other areas, such as ensuring that we fully understand our supply chain so that we can be confident we do not contribute to modern slavery problems in overseas countries.

Richard will detail where we are up to with negotiations with the Department of Health on the funding for the Community Service Obligation beyond 2020. In short, we remain confident that the Government is committed to maintaining equity of access to PBS medicines for all Australians. We also have good reason to believe that the Government will continue to allow full-line wholesalers flexibility within the next Community Pharmacy Agreement to maintain an acceptable return on our assets.

The move by AstraZeneca and more recently by Upjohn, which is the old Pfizer product range, to reverse their decisions to enter into exclusive direct distribution arrangements for their higher-margin and higher volume medicines was a very welcome development. This will allow full-line wholesalers, like API, to once again access all their medicines within the CSO Distribution model.

Despite the current uncertainty in consumer confidence, our portfolio of complementary businesses in Priceline Pharmacy, Clear Skincare and Consumer Brands anchored by our Pharmacy Distribution business are all well placed to deliver future growth.

As most of you know, Priceline Pharmacy has a strong market position and remains very popular, particularly with Australian women. We continue to attract independent pharmacists to the Priceline Pharmacy network and we expect to celebrate reaching the 500 stores landmark this financial year.

Our Sister Club loyalty program remains a key differentiator for API and it is Australia's largest Health and Beauty loyalty program.

Clear Skincare is in a high growth sector with very healthy profit margins and we plan to accelerate the roll out of clinics during this financial year. Our Consumer Brands business has now established significant long-term contracts with distributors and retailers, both here in Australia and overseas, with more to come.

Your Board is confident we have the right strategy and management team in place to continue the steady growth trajectory of API.

Finally, I would like to take the opportunity to thank my fellow Directors and Management for their contributions over the last year.

In particular, I thank Gerry Masters who is retiring today. Gerry has contributed strongly to the API Board over the last nine years, bringing his extensive retail experience to assist the Group build its retail Priceline business. On behalf of the Board, we are all grateful for Gerry's sound and considered advice and, in particular, his hard work as Chair of our Remuneration Committee. We wish Gerry all the very best.

I will now invite Richard to address the meeting.