

Appendix 4D Financial Report for the half year ended 28 February 2017

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The following information is presented in accordance with ASX listing rule 4.2A.3.

1. Details of the reporting period and the previous corresponding period

Current period - the half year ended 28 February 2017

Previous corresponding period - the half year ended 29 February 2016

2. Results for announcement to the market

		Half year ended 28 Feb 2017 \$'000	Half year ended 29 Feb 2016 \$'000	Increase
2.1	Revenue from ordinary activities	2,015,447	1,788,469	12.7%
2.2	Profit from ordinary activities after tax attributable to members	29,135	22,897	27.2%
2.3	Net profit for the period attributable to members	29,135	22,897	27.2%
	Profit before interest, tax, depreciation, amortisation and associates (Attachment 1)	62,312	57,631	8.1%
	Profit before tax	42,184	33,858	24.6%
2.3a	Underlying net profit after tax (Attachment 1)	29,135	25,334	15.0%
		Amount per security	Franking %	Franked amount per security
2.4	Dividends			
	Interim Dividend (declared)	3.5 cents	100	3.5 cents
	Final Dividend (prior year – paid)	3.5 cents	100	3.5 cents
2.5	The record date for determining entitlements to the interim dividends is 5.00pm Sydney time 5 May 2017. The Dividend will be paid on 2 June 2017.			

3. Income Statement

Please refer to the Consolidated Income Statement in the attached Condensed Consolidated Interim Financial Report for the half year ended 28 February 2017.

4. Statement of Financial Position

Please refer to the Consolidated Statement of Financial Position in the attached Condensed Consolidated Interim Financial Report for the half year ended 28 February 2017.

5. Statement of Cash Flows

Please refer to the Consolidated Statement of Cash Flows in the attached Condensed Consolidated Interim Financial Report for the half year ended 28 February 2017.

6. Dividends Paid

	Amount per share	Franked amount per share	Total amount	Date of payment
Paid during the half year ended 28 February 2017				
Final August 2016 - Ordinary	3.50 cents	3.50 cents	17,143,023	9 December 2016
Paid during the half year ended 29 February 2016				
Final August 2015 - Ordinary	2.50 cents	2.50 cents	12,202,907	4 December 2015
Declared in respect of the half year ended 28 February 2017				
Interim - Ordinary	3.50 cents	3.50 cents	17,143,014	2 June 2017

7. Dividend Reinvestment Plan

There are no dividend reinvestment plans currently in operation.

8. Statement of Retained Earnings

Please refer to the Consolidated Statement of Changes in Equity in the attached Condensed Consolidated Interim Financial Report for the half year ended 28 February 2017.

9. Net tangible asset backing (cents per share)

	28 Feb 2017	29 Feb 2016
Net tangible asset backing per ordinary security (cents)	72.8	66.9

10. Subsidiaries

There were no acquisitions, disposals or loss of control over any entities during the half year ended 28 February 2017.

11. Other Significant Information

Refer to the attached Condensed Consolidated Interim Financial Report for the half year ended 28 February 2017.

12. Foreign Entities

Not applicable.

13. Commentary on the Results for the Period

- 13.1 The earnings per security and the nature of any dilution aspects.
Please refer to Note 5 of the attached Condensed Consolidated Interim Financial Report for the half year ended 28 February 2017.
- 13.2 Returns to shareholders including distributions and buy backs.
Please refer to Consolidated Statement of Changes in Equity of the attached Condensed Consolidated Interim Financial Report for the half year ended 28 February 2017.
- 13.3 Significant features of operating performance.
Please refer to the attached Directors' Report for the half year ended 28 February 2017.
- 13.4 The results of segments that are significant to an understanding of the business as a whole.
Please refer to Note 2 of the attached Condensed Consolidated Interim Financial Report for the half year ended 28 February 2017.
- 13.5 A discussion of trends in performance.
Please refer to the Results Announcement and Results Presentation issued 20 April 2017.
- 13.6 Any other factors which have affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified.
Please refer to the Results Announcement and Results Presentation issued 20 April 2017.

14. Independent Review

The Condensed Consolidated Interim Financial Report has been subject to review and is not subject to any dispute or qualification.

15. Audit Committee

The entity has a formally constituted Audit Committee.

Directors' Report

The Directors present their report on the consolidated entity consisting of Australian Pharmaceutical Industries Limited ("the Company") and the entities it controlled at the end of, or during, the half year ended 28 February 2017 and the auditor's review report thereon.

Directors

The Directors of the Company during the whole of the half year and until the date of this report unless otherwise stated are:

Mr Peter R Robinson	Non-executive Director and Chairman
Ms Lee Ausburn	Non-executive Director
Mr Robert D Millner	Non-executive Director
Ms E Carol Holley	Non-executive Director (ceased to be director on 25 January 2017)
Mr Kenneth W Gunderson-Briggs	Non-executive Director
Mr Gerard J Masters	Non-executive Director
Mr Stephen P Roche	Executive Director and Chief Executive Officer (ceased to be director on 15 February 2017)
Mr Richard C Vincent	Executive Director and Chief Executive Officer (appointed on 15 February 2017)

Review of operations

- Underlying net profit after tax up 15.0% to \$29.1 million
- Reported net profit after tax up 27.2% to \$29.1 million
- Earnings before interest and tax up 9% to \$48.6 million
- Revenue up 12.7% to \$2.015 billion
- Declared interim dividend of 3.5 cents per share fully franked to 100%

The consolidated entity reported an underlying net profit after tax of \$29.1 million. Earnings before interest and tax rose 9% primarily due to growth from the Priceline and Priceline Pharmacy retail business, maintained earnings from the Pharmacy Distribution business and continued control of operating cost performance.

The cost of doing business has continued to decrease due to previous investments in infrastructure and systems. Overall operating costs as a percentage of revenue (9.85%) have declined for a fourth reporting period.

Reported net debt declined on the prior corresponding period by \$84.4 million, net financing costs decreased by \$1.9 million compared to the same period last year. The Company reported cash flow from trading operations of \$21.1 million. Net capital expenditure incurred was \$12.4 million.

In the operating businesses the Priceline and Priceline Pharmacy network recorded total register sales growth of 2% (excluding dispensary sales) and comparable store sales growth of 0.4%. Consumer demand and comparable store sales growth was stronger up to Christmas 2016 with key categories performing well. In 2017 sales reflected the general market slowness with some categories negative on last year due to lower demand from buyers for the Chinese market. Priceline Pharmacy remains Australia's favourite health and beauty store among women and they remain highly engaged with the brand primarily through the Sister Club loyalty program with 6.7 million members.

For completeness it should be noted that 'register' sales made by franchisees do not form part of the financial results of the consolidated entity.

Demand for new stores from potential pharmacist franchise partners remains strong. Overall satisfaction of franchise partners with the brand remains positive, despite the current retail pressures. The Priceline Pharmacy network numbers were 450 as at 28 February 2017, up from 442 at 31 August 2016.

Review of operations (continued)

Pharmacy Distribution was again subject to the changes in the Pharmaceutical Benefits Scheme (PBS). Sales of high cost but low margin Hepatitis C medicines slowed during the half compared to earlier in calendar 2016 tempering the growth rate during the year and many PBS listed products were subject to price deflation. Reported sales grew 18.0% to \$1.4 billion compared to the same half last year. Excluding the effect of Hepatitis C drugs and PBS reforms, sales growth would have been 5.9% over the prior year period. The independent pharmacy business remained strong with pharmacy business services including Soul Pattinson, Pharmacist Advice and the Club Premium program meeting their business needs.

The New Zealand manufacturing segment recorded earnings before interest and tax of \$0.245 million. The lower than expected result is due to the demand for Over-the-Counter (OTC) pharmaceuticals changing during the period, in part due to changing PBS listing and scheduling, ultimately requiring less product into the market. The pipeline has been re-established with growth expected to resume later in the second half of the current financial year.

Dividends

The Company paid on 9 December 2016, a final dividend of 3.50 cents per share, fully franked, amounting to \$17.1 million.

On 20 April 2017, an interim dividend of 3.50 cents per share, fully franked to be paid on 2 June 2017 amounting to \$17.1 million, was declared.

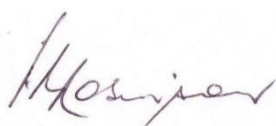
Auditor's Independence Declaration

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 19 and forms part of this report.

Rounding of amounts to nearest thousand dollars

The Company is a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and in accordance with that Class Order, amounts in the financial report and the directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of directors:



Peter R Robinson

Director

Sydney

20 April 2017

Consolidated Income Statement

In thousands of AUD

		Consolidated	
	Note	Half year ended 28 February 2017	Half year ended 29 February 2016
Revenue		2,015,447	1,788,469
Cost of sales		(1,770,579)	(1,550,577)
Gross profit		244,868	237,892
Other income and expense	3	2,260	3,683
Warehousing and distribution expenses		(68,939)	(65,403)
Marketing and sales expenses		(89,809)	(88,953)
Administration and general expenses		(39,757)	(42,603)
Results from operating activities		48,623	44,616
Financial income		198	365
Financial expenses		(6,637)	(8,686)
Net financing costs	4	(6,439)	(8,321)
Profit before tax and results from associates		42,184	36,295
Loss from investment in associates		-	(2,437)
Profit before tax		42,184	33,858
Income tax expense		(13,049)	(10,961)
Profit for the period		29,135	22,897

The profit for the half year is attributable to equity holders of the parent company.

Earnings per share for profit attributable to the ordinary equity holders of the company (cents):

Basic – profit per share	5	6.0	4.7
Diluted – profit per share	5	5.9	4.6

Notes to the Consolidated Income Statement are annexed.

Consolidated Statement of Comprehensive Income

In thousands of AUD

	Consolidated	
	Half year ended 28 February 2017	Half year ended 29 February 2016
Profit after Income Tax for the period	29,135	22,897
Items that will not be reclassified subsequently to the Consolidated Income Statement	-	-
Items that may be reclassified subsequently to the Consolidated Income Statement		
Exchange fluctuations on translation of foreign operations, net of tax	(754)	1,423
Effective portion of changes in fair value of cash flow hedges, net of tax	206	51
Other comprehensive income for the period, net of income tax	(548)	1,474
Total comprehensive income for the period attributable to equity holders of the parent company	28,587	24,371

Notes to the Consolidated Statement of Comprehensive Income are annexed.

Consolidated Statement of Financial Position

In thousands of AUD

		Consolidated	
		28 February 2017	31 August 2016
Assets			
Cash and cash equivalents		36,433	25,489
Trade and other receivables		630,607	689,695
Inventories		363,037	413,782
Total current assets		1,030,077	1,128,966
Trade and other receivables		9,768	10,882
Deferred tax assets		18,752	19,223
Property, plant and equipment		97,361	100,129
Intangible assets	6	191,923	189,975
Total non-current assets		317,804	320,209
Total assets		1,347,881	1,449,175
Liabilities			
Trade and other payables		653,333	799,237
Loans and borrowings	7	1,378	2,978
Employee benefits		18,657	22,402
Income tax payable		9,372	13,359
Provisions		7,826	7,656
Total current liabilities		690,566	845,632
Trade and other payables		8,276	8,436
Loans and borrowings	7	92,431	48,420
Employee benefits		3,658	5,339
Provisions		4,638	4,653
Total non-current liabilities		109,003	66,848
Total liabilities		799,569	912,480
Net assets		548,312	536,695
Equity			
Issued capital		566,461	566,461
Reserves		86,515	74,898
Accumulated losses		(104,664)	(104,664)
Total equity		548,312	536,695

Notes to the Consolidated Statement of Financial Position are annexed.

Consolidated Statement of Cash Flows

In thousands of AUD

	Consolidated	
	Half year ended	Half year ended
	28 February 2017	29 February 2016
Note		
Cash flows from operating activities		
Cash receipts from customers	2,272,488	2,020,307
Cash paid to suppliers and employees	(2,251,341)	(2,066,067)
Cash generated from operations	21,147	(45,760)
Interest received	198	365
Financing costs paid	(6,561)	(8,469)
Income tax paid	(16,605)	(944)
Net cash (used in) / from operating activities	(1,821)	(54,808)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	213	1,000
Acquisition of property, plant and equipment	(4,975)	(6,466)
Proceeds from divestment of associates	-	4,361
Payment for intangibles	(7,657)	(2,302)
Net cash used in investing activities	(12,419)	(3,407)
Cash flows from financing activities		
Proceeds from borrowings	699,000	677,000
Repayment of borrowings	(655,822)	(614,361)
Payment of finance lease liabilities	(731)	(735)
Dividends paid	(17,143)	(12,203)
Net cash from / (used in) financing activities	25,304	49,701
Net increase/(decrease) in cash and cash equivalents	11,064	(8,514)
Cash and cash equivalents at the beginning of the period	25,489	28,047
Effect of exchange rate fluctuations on cash held	(120)	239
Cash and cash equivalents at the end of the period	36,433	19,772

Notes to the Consolidated Statement of Cash Flows are annexed.

Australian Pharmaceutical Industries Limited and Controlled Entities
ABN 57 000 004 320
Condensed Consolidated Interim Financial Report
For the half year ended 28 February 2017

Consolidated Statement of changes in equity

<i>In thousands of AUD</i>	Share Capital	Accumulated Losses	Profits* Reserve	Translation Reserve	Hedging Reserve	Equity Reserve	Total Equity
<i>Balance at 1 September 2016</i>	566,461	(104,664)	68,092	1,615	(353)	5,544	536,695
Total comprehensive income for the period							
Profit after tax	-	-	29,135	-	-	-	29,135
Total other comprehensive income	-	-	-	(754)	206	-	(548)
Total comprehensive income for the period	-	-	29,135	(754)	206	-	28,587
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	(17,143)	-	-	-	(17,143)
Share based payment transactions	-	-	-	-	-	173	173
Total contributions by and (distributions) to owners	-	-	(17,143)	-	-	173	(16,970)
Balance at 28 February 2017	566,461	(104,664)	80,084	861	(147)	5,717	548,312

<i>In thousands of AUD</i>	Share Capital	Accumulated Losses	Profits* Reserve	Translation Reserve	Hedging Reserve	Equity Reserve	Total Equity
<i>Balance at 1 September 2015</i>	566,461	(104,664)	40,819	(375)	(593)	3,754	505,402
Total comprehensive income for the period							
Profit after tax	-	-	22,897	-	-	-	22,897
Total other comprehensive income/(expense)	-	-	-	1,423	51	-	1,474
Total comprehensive (expense)/income for the period	-	-	22,897	1,423	51	-	24,371
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	(12,203)	-	-	-	(12,203)
Share based payment transactions	-	-	-	-	-	1,539	1,539
Total distributions to owners	-	-	(12,203)	-	-	1,539	(10,664)
Balance at 29 February 2016	566,461	(104,664)	51,513	1,048	(542)	5,293	519,109

Notes to the Consolidated Statement of Changes in Equity are annexed.

***Profits reserve**

The profits reserve represents profits transferred to a reserve to preserve the characteristic as profit and not appropriate those profits against accumulated losses. Such profits should be available to enable payment of dividends should the Directors declare by resolution.

Notes to the Condensed Consolidated Interim Financial report

1. SIGNIFICANT ACCOUNTING POLICIES

Australian Pharmaceutical Industries Limited (the 'Company') is a company domiciled in Australia. The Condensed Consolidated Interim Financial Report of the Company for the half year ended 28 February 2017 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity') and interests in associates and jointly controlled entities.

(a) Statement of compliance

The Condensed Consolidated Interim Financial Report has been prepared in accordance with the measurement requirements of the Australian Accounting Standards Board ('AASB') 134 *Interim Financial Reporting* for the purpose of fulfilling the consolidated entity's obligation under the Australian Securities Exchange listing rules.

(b) Basis of preparation

The Condensed Consolidated Interim Financial Report is presented in Australian dollars. The Condensed Consolidated Interim Financial Report is prepared on the basis of historical cost except in respect of derivative financial instruments that are stated at fair value.

The accounting policies have been applied consistently and a full description of the accounting policies adopted by the consolidated entity may be found in the full financial report of the consolidated entity at 31 August 2016.

(c) Estimates

The application of AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are evaluated on an ongoing basis and are based on historical experience and various other factors that are considered to be reasonable in the present circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing the Condensed Consolidated Interim Financial Report the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty are the same as those applied in the consolidated financial report as at and for the year ended 31 August 2016.

(d) Comparatives

Where applicable, comparative periods have been adjusted to disclose them on the same basis as the current period figures.

Notes to the Condensed Consolidated Interim Financial report continued

2. OPERATING SEGMENTS

AASB 8 Operating Segments requires the application of the management approach under which segment information is presented on the same basis as that used for internal reporting provided to the Chief Operating Decision Maker (CODM) of the Group. The CODM has been identified as the Chief Executive Officer (CEO).

Australia

Distribution of pharmaceutical, medical, health, beauty and lifestyle products to pharmacies, the purchase and sale of various health, beauty and lifestyle products within the retail industry, and provider of retail services to pharmacies.

The consolidated entity predominantly operates within Australia.

New Zealand

Manufacturer and owner of rights of pharmaceutical medicines and consumer toiletries.

Monthly management reports provided to the CEO report Australian segment performance at a gross margin level only, with functional costs not allocated by business unit.

	Australia		New Zealand		Eliminations		Consolidated	
<i>In thousands of AUD</i>	Feb 17	Feb 16	Feb 17	Feb 16	Feb 17	Feb 16	Feb 17	Feb 16
Revenue								
External revenue	1,925,926	1,703,929	22,647	23,455	-	-	1,948,573	1,727,384
External services	66,874	61,085	-	-	-	-	66,874	61,085
Inter-segment revenue*	-	-	2,710	3,414	(2,710)	(3,414)	-	-
Total segment revenue	1,992,800	1,765,014	25,357	26,869	(2,710)	(3,414)	2,015,447	1,788,469
Reportable segment gross profit	233,887	225,656	10,981	12,236	-	-	244,868	237,892
Reportable segment profit	-	-	246	1,684	-	-	246	1,684

Reconciliation of reportable segment profit

In thousands of AUD

	Half Year ended 28 February 2017	Half Year ended 29 February 2016
Total profit for reportable segments	244,868	237,892
Unallocated amounts		
Other income and expense	2,260	3,683
Warehousing and distribution expenses	(68,939)	(65,403)
Marketing and sales expenses	(89,809)	(88,953)
Administration and general expenses	(39,757)	(42,603)
Results from operating activities	48,623	44,616
Net financing costs	(6,439)	(8,321)
Loss from investment in associates	-	(2,437)
Consolidated profit before tax	42,184	33,858

* All inter-segment sales are on an arm's length basis.

Notes to the Condensed Consolidated Interim Financial report continued

3. OTHER INCOME AND EXPENSE

<i>In thousands of AUD</i>	Consolidated	
	Half Year ended 28 February 2017	Half Year ended 29 February 2016
Gain on disposal of stores, property, plant and equipment	50	667
Interest fee income*	2,222	3,160
Net foreign exchange loss	(12)	(144)
Other income	2,260	3,683

*Interest fee income on overdue debts is included in Other income in Note 3 rather than in net finance costs.

4. FINANCE INCOME AND COSTS

<i>In thousands of AUD</i>	Consolidated	
	Half Year ended 28 February 2017	Half Year ended 29 February 2016
Interest income on bank deposits	198	365
Finance income	198	365
Interest expense	(3,072)	(4,975)
Borrowing costs	(890)	(946)
API rewards	(2,554)	(2,602)
Finance charges – leased assets	(121)	(163)
Finance costs	(6,637)	(8,686)
Net finance costs	(6,439)	(8,321)

5. EARNINGS PER SHARE

<i>In thousands of AUD</i>	Consolidated	
	Half Year ended 28 February 2017	Half Year ended 29 February 2016
Profit attributable to ordinary shares	29,135	22,897
<i>In thousands of shares</i>		
Basic weighted average number of ordinary shares for the period	489,606	488,723
Effect of potential ordinary shares on issue	5,494	4,938
Diluted weighted average number of shares for the period	495,100	493,661
<i>In cents</i>		
Basic earnings per share	6.0	4.7
Diluted earnings per share	5.9	4.6

Notes to the Condensed Consolidated Interim Financial report continued

6. INTANGIBLE ASSETS

Impairment tests for Cash Generating Units (CGU) containing Goodwill and Brand Names

The following cash generating units have significant carrying amounts of goodwill and brand names:

Goodwill

In thousands of AUD

	28 February 2017	31 August 2016
Australia	30,871	29,757
New Zealand	16,832	17,216
	47,703	46,973

Brand names

In thousands of AUD

	28 February 2017	31 August 2016
Australia		
- Soul Pattinson brand name	37,500	37,500
- Priceline brand name	58,860	58,860
	96,360	96,360

The recoverable amount of each asset and CGU is determined based on a “value in use” calculation which uses cash flow projections based on earnings (i.e. EBITDA) covering a five-year period. This calculation is completed annually, and at each reporting date, if there is any indication that an asset may be impaired.

Notes to the Condensed Consolidated Interim Financial report continued

6. INTANGIBLE ASSETS (CONTINUED)

Australia CGU

The Company reviewed the carrying value of the Australian CGU. There are no indicators of impairment for this CGU at 28 February 2017. The recoverable amount for the CGU continues to exceed the carrying value.

New Zealand CGU

The Company reviewed the carrying value of the New Zealand CGU. The New Zealand CGU's impairment testing results in no impairment at 28 February 2017. The estimated recoverable amount for the CGU continues to exceed the carrying value.

Assumption	Description
<i>Budgeted EBITDA growth rate (average of next 5 years)</i>	The budgeted EBITDA growth rate reflects management's view of the likely success of new sales opportunities and an associated improvement in EBITDA including the advantages of utilising available capacity in the existing manufacturing facilities and the ongoing impact of implemented cost reduction programs.
<i>Discount Rate</i>	The discount rate of 15.7% represents the pre-tax discount rate applied to the cash flow projections, based on a market-determined risk adjusted post-tax discount of 11.0%.
<i>Terminal Growth rate</i>	The terminal growth rate of 2.5% represents the growth rate applied to extrapolate cash flows beyond the five year forecast period. The growth rate is based on expectations of the CGU's long term performance.

Reasonable possible change

Material adverse movement in any of the key assumptions noted above may result in an impairment of goodwill.

Notes to the Condensed Consolidated Interim Financial report continued

7. LOAN AND BORROWINGS

	Consolidated	
	28 February 2017	31 August 2016
<i>In thousands of AUD</i>		
Current liabilities		
Insurance premium funding	-	1,457
Finance lease liabilities	1,378	1,521
	1,378	2,978
Non current liabilities		
Finance lease liabilities	1,805	2,428
Securitisation of trade receivables	85,000	40,237
Cash advance facilities – secured	5,626	5,755
	92,431	48,420

8. SHARE CAPITAL AND RESERVES

Share capital

	Ordinary shares	
	28 February 2017	31 August 2016
<i>In thousands of shares</i>		
Shares on issue at the beginning of the period – fully paid	489,097	488,116
Ordinary shares issued during October 2016 pursuant to the Company's Short Term Incentive Plan	703	981
Shares on issue at the end of the period – fully paid	489,800	489,097

Ordinary shares

All issued shares are fully paid. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings.

In the event of a winding up of the Company, ordinary shareholders rank after all other creditors and are fully entitled to any proceeds of liquidation.

Reserves

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Equity reserve

The equity reserve relates to share based payment transactions measured at fair value.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

Notes to the Condensed Consolidated Interim Financial report continued

9. FAIR VALUE MEASUREMENTS

The only assets or liabilities carried at fair value are cash flow hedges. The cash flow hedges are Level 2 financial instruments because, unlike Level 1 financial instruments, the measurement is derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices). There have been no transfers between levels 1, 2 and 3 for recurring fair value measurements during the half-year. The fair values of the cash flow hedges have been obtained from third party valuations derived from forward interest rates at balance date.

The fair value of the cash flow hedges at 28 February 2017 was a liability of \$209,495 (31 August 2016: liability of \$504,090).

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate the fair values of these financial assets and financial liabilities.

10. CONTINGENCIES

Contingent liabilities

<i>In thousands of AUD</i>	Consolidated	
	Half Year ended 28 February 2017	Year ended 31 August 2016
Financial guarantees to pharmacists	18,128	19,243

Financial guarantees of \$18,128,003 have been provided to financial institutions of individual debtors and debtor groups. The consolidated entity has strict controls over the approval of guarantees of pharmacy customers and takes security over the assets of the relevant pharmacy. Provisions are not required in respect of these guarantees, as it is not probable that exposure to the guarantees is greater than the value of the security held.

11. SUBSEQUENT EVENTS

On 20 April 2017, an interim fully franked dividend of 3.50 cents per share was declared to be paid on 2 June 2017.

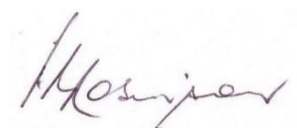
Directors' declaration

In the opinion of the Directors of Australian Pharmaceutical Industries Limited ("the Company"):

- (a) the condensed consolidated financial statements and notes set out on pages 6 to 17 are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 28 February 2017 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 20 day of April 2017.

Signed in accordance with a resolution of the directors:



Peter R Robinson
Director



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the Directors of Australian Pharmaceutical Industries Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 28 February 2017, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'M. Bisetto'.

Maurice Bisetto
Partner

Melbourne

20 April 2017



Independent auditor's review report to the members of Australian Pharmaceutical Industries Limited

Report on the financial report

We have reviewed the accompanying condensed consolidated interim financial report of Australian Pharmaceutical Industries Limited, which comprises the consolidated statement of financial position as at 28 February 2017, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 28 February 2017 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australian Pharmaceutical Industries Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independent auditor's review report to the members of Australian Pharmaceutical Industries Limited (continued)

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Australian Pharmaceutical Industries Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 28 February 2017 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'M. Bisetto'.

Maurice Bisetto

Partner

Melbourne

20 April 2017

ATTACHMENT 1

A. UNDERLYING EARNINGS RECONCILIATION (UNAUDITED)

<i>In thousands of AUD</i>	Half year ended 28 Feb 17	Half year ended 29 Feb 16
Result from Operating Activities	48,623	44,616
Underlying EBIT	<u>48,623</u>	<u>44,616</u>
Reported net profit after tax	29,135	22,897
After tax effect of underlying adjustments	-	-
Impairment and share of loss from associate	-	2,437
Underlying net profit after tax	<u>29,135</u>	<u>25,334</u>

B. UNDERLYING PROFIT BEFORE INTEREST, TAX, DEPRECIATION, AND ASSOCIATES RECONCILIATION (UNAUDITED)

<i>In thousands of AUD</i>	Half year ended 28 Feb 17	Half year ended 29 Feb 16
Result from Operating Activities	48,623	44,616
Underlying EBIT	<u>48,623</u>	<u>44,616</u>
Depreciation and amortisation	13,689	13,015
Underlying profit before interest, tax, depreciation, amortisation, and associates	<u>62,312</u>	<u>57,631</u>