

Apium Animal Health Limited

ASX: AHX

Appendix 4D and Financial Report for the half-year ended 31 December 2017

COMPANY DETAILS

Name of entity:	Apium Animal Health Limited
ACN:	604 961 024
Reporting period:	For the year ended 31 December 2017
Previous period:	For the year ended 31 December 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Statutory Results Summary

CHANGES FROM PERIOD ENDED 31 December						
				2017	2016	
				%	\$m	\$m
Revenue from ordinary activities	up	10	to	50.8	from	46.1
Net profit attributable to members	down	42	to	1.8	from	3.1
Profit from ordinary activities after tax attributable to members	down	42	to	1.8	from	3.1

Overview of operating results

Apiam recorded revenue growth of 10.1% in H1 FY2018 compared to prior comparative period (PCP). Revenue growth ex-acquisition for H1 FY2018 vs pcp was 5.6%. The revenue growth was driven by strong performances across the pig, dairy and mixed animal businesses.

Underlying EBITDA grew 11.7% in H1 FY2018 vs pcp as Apiam begins to leverage its cost base.

High cash conversion was recorded for H1 FY18 following improved working capital management.

Apiam successfully executed on its business development initiatives through strategic partnerships and new products and services. Apiam's acquisition strategy continues with the acquisition of Terang & Mortlake Veterinary Clinic during the period and two further strategic acquisition announcements in February 2018. Apiam has also announced a joint venture alliance with PETstock in February 2018 under which Apiam and PETstock will open a number of new veterinary clinics to be co-located at various PETstock retail outlets, in regional and rural Australia.

For a further explanation of the results above please refer to the accompanying Directors' Report.

Dividends

	Amount per security Cents	Franked amount per security cents
2017 Final Dividend	0.8 cents	0.8 cents
2018 Interim Dividend (declared after balance date but not yet paid)	0.8 cents	0.8 cents
Record date for determining entitlements to the dividend:	14 March 2018	
Date dividend payable:	27 April 2018	

Dividend reinvestment plans

The Company has initiated a Dividend Reinvest Plan (DRP) on the 25 August 2017 which provides shareholders with the opportunity to utilise all or part of their dividends to purchase shares in the Company. Shareholders electing to participate in the FY18 interim DRP must nominate by 21 March 2018.

Shareholders who elect to participate in the DRP for the 2018 interim dividend will be issued shares at a DRP issue price which will be the average of the daily market price of Apiam's shares over the period of five trading days between 22 March 2018 and 28 March 2018 ('Pricing Period'). The timetable in respect of the 2018 interim dividend and DRP is as follows:

Event / Action	Date*
Record Date	14 March 2018
Election Date: Last date for shareholders to make an election to participate in the DRP	5.00 pm (Melbourne time) on 21 March 2018
Pricing Period Commencement Date	22 March 2018
Last Day of Pricing Period	28 March 2018
Announcement of DRP issue price	29 March 2018
Dividend Payment Date / Issue of DRP shares	27 April 2018

Details of the DRP can be downloaded from www.apiam.com.au. In order to participate in the DRP for the 2018 Interim dividend, shareholders should ensure that their DRP Election Form is received, or an online election is made, by no later than 5.00 pm (Melbourne time) on 21 March 2018. An online election can be made by visiting www.boardroom.com.au.

Net Tangible Asset per Security

	2018	2017
Total number of shares on issue		
Net Tangible assets per share	-\$0.03	-\$0.03

Return to shareholders

Dividends of \$809,424 were paid during the period; no share buy backs were conducted during the year.

Basis of Preparation

This report is based on the consolidated financial statements which have been audited by Grant Thornton Audit Pty Ltd. The audit report is included within the Company's Interim Report which accompanies this Appendix 4D.

Entities over which control has been gained or lost during the period:

Refer to Notes 4 of the attached Interim Financial Statements for details of entities over which control has been gained. There were no entities over which control was lost.

Associates and Joint Venture Entities

The company has a 50% ownership interest in South West Equine. Apiam's share of net profit after tax was \$15,909 for the six-month period.

Dividend Reinvestment Plan:

The company announced the establishment of a dividend reinvestment plan on 25 August 2017.

Other information required by Listing Rule 4.3A

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in the 31 December 2017 Interim Report (which includes the Directors' Report) which accompanies this Appendix 4D.

Accounting Standards

This Report has been compiled using Australian Accounting Standards and International Financial Reporting Standards

Directors' Report

The Directors present their report together with the consolidated financial statements of Apiam Animal Health Limited (Apiam) for the half-year ended 31 December 2017.

Director details

The following persons were directors of Apiam Animal Health during the whole of the half-year and up to the date of this report:

- Professor Andrew Vizard
- Dr Christopher Irwin Richards
- Mr Charles Sitch
- Mr Richard John Dennis
- Mr Michael van Blommestein

Principal Activities

Apiam Animal Health Limited and Subsidiaries' ('the Group') principal activities include the provision veterinary products and services to production and companion animals. Apiam's strategy is to service production animals throughout their life cycle

Review of operations

Revenue for the 6 months to 31 December 2017 (H1 FY2018) was \$50.8m, improving 10.1% on H1 FY2017, the prior comparable period (pcp). Revenue growth in H1 FY2018 (excluding the impact of acquisitions) was 5.6% compared to the pcp.

Apiam's revenue growth was driven by strong performances across Apiam's pig, dairy and mixed animal businesses. Similarly to H2 FY2017, Apiam's pig revenues continued to benefit from new service and training initiatives as well as new customers and products. Apiam's dairy & mixed animal businesses performed well, supported by strong industry fundamentals and the business development initiatives that have been introduced by the Company over the past year.

Apiam's beef feedlot revenues were affected by a reduction in animal numbers in Q2 FY2018, resulting in H1 FY2018 revenues similar to H1 FY2017 levels. Industry conditions varied by region, dependent upon feeder, beef and grain prices with animal numbers in the Queensland and Northern NSW regions most affected.

Apiam reported gross profit of \$24.5m for H1 FY2018, representing a group gross profit margin of 48.2% in the period (H1 FY2017: 49.0%). The slight drop in gross margin occurred as a result of the higher contribution of the lower margin pig business to Apiam's overall revenues.

Underlying EBITDA growth (excluding one-off costs and income³) increased 11.7% to \$4.5m in H1 FY2018 (H1 FY2017: \$4.0m), as Apiam's investment in its operating cost base normalised over the period. While total operating expenses increased 7.7% in H1 FY2018 versus pcp, they declined by 1.8% when compared to H2 FY2017.

Net profit before tax in H1 FY2018 was \$2.6m, an increase of 7.6% compared to H1 FY2017. Apiam's reported net profit after tax (NPAT) for H1 FY2018 was \$1.8m with a favourable tax adjustment in H1

³ Excluding one-off integration, ERP & acquisition expenses as well as \$1.3m of non-operating income associated with the reversal of a contingent liability on the balance sheet in FY2017 (contingent acquisition consideration no longer payable)

FY2017 affecting the reported NPAT growth rate between the periods (H1 FY2017 NPAT was \$1.9m, excluding \$1.3m of non-operating income associated with the reversal of a contingent liability on the balance sheet).

The following tables are presented to assist in the interpretation of the underlying performance of the Company during the H1 FY2018 period. This information is additional and provided using non-IFRS information and terminology.

Apiam H1 FY2018 Underlying Financial Results

	H1 FY18A	H1 FY17A	Variance	%
Total Revenue	50.8	46.1	4.7	10.1%
Gross Profit	24.5	22.6	1.9	8.4%
Operating Expenses	(20.0)	(18.6)	(1.4)	7.7%
Underlying EBITDA¹	4.5	4.0	0.5	11.7%
Integration / ERP / Acquisition expenses	(0.4)	(0.6)	0.2	(32.0)%
EBITDA	4.1	3.5	0.6	18.6%
Depreciation & Amortization	(1.1)	(0.7)	(0.4)	67.8%
Interest	(0.4)	(0.3)	(0.1)	4.9%
Share of equity accounted income	0.0	0.0	0.0	na
Net Profit before tax	2.6	2.4	0.2	7.6%
Tax	(0.8)	(0.6)	(0.2)	43.2%
Net Profit after tax (operating)	1.8	1.9	(0.1)	(3.6)%
Non-operating income ²	0.0	1.3	(1.3)	(0.0)
Net Profit after tax (reported)	1.8	3.1	(1.3)	(42.4)%
Gross Margin (%)	48.2%	49.0%		
Underlying EBITDA margin (%)	8.8%	8.7%		

Notes:

1 Underlying EBITDA excludes one-off integration, ERP & acquisition expenses

2 Non- operating income of \$1.3m in H1 FY2017 is associated with the reversal of a Contingent Liability on the balance sheet (contingent acquisition consideration no longer payable)

Acquisitions

Growth via acquisition remains an important part of Apiam's business strategy, and the Company continued to progress its acquisition program over the reporting period.

Apiam acquired the Terang and Mortlake Veterinary Clinic (TMVC) on 2 November 2017 for a total consideration of \$1.6m. TMVC operates as two rural vet practices in Western Victorian and has a strong dairy practice offering, but is also active across beef, equine and companion animals. This acquisition strengthens Apiam's presence in a very important beef and dairy location.

Apiam agreed to acquire the South East Queensland based, Gympie & District Veterinary Services (GDVS) for \$4.9 million on 22 February 2018. GDVS is a diversified practice servicing agricultural & companion animals and is comprised of two clinics, one at Gympie and the other at Tin Can Bay, both fast growth and underserved regional and rural areas of Queensland. Following the acquisition, GDVS will operate on a regional basis with Apiam's two existing QLD clinics as part of an expanding footprint in the region. There are significant synergy opportunities that Apiam can achieve by operating with a greater presence in this key production and mixed animal region and by delivering additional organic growth through cross-selling of Apiam's existing veterinary and genetic services expertise across a larger customer base. It will also enable Apiam to develop smaller satellite clinics that leverage off existing clinics in order to capture revenues in underserved peripheral regions.

Apiam will acquire 100% of the shares in the company operating GDVS and completion of the acquisition is conditional on final due diligence. Settlement is expected to take place on, or around, June 30 2018 and the cash component of the acquisition will be funded using Apiam's Acquisition Facility.

The Company also announced on 21 February 2018 that it has entered into an agreement to acquire Passionate Vetcare a regional veterinary clinic based in the North West of Bendigo, Victoria for total consideration of \$0.75 million. Passionate Vetcare is predominantly a companion animal veterinary practice, with some exposure to pigs and mixed animals. This acquisition supports Apiam's Bendigo expansion strategy and provides highly experience veterinary and nursing staff to support the General Practice, Emergency & Referral Centre with 24 hour nursing care to be opened in March 2018.

In-line with Apiam's prior acquisitions, these acquisitions are funded with 70% cash consideration and 30% scrip consideration.

Business development

Apiam has made significant progress in executing its planned business development initiatives as detailed at the time of the FY2017 results. It's rural and regional expansion strategy has seen the Company successfully identify and execute important regional acquisitions during the period.

On 21 February 2018, Apiam announced that it had executed a Joint Venture alliance agreement with PETstock, a leading specialist petcare provider. Under the agreement, Apiam and PETstock will open a number of new veterinary clinics to be co-located at various PETstock retail outlets, in regional and rural Australia. The co-located clinics will be jointly owned, with Apiam as an 80% shareholder in the regional clinics and PETstock as a 20% shareholder. The first co-located clinic to be opened will be the Bendigo General Practice, Emergency & Referral Centre at PETstock's superstore in Bendigo (Epsom). This clinic is scheduled to open in March 2018, and is on schedule.

The PETstock Joint Venture alliance will significantly increase Apiam's exposure to the regional companion and mixed animal market, an area Apiam have identified as a key business development opportunity given it is underserved and has a high growth profile.

Expenses

Over the course of FY2017, Apiam made significant investments in systems and infrastructure in order to deliver synergies and efficiencies as the Company's scale and operations continue to grow.

In H1 FY2018 operating expense growth has normalised as Apiam's operating infrastructure is now at the required level to support the groups future growth strategy. Total operating expenses grew 7.7% to \$20.0m in H1 FY2018 however declined by 1.8% when compared to the immediately preceding half (H2 FY2017: \$20.4m).

The acquisitions of QVG, AllStock and TMVC accounted for a significant portion of the operating expense growth over the period. On an ex-acquisition basis operating expenses grew 3.0% in H1 FY2018 versus the pcip.

Balance sheet

Over H1 FY2018 Apiam have been successful in improving all aspects of working capital management, across trade receivables, inventory and payables. For example, Apiam's routine stock-build in December

resulted in the inventory balance increasing to \$12.5m as at 31 December 2017, however this was at a significantly lower level than the twelve months prior where inventory was \$14.2m as at 31 December 2016.

Apiam continued to invest in property, plant and equipment throughout H1 FY2018 through the replacement of older fleet vehicles, upgrade of IT infrastructure in clinics and other capital investment associated with growth initiatives. As a result PP&E increased to \$8.5m as at 31 December 2017 (30 June 2017: \$6.4m).

Apiam's borrowings decreased marginally by \$0.2m to \$25.5m as at 31 December 2017 and strong operating cash flow funded the bulk of the Company's capital investment and the TMVC cash consideration. Apiam also negotiated a \$15m increase to its acquisition facility (to a total of \$25m) and new covenants related to its borrowing facility provided by banking partner, NAB. The amended facility and covenants better align with Apiam's growth strategy and provide the Company greater flexibility.

Cash flow

Apiam's operating cash flow improved strongly in H1 FY2018, particularly due to Apiam's focused efforts to improve working capital management. Cash conversion to underlying EBITDA for H1 FY2018 was 146% compared to 60% in the pc. Management expect cash conversion to align closely with underlying EBITDA moving forward.

\$M	H1 FY2018	H1 FY2017
Net cash used in operating activities	4.5	0.7
Acquisition of subsidiary, net of cash	(1.1)	(6.3)
Purchases of property, plant and equipment	(2.2)	(0.6)
Restructure of group entities, net of cash	-	-
Purchases of intangible assets	(0.4)	(0.3)
Net cash used in investing activities	(3.7)	(7.2)
Dividends paid to shareholders	(0.4)	-
Net changes in financing	(0.2)	5.9
Net cash inflow from financing activities	(0.6)	-
Net change in cash and cash equivalents	0.2	(0.6)

Notes: This information is additional and provided using non-IFRS information and terminology.

Dividend

The Apiam Board of Directors have declared an interim dividend of 0.8 cents per share, 100% fully franked. The interim dividend will be paid on 27 April 2018. This represents a 46.4% payout ratio of NPAT. Apiam's Dividend Reinvestment Plan will be maintained to allow shareholders to reinvest their dividends in Apiam's future growth.

Likely development and expected results of operations

Apiam is confident of the outlook for the Company for the full 2018 financial year, and expects to deliver further revenue and earnings growth in the second half, particularly taking into account normal revenue phasing for the Company. The operating costs associated with building the foundations of the enlarged business are now normalising and the Company's operating infrastructure is at a level required to deliver the next phase of growth.

New revenue streams from business development and strategic acquisitions are expected to continue.

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under s307C of the Corporations Act 2001 is included on page 11 of this financial report and forms part of this Directors' Report.

Rounding of amounts

Apium Animal Health is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable), or in certain cases, to the nearest dollar under the option permitted in the class order.

Signed in accordance with a resolution of the Directors:

A handwritten signature in black ink, appearing to read "Chris Richards".

Dr Chris Richards
Managing Director
Dated the 26th day of February 2018

A handwritten signature in black ink, appearing to read "Andrew Vizard".

Professor Andrew Vizard
Chairman

Collins Square, Tower 1
727 Collins Street
Docklands Victoria 3008

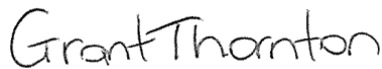
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Auditor's Independence Declaration To the Directors of Apiam Animal Health Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Apiam Animal Health Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



A C Pitts
Partner - Audit & Assurance

Melbourne, 26 February 2018

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2017

	Notes	31 December 2017 \$'000	31 December 2016 \$'000
Continuing operations			
Revenue		50,777	46,116
Other income		8	1,250
Expenses			
Changes in inventory		1,108	3,929
Cost of materials		(27,408)	(27,463)
Costs of consumables and services		(462)	(329)
Employee benefit expenses		(14,135)	(13,204)
Listing and acquisition expenses		(142)	(221)
Property expenses		(1,436)	(943)
Freight, vehicle and transport expenses		(676)	(633)
Depreciation and amortisation of non-financial assets		(1,138)	(677)
Other operating expenses		(3,525)	(3,790)
Operating profit		2,971	4,035
Share of profit from equity accounted investments		16	-
Finance costs – net		(359)	(342)
Profit/(loss) before income tax		2,628	3,693
Income tax (expense) /benefit		(837)	(585)
Profit/(loss) from continuing operations		1,791	3,108
Profit/(loss) attributable to:			
Owners of Apiam Animal Health Limited		1,764	3,055
Non-controlling interests		27	53
		1,791	3,108
Total comprehensive income/(loss) attributable to:			
Owners of Apiam Animal Health Limited		1,764	3,055
Non-controlling interests		27	53
		1,791	3,108
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:		Cents	Cents
Basic earnings per share		\$0.02	\$0.03
Diluted earnings per share		\$0.02	\$0.03

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	31 December 2017 \$'000	30 June 2017 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		1,118	968
Trade and other receivables		14,017	14,075
Inventories		12,544	11,477
Other current assets		1,045	746
Total current assets		28,724	27,266
Non-current assets			
Property, plant and equipment	7	8,466	6,400
Intangible assets	6	59,347	58,037
Investments		66	50
Deferred tax assets		2,931	3,438
Total non-current assets		70,810	67,925
Total assets		99,534	95,191
LIABILITIES			
Current liabilities			
Trade and other payables		11,573	9,015
Borrowings	10	6,202	4,102
Current tax liabilities		712	776
Provisions		3,858	3,748
Total current liabilities		22,345	17,641
Non-current liabilities			
Borrowings	10	19,308	21,608
Provisions		812	672
Deferred tax liabilities		881	913
Total non-current liabilities		21,001	23,193
Total liabilities		43,346	40,834
Net assets		56,188	54,357
EQUITY			
Share capital	9	83,913	83,066
Corporate re-organisation reserve		(26,692)	(26,692)
Non-controlling interest acquisition reserve		(6,615)	(6,615)
Retained earnings		4,913	3,956
Capital and reserves attributable to the owners of Apiam Animal Health Limited		55,519	53,715
Non-controlling interests		669	642
Total equity		56,188	54,357

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2017

	Share capital	Convertible notes	Corporate re-organisation reserve	Non-controlling interest acquisition reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	79,070	-	(26,666)	(6,615)	(137)	45,652	619	46,271
Restructure and transfer of Chris Richards entities into Apium	-	-	(25)	-	-	(25)	-	(25)
Issue of new share capital	3,471	-	-	-	-	3,471	-	3,471
Transactions with owners	3,471	-	(25)	-	-	3,446	-	3,446
Profit for the period	-	-	-	-	3,055	3,055	53	3,108
Total comprehensive income for the period	-	-	-	-	3,055	3,055	53	3,108
Balance at 31 December 2016	82,541	-	(26,691)	(6,615)	2,918	52,153	672	52,825

	Share capital	Convertible notes	Corporate re-organisation reserve	Non-controlling interest acquisition reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2017	83,066	-	(26,692)	(6,615)	3,956	53,715	642	54,357
Issue of shares to vendors of business acquired	480	-	-	-	-	480	-	480
Issue of new share capital	367	-	-	-	-	367	-	367
Dividends paid	-	-	-	-	(807)	(807)	-	(807)
Transactions with owners	847	-	-	-	(807)	40	-	40
Profit for the period	-	-	-	-	1,764	1,764	27	1,791
Total comprehensive income for the period	-	-	-	-	1,764	1,764	27	1,791
Balance at 31 December 2017	83,913	-	(26,692)	(6,615)	4,913	55,519	669	56,188

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2017

	Notes	31 December 2017 \$'000	31 December 2016 \$'000
Cash flows from operating activities			
Receipts from customers		50,592	49,798
Payments to suppliers and employees		(44,311)	(47,703)
		6,281	2,095
Transaction costs relating to acquisition of subsidiary	4	(63)	(221)
Interest received		-	32
Interest paid		(359)	(374)
Income taxes paid		(1,365)	(843)
Net cash inflow from operating activities		4,494	689
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired	4	(1,073)	(6,337)
Payments for property, plant and equipment		(2,217)	(582)
Proceeds from disposals of property, plant & equipment		3	-
Payments for software development costs		(405)	(295)
Net cash outflow from investing activities		(3,692)	(7,214)
Cash flows from financing activities			
Proceeds from borrowings		2,725	12,478
Repayment of borrowings		(2,658)	(6,358)
Finance lease payments		(278)	(211)
Dividends paid to company shareholders		(441)	-
Net cash inflow from financing activities		(652)	5,909
Net (decrease)/increase in cash and cash equivalents		150	(616)
Cash and cash equivalents at the beginning of the half-year		968	2,117
Cash and cash equivalents at end of the half year		1,118	1,501

The accompanying notes form part of these financial statements.

Notes to the Condensed Interim Consolidated Financial Statements

1. Nature of operations

Apiam Animal Health Limited and Subsidiaries' (the Group) principal activities include the provision of veterinary products and services to production and companion animals. Apiam's strategy is to service production animals throughout their life cycle, including the provision of:

- systems to assist in herd health programs;
- production advice;
- consulting services and products to assist in the prevention of animal diseases;
- technologies to manage compliance with legislative requirements on pharmaceutical use;
- advice and services in respect of animal welfare compliance;
- retail animal health product sales;
- on-farm delivery of products via its own logistics capability;
- third party auditing services of industry quality assurance programs;
- technology development for animal health management;
- ancillary services such as sales and/or delivery of genetics and associated products; and
- on-farm and on-line training programs for clients.

There have been no significant changes in the nature of these activities during the half year.

2. General information and basis of preparation

The condensed interim consolidated financial statements ('the interim financial statements') of the Group are for the six (6) months ended 31 December 2017 and are presented in Australian Dollars (\$AUD), which is the functional currency of the Parent Company. These general purpose interim financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the financial statements of Apiam Animal Health Ltd for the period ended 30 June 2017 and the detailed accounting policies at Note 3 below and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the *Corporations Act 2001*.

The interim financial statements have been approved and authorised for issue by the Board of Directors on 26 February 2018.

3. Significant accounting policies and estimates

The interim financial statements have been prepared in accordance with the same accounting policies, except as noted, and estimates adopted in the Group's last annual financial statements for the year ended 30 June 2017.

The accounting policies and estimates have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements.

The Group has considered the implications of new or amended accounting standards applicable in the current year but determined that application to the financial statements is either not relevant or not material.

4. Business combination

On 1 November 2017 the Group acquired the business assets of Terang and Mortlake Veterinary Clinic (TMCV).

The following detailed table highlights the fair value of the identifiable assets acquired and liabilities assumed as at the date of acquisition for each of the business combinations undertaken in the period. The acquisition of these clinics enables the Company to grow its existing presence in Victoria's Western district, and expand its dairy and beef offering (services, products, genetics) in this region. The fair value of the 584,013 fully paid shares issued as part of the consideration paid was based on the 15 day volume weighted price prior to the announcement which equated to \$0.8219 per share issued for the purchase.

Details of the business combination are as follows:

Fair value of consideration transferred	\$'000
Amounts settled in cash	1,073
Amount settled by issue of shares at fair value	480
Payable to vendors	72
Total fair value of consideration transferred	1,625
Recognized amounts of identifiable net assets	
Property plant and equipment	173
Deferred tax assets	47
Total non-current assets	220
Inventories	134
Trade and other receivables	322
Total current assets	456
Provisions	92
Total non-current liabilities	92
Provisions	64
Trade and other payables	178
Total current liabilities	242
Identifiable net assets	342
Goodwill and other intangible assets on acquisition	1,283
Consideration transferred and settled in cash	(1,073)
Net cash outflow on acquisition	(1,073)

4.1. Consideration transferred

Acquisition-related costs amounting to \$63k are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss and other comprehensive income, as part of listing and acquisition expenses.

4.2. Identifiable net assets

The fair values of the identifiable net assets for the Terang and Mortlake Veterinary Clinic acquisition have been determined provisionally at 31 December 2017. The Group is currently obtaining the information necessary to finalise its valuation.

4.3. Intangibles

The intangibles that arose on the combination can be attributed to the value of the businesses to the Group in addition to the net tangible assets acquired and synergies expected to be derived from the combination.

4.4. Restatement of prior period intangibles provisionally accounted

Apium acquired Quirindi Feedlot Service's (QFS) in the financial year ended 30 June 2017. The acquisition was provisionally accounted for in that period. Subsequent to the acquisition, it was noted that there were customer relationships within QFS and that a portion of goodwill recognised upon acquisition must be reclassified and recognised as an intangible asset which is amortised over the useful life of the asset. This resulted in a restatement of each of the affected financial statement line items for prior periods as follows:

	30 June 2017		
	Previous amount \$'000	Adjustment \$'000	Restated amount \$'000
Statement of financial position (extract)			
Goodwill	57,169	(2,256)	54,913
Customer relationships	-	3,223	3,223
Accumulated amortisation of customer relationships	-	(179)	(179)
Deferred tax liabilities	-	913	913
Total equity	54,482	(125)	54,357

	31 December 2016		
	Previous amount \$'000	Adjustment \$'000	Restated amount \$'000
Statement of profit or loss and other comprehensive income (extract)			
Depreciation and amortisation of non-financial assets	(606)	(71)	(677)
Profit before income tax	3,764	(71)	3,693
Income tax expense	(606)	21	(585)
Total comprehensive income	3,158	(50)	3,108

5. Segment reporting

Identification of reportable operating segments

Management identifies its operating segments based on the species to which the Group provide veterinary services and supply animal health products. The Group's three (3) main operating segments are:

- Dairy and Mixed;
- Feedlots;
- Pigs;

Each of these operating segments is managed separately as each species group requires specific veterinary expertise and resources, as well as marketing approaches. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

The operating segments are aggregated for reporting purposes on the basis that each business segment has sales consisting predominantly of S4 products, over the counter products and service revenue and that these products and services exhibit similar economic characteristics across each business. Corporate overheads that cannot be allocated to a specific segment are disclosed separately.

The revenues and profit generated by the Group's operating segments are summarized as follows:

	Six (6) months to 31 December 2017 \$'000
Revenue from external customers	50,777
Segment operating costs	(47,210)
Segment operating profit	3,567

The Group's segment operating profit reconciles to the Group's profit after tax as presented in its financial statements as follows:

	Six (6) months to 31 December 2017 \$'000
Total reporting segment operating profit	3,567
Other income	8
Corporate overheads	(462)
Acquisition costs	(63)
Integration costs	(79)
Finance costs	(359)
Share of profit from equity accounted investments	16
Net profit before tax	2,628
Income tax	(837)
Net profit after tax	1,791

6. Intangible assets

The following table shows the movements in intangible assets:

	Goodwill \$'000	Customer Relation- ships (b) \$'000	Capitalised develop- ment costs \$'000	Assets under develop- ment \$'000	Total \$'000
At 30 June 2017					
Cost	54,913	3,223	80	-	58,216
Accumulated amortization and impairment	-	(179)	-	-	(179)
Net book value	54,913	3,044	80	-	58,037
Half-year ended 31 December 2017					
Opening net book value	54,913	3,044	80	-	58,037
Additions	-	-	-	134	134
Acquisition of subsidiary (a)	1,283	-	-	-	1,283
Amortisation	-	(107)	-	-	(107)
Closing net book value	56,196	2,937	80	134	59,347
At 31 December 2017					
Cost	56,196	3,223	80	134	59,633
Accumulated amortization and impairment	-	(286)	-	-	(286)
Net book value	56,196	2,937	80	134	59,347

- (a) The intangible assets of the Company increased primarily due to the acquisition of Terang and Mortlake Veterinary Clinic; refer note 4.
- (b) During the financial year ended 30 June 2017, Apium acquired Quirindi Feedlot Services. The acquired subsidiary has long term customer relationships for which the future value of these relationships has been assessed and is included in the above table.

7. Property, plant and equipment

The following tables show the movements in property, plant and equipment:

	Leasehold improvements	Plant and equipment	Motor vehicles	Assets under construction	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 30 June 2017					
At cost	156	4,920	3,508	331	8,915
Accumulated depreciation	(21)	(1,560)	(934)	-	(2,515)
Net book value	135	3,360	2,574	331	6,400
Half year ended 31 December 2017					
Opening net book value	135	3,360	2,574	331	6,400
Acquisition of subsidiary assets	-	157	16	-	173
Additions	59	2,024	634	293	3,010
Disposals			(87)		(87)
Depreciation charge	(6)	(656)	(321)	(47)	(1,030)
Closing net book value	188	4,885	2,816	577	8,466
At 31 December 2017					
Cost	215	7,101	4,071	624	12,011
Accumulated depreciation	(27)	(2,216)	(1,255)	(47)	(3,545)
Net book amount	188	4,885	2,816	577	8,466

8. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Parent Company (Apium Animal Health Limited) as the numerator, ie no adjustments to profits were necessary during the six (6) months period to 31 December 2017 and 31 December 2016.

The weighted average number of shares for the purposes of the calculation of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Six (6) months to 31 December 2017	Six (6) months to 31 December 2016
Weighted average number of shares used in basic earnings per share	101,534,402	99,934,969
Weighted average number of shares used in diluted earnings per share	101,534,402	99,934,969
Shares deemed to be issued for no consideration in respect of share-based Payments	-	-

9. Share capital

Each share has the same right to receive dividends and the repayment of capital and represents one vote at the shareholders' meeting of Apium Animal Health Ltd. Shares issued and authorised are summarised as follows:

	Six (6) months to 31 December 2017 No.	Year ended 30 June 2017 No.	Six (6) months to 31 December 2017 \$'000	Year ended 30 June 2017 \$'000
Shares issued and fully paid				
• beginning of the period	101,177,947	98,475,574	83,066	79,070
• shares issued as consideration for business acquisitions	584,013	2,702,373	480	3,996
• issued under dividend reinvestment plan	453,984	-	367	-
Shares issues and fully paid	102,215,944	101,177,947	83,913	83,066
Total shares authorised at the end of the period	102,215,944	101,177,947	83,913	83,066

10. Borrowings

As at 31 December 2017, the contractual maturities of the Group's non-derivative financial liabilities were:

	31 December 2017 \$'000	30 June 2017 \$'000
Current		
Bank loans	5,518	3,630
less capitalised costs	(14)	(14)
Lease liability	725	523
less deferred interest charges	(27)	(37)
Total current borrowings	6,202	4,102
Non-current		
Bank loans	18,054	20,700
less capitalised costs	(27)	(34)
Lease liability	1,383	994
less deferred interest charges	(102)	(52)
Total non-current borrowings	19,308	21,608

Non-derivatives Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows
At 31 December 2017	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	11,573	-	-	-	11,573
Borrowing (excluding finance leases)	4,284	1,220	10,000	8,027	23,531
Finance lease liabilities	404	294	683	598	1,979
Total non-derivatives	16,261	1,514	10,683	8,625	37,083

Non-derivatives Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows
At 30 June 2017	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	9,015	-	-	-	9,015
Borrowing (excluding finance leases)	3,616	-	-	20,667	24,283
Finance lease liabilities	248	238	476	466	1,428
Total non-derivatives	12,879	238	476	21,133	34,726

Loan covenants

The key financial covenants applicable to bank facilities are:

- Maximum gearing ratio of 35% measured on a half yearly basis (ratio of gross debt less revolving working capital facilities to gross debt less revolving working capital facilities plus equity);
- Maximum operating leverage ratio of 4.0 times, reducing to 3.5x at June 2019 (ratio of gross debt to EBITDA excluding one off acquisition and integration expense costs); and
- Minimum interest cover ratio of 5.0 times measured on a half yearly basis (ratio of EBITA to gross interest expense).
- The Group complied with all bank covenants during the period.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

Total facilities	31 December 2017	30 June 2017
	\$'000	\$'000
Bank - term loan facilities	45,700	30,700
Bank - master asset finance agreement for equipment finance	3,500	2,000
Bank - overdraft facility	1,000	1,000
Bank - credit card facility	300	300
	50,500	34,000
Used at reporting date		
Bank - term loan facilities	23,531	24,282
Bank - master asset finance agreement for equipment finance	1,979	1,428
Bank - overdraft facility	-	-
Bank - credit card facility	-	-
	25,510	25,710
Unused at reporting date		
Bank - term loan facilities	22,169	6,418
Bank - master asset finance agreement for equipment finance	1,521	572
Bank - overdraft facility	1,000	1,000
Bank - credit card facility	300	300
	24,990	8,290

11. Contingent assets and liabilities

In the Directors' view, there are no contingent assets or liabilities that will have a material effect on the Group.

12. Dividends

Dividends of \$809,424 were declared to equity holders during the six months ended 31 December 2017. Of this amount \$441,427 was paid in cash while \$367,997 was issued in shares under Apium's dividend reinvestment plan.

13. Events after the reporting date

The Apiam Board of Directors declared an interim dividend on the 26 February 2018. The interim dividend of \$817,727.55 is 0.8 cps, fully franked and will be paid on 27 April 2018.

On the 21 February 2018 Apiam Animal Health executed a Joint Venture agreement with PETstock Pty Ltd (PETstock) to open a number of new veterinary clinics to be co-located at various PETstock retail outlets, primarily in regional and rural Australia. This follows the Memorandum of Understanding the parties originally executed in November 2017. Under the terms of this Joint Venture agreement, Apiam will have an 80% interest in co-located clinics that are located in regional areas and PETstock will hold a 20% interest. The parties intend to open the first co-located clinic as a General Practice, Emergency & Referral Centre with 24-hour nursing care, equipped with best-in-class technology, at PETstock's recently opened retail superstore in Bendigo (Epsom). This clinic is due to open in March 2018 (currently on schedule) and will form a key part of Apiam's planned growth strategy in the Bendigo region.

This will be followed with the opening of a number of additional veterinary clinics within existing and new PETstock stores in, or on the fringe of, existing Apiam operating regions.

All co-located clinics will be operated by Apiam under a management agreement and PETstock will continue to independently operate the retail stores, including at Bendigo (Epsom).

Apiam entered into an agreement on 21 February 2018 to acquire the business assets of Passionate Vetcare, a regional veterinary clinic, based in Bendigo, Victoria for total consideration of \$0.75 million. The acquisition of Passionate Vetcare will increase Apiam's footprint in Bendigo, and complement the co-located Bendigo Emergency & Referral Centre through providing additional highly experienced vet and nursing staff. Passionate Vetcare is predominantly a companion animal veterinary practice, with some exposure to pigs and mixed animals. The clinic is owned by two highly experienced veterinary practice owners, who following the acquisition, will form a key part of Apiam's Operational Management team in the Bendigo region. Passionate Vetcare generated revenue of approximately \$1.8 million in FY2017. In line with Apiam's previous acquisitions, the consideration for the Passionate Vetcare acquisition will be a combination of 70% cash and 30% scrip. Key employees will enter into employment contracts with Apiam, also with similar terms and restraint conditions to previous acquisitions.

Apiam Animal Health has entered into an agreement to acquire 100% of the shares of the company operating Gympie & District Veterinary Services (GDVS) for total consideration of \$4.9 million. GDVS has two clinics, one at Gympie and one at Tin Can Bay (part of the attractive Wide Bay-Burnett region). Following the acquisition, GDVS will operate as part of a regional group with Apiam's existing mixed animal clinics in Bell and Jandowae servicing attractive urban growth areas as well as underserved agricultural areas. In FY2017 the group generated revenue of approximately \$4.9 million. The consideration for GDVS is to be funded with 70% cash & 30% scrip, in-line with Apiam's previous acquisitions. Key employees will enter into employment contracts with Apiam, also with similar terms and restraint conditions to previous acquisitions. The completion of the proposed acquisition is conditional on Apiam completing due diligence to its satisfaction and settlement is expected to occur on or around 30 June 2018.

The Group is currently obtaining the information necessary to appropriately consider the identification and fair values of the net identifiable assets and the goodwill arising from the acquisition of Passionate Vetcare and Gympie and District Vet Services.

There are no matters or circumstances that have arisen since the end of the period that have significantly affected or may significantly affect either:

- The entities operations in future financial years;
- The results of those operations in future financial years;
- The entities state of affairs in future financial years.

14. Company details

The registered office of the business of the Company is:

27-33 Piper Lane

East Bendigo, VIC, 3350

The principal place of business of the Company is:

27-33 Piper Lane

East Bendigo VIC 3550

Directors' Declaration

- 1 In the opinion of the Directors of Apium Animal Health Limited:
 - a the consolidated financial statements and notes of Apium Animal Health Limited are in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of its financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
 - ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - 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.

Signed in accordance with a resolution of the Directors:



Dr Chris Richards
Managing Director

Dated 26 February 2018

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Independent Auditor's Review Report To the Members of Apiam Animal Health Limited

Report on the Half Year Financial Report

Conclusion

We have reviewed the accompanying half year financial report of Apiam Animal Health Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Apiam Animal Health Limited does not give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the Corporations Act 2001, including complying with Accounting Standard AASB 134 Interim Financial reporting.

Directors' Responsibility for the Half-Year Financial Report

The Directors of the Company are responsible for the preparation of the half-year 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 half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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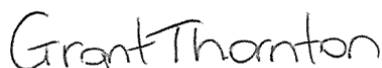
Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year 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 half-year 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 31 December 2017 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Apiam Animal Health Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

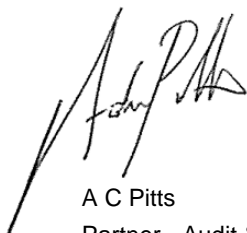
A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards 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.

Independence

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



A C Pitts
Partner - Audit & Assurance

Melbourne, 26 February 2018