

Appendix 4D Financial Report for the half year ended 28 February 2018

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 2018

Previous corresponding period - the half year ended 28 February 2017

2. Results for announcement to the market

	Half year ended		
	28 Feb 2018 \$'000	28 Feb 2017 \$'000	Increase / (decrease)
2.1 Revenue from ordinary activities	2,009,319	2,015,447	(0.3%)
2.2 Net profit for the period attributable to members	24,937	29,135	(14.4%)
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	56,106	62,312	(10.0%)
Profit before tax	35,957	42,184	(14.8%)
2.2a Underlying net profit after tax	26,774	29,135	(8.1%)
Underlying Earnings before interest and tax ('EBIT') (Attachment 1)	44,603	48,623	(8.3%)
	Amount per security	Franking %	Franked amount per security
2.3 Dividends			
Interim Dividend (declared)	3.5 cents	100	3.5 cents
Final Dividend (prior year – paid 8 December 2017)	3.5 cents	100	3.5 cents

- 2.4** The record date for determining entitlements to the interim dividends is 5.00pm Sydney time 4 May 2018. The Dividend will be paid on 1 June 2018.

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 2018.

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 2018.

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 2018.

6. Dividends Paid

	Amount per share	Franked amount per share	Total amount	Date of payment
Declared in respect of the half year ended 28 February 2018				
Interim - Ordinary	3.50 cents	3.50 cents	17,234,999	1 June 2018
Paid during the half year ended 28 February 2018				
Final August 2017 - Ordinary	3.50 cents	3.50 cents	17,229,050	8 December 2017
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

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 2018.

9. Net tangible asset backing (cents per share)

	28 Feb 2018	28 Feb 2017
Net tangible asset backing per ordinary security (cents)	75.4	72.8

10. Subsidiaries

There were no acquisitions, disposals or loss of control over any entities during the half year ended 28 February 2018.

11. Other Significant Information

Refer to the attached Condensed Consolidated Interim Financial Report for the half year ended 28 February 2018.

12. Foreign Entities

The Group has operations in New Zealand through wholly owned entities incorporated in New Zealand. The results of these operations have been translated to the functional currency of the Group.

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 2018.
- 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 2018.
- 13.3 Significant features of operating performance.
Please refer to the attached Directors' Report for the half year ended 28 February 2018.
- 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 2018.
- 13.5 A discussion of trends in performance.
Please refer to the Results Announcement and Results Presentation issued 19 April 2018.
- 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 19 April 2018.

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.

Attachment 1

Underlying Earnings before income tax (EBIT) reconciliation

<i>In thousands of AUD</i>	28 Feb 2018	28 Feb 2017
Reported EBIT	41,979	48,623
Add:		
Costs incurred for business restructuring and strategic business growth	2,624	-
Underlying EBIT	44,603	48,623

Underlying Net profit after tax reconciliation

<i>In thousands of AUD</i>	28 Feb 2018	28 Feb 2017
Reported Net profit after tax	24,937	29,135
Add:		
Costs incurred for business restructuring and strategic business growth	1,837	-
Underlying Net profit after tax ('NPAT')	26,774	29,135

Underlying NPAT and EBIT are non-statutory measures used by the Chief Operating Decision Maker to measure the financial performance of the Group.

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 2018 ("the Group") and the auditor's review report thereon.

Directors

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

Mr Mark Smith	Non-executive Director and Chairman (appointed Director on 6 September 2017 and Chairman on 24 January 2018)
Mr Peter R Robinson	Non-executive Director and Chairman (ceased to be a Director and Chairman on 24 January 2018)
Ms Lee Ausburn	Non-executive Director
Mr Robert D Millner	Non-executive Director
Mr Kenneth W Gunderson-Briggs	Senior Non-executive Director
Mr Gerard J Masters	Non-executive Director
Ms Jennifer Macdonald	Non-executive Director (appointed on 9 November 2017)
Mr Richard C Vincent	Executive Director and Chief Executive Officer

Review of operations

- Underlying net profit after tax down 8.1% to \$26.8 million
- Reported net profit after tax down 14.4% to \$24.9 million
- Underlying Earnings before interest and tax down 8.3% to \$44.6 million
- Revenue down 0.3% to \$2.0 billion
- Declared interim dividend of 3.50 cents per share fully franked to 100%

The Group reported an underlying net profit after tax of \$26.8 million, down 8.1% on the prior period. Earnings before interest and tax declined by 8.3% primarily due to suppressed retail conditions which affected the Priceline / Priceline Pharmacy brand through the period.

Reported net debt declined when compared to the corresponding 28 February 2017 period by \$32.3 million although slightly increased compared to 31 August 2017 reflecting the working capital requirements at this time of the year.

Priceline / Priceline Pharmacy

Priceline / Priceline Pharmacy network's overall total register sales were consistent with last year, however declined by 1.7% on a comparable store basis. The business was cycling stronger comparable store sales from the prior period, particularly pre Christmas. The retail environment continues to be challenging and this result is in line with expectations expressed at the AGM in January. Foot traffic remained positive, with a trend toward slightly lower basket size and customer spending during promotional periods. It should be noted that 'register' sales made by franchisees do not form part of the financial results of the Group.

The Group has undertaken a number of initiatives during the period to combat suppressed consumer sentiment with an aim to provide improved sales trending and protect profit performance. These include a number of in-store initiatives, product differentiation and a more streamlined Priceline / Priceline Pharmacy operational structure.

Due to the strong brand position, demand for new stores from potential pharmacist franchise partners remains positive with Priceline Pharmacy network numbers increasing to 466 at 28 February 2018, and further openings occurring after balance date.

Review of operations (continued)

Pharmacy Distribution

Pharmacy Distribution revenue was flat compared to the prior period and was influenced by the reduction in demand for high cost Hepatitis C medicines. This slow down is consistent across the market. Adjusting for the effect of Hepatitis C, overall reported sales growth was 6.3%. When normalised for the impact of the Pharmaceutical Benefits Scheme (PBS) reforms and Hepatitis C, the underlying sales growth would have been 9.8% over the corresponding period. The business grew major sales customers, as well as winning new accounts. The decision of Astra Zeneca to deliver selected products via an exclusive direct distribution arrangement with a non-CSO wholesaler had a minor impact late in the period.

New Zealand

The New Zealand manufacturing segment reported a positive result with earnings before interest and tax of \$0.538 million - more than doubled when compared to the corresponding period. A number of new contracts especially in Healthcare and OTC products have been secured with key retailers across New Zealand, Australia and China, with production underway and further revenue and earnings growth expected going forward.

Dividends

The Company paid a final dividend of 3.50 cents per share on 8 December 2017, fully franked, amounting to \$17.2 million.

On 19 April 2018, an interim dividend of 3.50 cents per share, fully franked to be paid on 1 June 2018 amounting to \$17.2 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 20 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:



Mark Smith
Chairman

Sydney
19 April 2018

Consolidated Income Statement

<i>In thousands of AUD</i>	Note	Half year ended	
		28 Feb 2018	28 Feb 2017
Revenue		2,009,319	2,015,447
Cost of sales		(1,766,500)	(1,769,676)
Gross profit		242,819	245,771
Other income and expense	3	4,920	2,260
Warehousing and distribution expenses		(69,761)	(68,939)
Marketing and sales expenses		(90,428)	(89,875)
Administration and general expenses		(45,571)	(40,594)
Profit from operating activities (EBIT)		41,979	48,623
Financial income		102	198
Financial expenses		(6,124)	(6,637)
Net finance costs	4	(6,022)	(6,439)
Profit before tax		35,957	42,184
Income tax expense		(11,020)	(13,049)
Profit for the half year		24,937	29,135

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

Earnings per share for profit attributable to the ordinary shareholders of the Company:		cents	cents
Basic earnings per share	5	5.1	6.0
Diluted earnings per share	5	5.0	5.9

Notes to the Consolidated Income Statement are annexed.

Consolidated Statement of Comprehensive Income

<i>In thousands of AUD</i>	Half year ended	
	28 Feb 2018	28 Feb 2017
Profit for the half year	24,937	29,135
<i>Items that will not be reclassified subsequently to the Consolidated Income Statement</i>	-	-
<i>Items that may be reclassified subsequently to the Consolidated Income Statement</i>		
Exchange fluctuations on translation of foreign operations, net of tax	456	(754)
Effective portion of changes in fair value of cash flow hedges, net of tax	227	206
Other comprehensive income/(loss) for the half year, net of income tax	683	(548)
Total comprehensive income for the half year attributable to equity holders of the parent Company	25,620	28,587

Notes to the Consolidated Statement of Comprehensive Income are annexed.

Australian Pharmaceutical Industries Limited
ABN 57 000 004 320
Condensed Consolidated Interim Financial Report
For the half year ended 28 February 2018

Consolidated Statement of Financial Position

<i>In thousands of AUD</i>	<i>Note</i>	As at	
		28 Feb 2018	31 Aug 2017
Assets			
Cash and cash equivalents		27,094	39,776
Trade and other receivables		608,645	681,620
Inventories		404,125	399,344
Total current assets		1,039,864	1,120,740
Trade and other receivables		18,935	21,187
Deferred tax assets		19,818	20,210
Property, plant and equipment		92,053	95,280
Intangible assets	6	191,063	193,659
Total non-current assets		321,869	330,336
Total assets		1,361,733	1,451,076
Liabilities			
Trade and other payables		701,771	804,473
Loans and borrowings	7	868	2,765
Employee benefits		18,955	18,989
Provisions		7,409	7,907
Income tax payable		3,939	16,899
Total current liabilities		732,942	851,033
Trade and other payables		8,087	7,903
Deferred tax liabilities		370	364
Loans and borrowings	7	51,285	29,834
Employee benefits		2,963	3,834
Provisions		3,690	3,862
Total non-current liabilities		66,395	45,797
Total liabilities		799,337	896,830
Net assets		562,396	554,246
Equity			
Share capital		566,461	566,461
Reserves		100,599	92,449
Accumulated losses		(104,664)	(104,664)
Total equity		562,396	554,246

Notes to the Consolidated Statement of Financial Position are annexed.

Consolidated Statement of Cash Flows

<i>In thousands of AUD</i>	Half year ended	
	28 Feb 2018	28 Feb 2017
Cash flows from operating activities		
Cash receipts from customers (inclusive of GST)	2,285,522	2,272,488
Cash payments to suppliers and employees (inclusive of GST)	(2,262,702)	(2,251,341)
Cash generated from operations	22,820	21,147
Interest received	102	198
Financing costs paid	(5,914)	(6,561)
Income taxes paid	(23,880)	(16,605)
Net cash outflows from operating activities	(6,872)	(1,821)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	-	213
Acquisition of property, plant and equipment	(5,141)	(4,975)
Payment for intangibles	(2,937)	(7,657)
Net cash used in investing activities	(8,078)	(12,419)
Cash flows from financing activities		
Proceeds from borrowings	1,120,000	699,000
Repayment of borrowings	(1,099,680)	(655,822)
Payment of finance lease liabilities	(766)	(731)
Dividends paid	(17,229)	(17,143)
Net cash inflows from financing activities	2,325	25,304
Net increase/(decrease) in cash and cash equivalents	(12,625)	11,064
Cash and cash equivalents at the beginning of the half year	39,776	25,489
Effect of exchange rate fluctuations on cash held	(57)	(120)
Cash and cash equivalents at the end of the half year	27,094	36,433

Notes to the Consolidated Statement of Cash Flows are annexed.

Consolidated Statement of Changes in Equity

	Share	Accumulated	Profits ⁽ⁱ⁾	Translation	Hedging	Equity	Total
<i>In thousands of AUD</i>	Capital	Losses	Reserve	Reserve	Reserve	Reserve	Equity
<i>Balance at 1 September 2017</i>	566,461	(104,664)	86,155	(189)	(204)	6,687	554,246
Total comprehensive income for the half year							
Profit after tax	-	-	24,937	-	-	-	24,937
Total other comprehensive income	-	-	-	456	227	-	683
Total comprehensive income for the half year	-	-	24,937	456	227	-	25,620
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Purchase of treasury shares ⁽ⁱⁱ⁾	(310)	-	-	-	-	-	(310)
Dividends to equity holders	-	-	(17,229)	-	-	-	(17,229)
Shares vested under the STIP and LTIP	310	-	-	-	-	(480)	(170)
Share based payments	-	-	-	-	-	239	239
Total contributions by and distributions to owners	-	-	(17,229)	-	-	(241)	(17,470)
Balance at 28 February 2018	566,461	(104,664)	93,863	267	23	6,446	562,396

	Share	Accumulated	Profits ⁽ⁱ⁾	Translation	Hedging	Equity	Total
<i>In thousands of AUD</i>	Capital	Losses	Reserve	Reserve	Reserve	Reserve	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 half year							
Profit after tax	-	-	29,135	-	-	-	29,135
Total other comprehensive income/(loss)	-	-	-	(754)	206	-	(548)
Total comprehensive income for the half year	-	-	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 payments	-	-	-	-	-	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

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

(i) The profits reserve represents current year profits transferred to a reserve to preserve the characteristic as a profit and not appropriate those profits against prior years' accumulated losses. Such profits will be available to enable payment of franked dividends in the future.

(ii) Treasury shares are shares purchased on market and then issued to the employees for the vesting of the 2016 STIP.

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 (the 'Financial Report') of the Company for the half year ended 28 February 2018 comprises the Company and its subsidiaries (together referred to as the 'Group').

(a) Statement of compliance

This general purpose Condensed Consolidated Interim Financial Report has been prepared in accordance with the requirements of the applicable Australian Accounting Standards including *AASB 134 Interim Financial Reporting*, *Australian Interpretations*, *Corporations Act 2001* and *IAS 34 Interim Financial Reporting*.

(b) Basis of preparation

The Financial Report is presented in Australian dollars which is the functional currency of the Group. The Financial Report has been prepared on a historical cost basis, except for derivative financial instruments and employee defined benefit plans which are stated at their fair value.

The Financial Report does not include all of the notes of the type normally included in an annual Financial Report. Accordingly, this report is to be read in conjunction with the Group's Annual Financial Report for the year ended 31 August 2017, together with any public announcements made by the Company during or since the half year ended 28 February 2018 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(c) Estimates

The preparation of the *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.

In preparing the Financial Report the significant judgements made by management in applying the consolidated accounting policies and the key sources of estimation uncertainty are consistent with those applied in the most recent Annual Report for the year ended 31 August 2017.

(d) New accounting standards and interpretations

The Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

New and revised standards and interpretations effective for the current half year that are relevant to the Group include:

Reference	Title	Adoption date
	Amendments to Australian Accounting Standards	
AASB 2016-1	- Recognition of Deferred Tax Assets for Unrealised Losses	1 September 2017
	Amendments to Australian Accounting Standards	
AASB 2016-2	- Disclosure Initiative: Amendments to AASB 107	1 September 2017

The adoption of the above new and revised standards did not have any impact on the disclosures or the amounts recognised in the Financial Report.

Notes to the Condensed Consolidated Interim Financial Report

(d) New accounting standards and interpretations (continued)

Issued but not yet effective

The following Australian Accounting Standards have been issued but are not yet effective and have not been adopted for this half year reporting period.

Reference	Title	Adoption date
AASB 9	Financial Instruments (and the relevant amending standards)	1 September 2018
AASB 15	Revenue from Contracts with Customers (and the relevant amending standards)	1 September 2018
AASB 16	Leases	1 September 2019

The Group is in the process of completing its assessment of the above accounting standards. The areas of impact remain consistent with the disclosure included in the most recent Annual Report for the year ended 31 August 2017.

(e) Rounding

The amounts shown in this Financial Report have been rounded off, except where otherwise stated, to the nearest thousand dollars as the Company is in a class specified in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016.

(f) Comparatives

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

Notes to the Condensed Consolidated Interim Financial Report

2. OPERATING SEGMENTS

The operating segments are reported in a manner which is consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM) of the Group. The CODM has been identified as the Chief Executive Officer (CEO). The major segments of the Group are consistent with the prior period and include the Australian and New Zealand operations of the Group.

Reportable Segment	Operations
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 Group 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.

In thousands of AUD	Australia		New Zealand		Eliminations		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017
Revenue								
External revenue	1,914,227	1,925,926	24,266	22,647	-	-	1,938,493	1,948,573
External services	70,826	66,874	-	-	-	-	70,826	66,874
Inter-segment revenue ⁽ⁱ⁾		-	3,955	2,710	(3,955)	(2,710)	-	-
Total segment revenue	1,985,053	1,992,800	28,221	25,357	(3,955)	(2,710)	2,009,319	2,015,447
Reportable segment Gross profit	230,671	234,790	12,148	10,981	-	-	242,819	245,771
Reportable segment profit	41,441	48,377	538	246	-	-	41,979	48,623
Unallocated amounts								
Net financing costs							(6,022)	(6,439)
Profit before tax							35,957	42,184
Income tax expense							(11,020)	(13,049)
Profit for the half year							24,937	29,135

⁽ⁱ⁾ All intersegment sales are on an arm's length basis.

Notes to the Condensed Consolidated Interim Financial Report

3. OTHER INCOME AND EXPENSE

<i>In thousands of AUD</i>	Half year ended	
	28 Feb 2018	28 Feb 2017
Gain on disposal of stores, property, plant and equipment	-	50
Interest fee income	4,934	2,222
Net foreign exchange loss	(14)	(12)
	4,920	2,260

4. FINANCE INCOME AND COSTS

<i>In thousands of AUD</i>	Half year ended	
	28 Feb 2018	28 Feb 2017
Interest income on bank deposits	102	198
Finance income	102	198
Interest expense	(2,909)	(3,072)
Borrowing costs	(773)	(890)
API rewards	(2,374)	(2,554)
Finance charges - leased assets	(68)	(121)
Finance costs	(6,124)	(6,637)
Net finance costs	(6,022)	(6,439)

5. EARNINGS PER SHARE

<i>In thousands of AUD</i>	Half year ended	
	28 Feb 2018	28 Feb 2017
Profit attributable to shareholders of the Group	24,937	29,135
<i>In thousands of shares</i>		
Basic weighted average number of ordinary shares for the period	491,514	489,606
Effect of potential ordinary shares on issue	2,684	5,494
Diluted weighted average number of shares for the period	494,198	495,100
<i>In cents</i>		
Basic earnings per share	5.1	6.0
Diluted earnings per share	5.0	5.9

Notes to the Condensed Consolidated Interim Financial Report

6. INTANGIBLE ASSETS

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

The allocation of goodwill and brand names with indefinite lives to cash-generating units is as follows:

<i>In thousands of AUD</i>	Australia		New Zealand		Consolidated	
	28 Feb 2018	31 Aug 2017	28 Feb 2018	31 Aug 2017	28 Feb 2018	31 Aug 2017
Goodwill	34,690	33,673	16,455	16,346	51,145	50,019
Brand names						
Soul Pattinson brand name	37,500	37,500	-	-	37,500	37,500
Priceline brand name	58,860	58,860	-	-	58,860	58,860
	131,050	130,033	16,455	16,346	147,505	146,379

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.

The impairment assessment for both CGUs, including sensitivity analysis on the key assumptions, did not result in any impairment being recognised during the half year. Key assumptions included in the impairment assessment are budgeted EBITDA growth over the next five years, terminal growth rate of 2.5% based on long term growth rate of the CGU and pre-tax discount rate of 14.4% for Australia and 15.6% for NZ, which is based on a market-determined, risk adjusted post-tax discount rate of 10.1% and 11.2% respectively.

Reasonably possible change

The recoverable amount of the NZ CGU assumes the achievement of annual sales growth, profit and working capital targets in the period from FY2018 – FY2022. Holding all other assumptions constant, if actual annual sales were below targets by greater than 6%, this may result in an impairment of goodwill for the NZ CGU.

7. LOAN AND BORROWINGS

<i>In thousands of AUD</i>	As at	
	28 Feb 2018	31 Aug 2017
Current liabilities		
Insurance premium funding	-	1,608
Finance lease liabilities	868	1,157
	868	2,765
Non current liabilities		
Finance lease liabilities	715	1,192
Securitisation of trade receivables	45,000	25,000
Cash advance facilities - secured	5,570	3,642
	51,285	29,834

Notes to the Condensed Consolidated Interim Financial Report

8. SHARE CAPITAL AND RESERVES

Share Capital

<i>In thousands of shares</i>	Ordinary Shares as at	
	28 Feb 2018	31 Aug 2017
Shares on issue at beginning of the period - fully paid	489,800	489,097
Ordinary shares issued during November 2017 pursuant to the Company's Long Term Incentive Plan	2,336	703
Ordinary shares issued during November 2017 pursuant to the Company's Short Term Incentive Plan	292	-
Shares on issue at the end of the period - fully paid	492,428	489,800

Item	Description
Ordinary Shares	The Company does not have authorised capital or par value in respect of its issued 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.
Translation reserve	The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where the 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.

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 cash flow hedges have been obtained from third party valuations derived from forward interest rates at the balance sheet date.

The fair value of the cash flow hedges at 28 February 2018 was a liability of \$64,493 (31 August 2017: liability of \$291,803).

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.

Notes to the Condensed Consolidated Interim Financial Report

10. CONTINGENT LIABILITIES

Contingent liabilities

<i>In thousands of AUD</i>	As at	
	28 Feb 2018	31 Aug 2017
Financial guarantees to pharmacists	10,399	10,459

Financial guarantees of \$10,399,000 (31 August 2017: \$10,459,000) have been provided to financial institutions of individual debtors and debtor groups. The Group has strict controls over the approval of guarantees of pharmacy customers and takes security over the assets of the relevant pharmacy. The Directors are of the opinion that provisions are not required in respect of these guarantees, as it is not probable that the exposure is greater than the value of the security over the assets of the relevant pharmacy.

11. SUBSEQUENT EVENTS

On 19 April 2018, an interim fully franked dividend of 3.50 cents per share was declared to be paid on 1 June 2018.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 28 February 2018, that has affected or may affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years, which has not been covered in this report.

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 7 to 18 are in accordance with the *Corporations Act 2001* including:

- (i) giving a true and fair view of the financial position of the Company and its subsidiaries as at 28 February 2018 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 19th day of April 2018.

Signed in accordance with a resolution of the Directors:



Mark Smith
Chairman



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 of Australian Pharmaceutical Industries Limited for the half-year ended 28 February 2018 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.

KPMG

Maurice Bisetto
Partner

Melbourne

19 April 2018



Independent Auditor's Review Report

To the shareholders of Australian Pharmaceutical Industries Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Australian Pharmaceutical Industries Limited.

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 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 2018 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Consolidated statement of financial position as at 28 February 2018;
- Consolidated statement of profit and 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;
- Notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information; and
- the Directors' Declaration.

The **Group** comprises Australian Pharmaceutical Industries Limited (the Company) and the entities it controlled at the Half-year's end or from time to time during the Half-year.

Responsibilities of the Directors 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*
- for such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the Half-year Financial Report

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 28 February 2018 and its performance for the half-year 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, *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.

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

KPMG

Maurice Bisetto
Partner

Melbourne
19 April 2018