APPENDIX 4D

Australian Pharmaceutical Industries Limited

ABN 57 000 004 320

Interim financial report for the period ended 29 February 2020

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	Half year ended 29 February 2020
Previous corresponding period	Half year ended 28 February 2019

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

For the half year ended February	2020 $'000	2019 $'000	Change $'000	Change %
Revenue from ordinary activities	**2,033,067**	1,977,097	55,970	2.8%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**82,753**	59,213	23,540	39.8%
Earnings before interest and tax (EBIT)	**39,304**	44,418	(5,114)	(11.5%)
Profit before tax	**29,050**	36,339	(7,289)	(20.1%)
Net profit after tax for the half year (NPAT)	**22,511**	24,990	(2,479)	(9.9%)
Underlying net profit after tax for the half year[(i)]	**25,418**	26,782	(1,364)	(5.1%)
Underlying net profit after tax for the half year[(i)] (excl. AASB 16 Leases)	**26,285**	26,782	(497)	(1.9%)
Earnings per share (in cents)				
Basic earnings per share	**4.4**	4.9	(0.5)	(10.2%)
Diluted earnings per share	**4.4**	4.9	(0.5)	(10.2%)
Underlying basic earnings per share - consolidated group [(i)]	**5.3**	5.4	(0.1)	(1.9%)

These results should be read in conjunction with the interim financial report for the half year ended 28 February 2019. This is the first set of financial statements of the Group where AASB 16 Leases has been applied. Under the transition method chosen, comparative information has not been restated.

(i) Refer to Attachment 1 for reconciliation of reported net profit and basic earnings per share to underlying net profit and underlying basic earnings per share.

Commentary on the results for the period

For an explanation of the results, refer to the Results Announcement and Results Presentation issued 23 April 2020.

3. DIVIDEND INFORMATION

	Amount per share (cents)	Franking percentage	Total Amount A$	Date of payment
Half year ended 29 February 2020				
Interim ordinary dividend	-	-	-	-
Final ordinary dividend (prior year) - paid	4.00	100%	19,706,241	12 December 2019

There is no dividend reinvestment plan currently in operation.

4. NET TANGIBLE ASSET BACKING (CENTS PER SHARE)

For the half year ended	29 Feb 20	31 Aug 19	28 Feb 19
Net tangible asset backing - cents per share	47.3[(ii)]	49.1	46.7

(ii) The NTA as at 29 February 2020 includes the right-of-use assets in respect of leases of $146.2m and lease liabilities recognised under AASB 16 Leases of $204.3m. If right-of-use assets were excluded as at 29 February 2020, the NTA calculation would have been 17.6 cents per share.

5. SUBSIDIARIES AND GAIN OR LOSS OF CONTROL OVER ENTITIES DURING THE PERIOD

There were no acquisitions, disposals, or loss of control over any entities during the half year ended 29 February 2020. There were several newly incorporated entities during the year.

The Company has a New Zealand subsidiary which adopts the New Zealand equivalents of the International Financial Reporting Standards ('NZIFRS') which is consistent with the framework adopted by the Company.

6. FINANCIAL STATEMENTS

The following additional Appendix 4D disclosure requirements can be found in the attached Interim Financial Report for the half year ended 29 February 2020, which contains the Directors' Report, the Directors' Declaration and the 29 February 2020 consolidated financial statements and accompanying notes:

- Consolidated income statement;
- Consolidated statement of comprehensive income;
- Consolidated balance sheet;
- Consolidated statement of changes in equity;
- Consolidated statement of cash flows;
- Condensed notes to the consolidated financial statements;
- Review of operations; and
- Returns to shareholders including distributions and earnings per share.

The consolidated financial statements have been subject to review and are not subject to any dispute or qualification.

7. COMMENTARY ON THE RESULTS FOR THE PERIOD

7.1 The earnings per security and the nature of any dilution aspects.

Please refer to Note 5 of the attached Consolidated Interim Financial Report for the half year ended 29 February 2020.

7.2 Returns to shareholders including distributions and buy backs.

Please refer to Consolidated Statement of Changes in Equity of the attached Consolidated Interim Financial Report for the half year ended 29 February 2020.

7.3 Significant features of operating performance.

Please refer to the attached Directors' Report for the half year ended 29 February 2020.

7.4 The results of segments that are significant to an understanding of the business as a whole.

Please refer to Note 2 of the attached Consolidated Interim Financial Report for the half year ended 29 February 2020.

7.5 A discussion of trends in performance.

Please refer to the Results Announcement and Results Presentation issued 23 April 2020.

7.6 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 23 April 2020.

8. AUDIT AND RISK COMMITTEE

The entity has a formally constituted Audit and Risk Committee.

APPENDIX 4D

Australian Pharmaceutical Industries Limited

ABN 57 000 004 320

Interim financial report for the period ended 29 February 2020

ATTACHMENT 1 – RECONCILIATION OF REPORTED INFORMATION TO UNDERLYING INFORMATION

Reconciliation of reported NPAT to underlying NPAT	**Half year ended**	
In thousands of AUD	**29 Feb 20**	**28 Feb 19**
Reported NPAT	**22,511**	24,990
Add:		
Costs incurred for business restructuring (i)	**2,907**	-
Costs incurred for strategic business growth	**-**	1,792
Underlying NPAT	**25,418**	26,782
Underlying basic earnings per share - consolidated group (in cents)	**5.2**	5.4
Impact of adoption of AASB 16 *Leases* after tax	**867**	-
Underlying NPAT (excl. AASB 16 Leases)	**26,285**	26,782
Underlying basic earnings per share - consolidated group (in cents) (excl. AASB 16 *Leases*)	**5.3**	5.4

(i) All costs associated with business restructuring are reflected within Administration and general expenses line within the Consolidated Income Statement.

Underlying NPAT and underlying basic earnings per share – consolidated group are non-statutory measures used by the Chief Operating Decision Maker to measure the financial performance of the Group. This is the first set of financial statements of the Group where AASB 16 *Leases* has been applied. Under the transition method chosen, comparative information has not been restated. Therefore, to assist with comparability, the impact of AASB 16 *Leases* has been included as an underlying adjustment.

We believe these non-statutory measures provide useful information to understand the financial performance of the Group, but should not be considered as an indication of, or substitution for reported information. Underlying NPAT and underlying basic earnings per share have not been audited or reviewed in accordance with Australian Auditing Standards.

DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Australian Pharmaceutical Industries Limited ('the Company' or 'API') and the entities it controlled at the end of, or during, the half year ended 29 February 2020 ('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	
Ms Lee Ausburn	Non-executive Director	
Mr Robert D Millner	Non-executive Director	
Mr Kenneth W Gunderson-Briggs	Non-executive Director	
Mr Gerard J Masters	Non-executive Director	Resigned: 22 January 2020
Ms Jennifer Macdonald	Non-executive Director	
Mr Richard C Vincent	Executive Director and Chief Executive Officer	

Review of operations

This is the first set of the Group's financial statements in which AASB 16 *Leases* has been applied. Under the transition methods chosen, comparative information has not been restated. The 29 February 2020 results are therefore not directly comparable to prior years. Changes to significant accounting policies and the impact of applying the new standards are described in Note 12.

The Group's financial position remains strong and our net debt position reduced significantly over the period as a result of both the proceeds from the sale of Sigma Healthcare shares and from improved working capital being applied to debt reduction. Despite challenging retail conditions and consumer sentiment, Priceline held market share and Pharmacy Distribution reflected growth from new business gained. Consumer Brands outlook remains positive with a pipeline of new business and Clear Skincare was accelerating its expansion prior to COVID-19.

- Earnings before interest and tax is down 11.5% to $39.3 million
- Underlying net profit after tax is down 1.9% to $26.3 million
- Reported net profit after tax is down 9.9% to $22.5 million
- Revenue is up 2.8% to $2.0 billion

Net Profit after Tax (NPAT) is down 9.9% to $22.5 million and Underlying NPAT is down 1.9% to $26.3 million. The adjustments between these two metrics for the half year to 29 February 2020 are:

1. Add to NPAT costs incurred for business restructuring $2.9 million; and
2. Add to NPAT impact of adoption of AASB 16 *Leases* after tax $0.9 million.

This reduction to the prior corresponding period is primarily due to external market factors impacting Priceline Pharmacy and Consumer Brands during the half and, in particular for Priceline, the challenging retail conditions combined with the impact of the bushfires in the eastern states. Consumer Brands performance reflects timing issues relative to new business last year combined with supplier delays on critical raw materials and finished products. The contribution by Pharmacy Distribution and Clear Skincare improved over the half, however, this did not offset the reduction.

Reported Net Debt was $75.9 million and Adjusted Net Debt was $129.7 million. The adjustment to reported Net Debt of $53.8 million was due to a processing error by one of our transactional banks on 29 February 2020, our half year end date, where payments to suppliers were not processed in error. Trade Creditors are reported at $731.7 million and these would be adjusted down to $677.9 million as a result of this error.

The Group continues to be a strong, cash generating business. Adjusted Net Debt was down on the prior corresponding period by $132.3 million or 50.5%. This reduction was due to the sale of the Sigma Healthcare shares for $82.2 million during the period, the proceeds of which were used to repay debt, and to improvements in working capital management with cash conversion days improving from 29.3 to 22.0 days.

Group Revenue was up by 2.8% to $2.0 billion. Adjusting for the impact of Hepatitis C medicine sales and PBS price reductions, revenue growth was 1.8%. This increase was achieved in a competitive market and reflects growth in Pharmacy Distribution as a result of gaining new business from individual pharmacies and pharmacy groups, reflecting our strong offering to our customers.

DIRECTORS' REPORT

Priceline Retail Network

Whilst maintaining market share, Priceline Pharmacy network's overall total register sales were down by 1.8% to $589 million. This result reflects the challenging retail conditions; bushfires and declining consumer sentiment across the Australian retail market in the six months to February 2020. During this period the business focussed on:

- Resetting its strategy to strengthen its health offering;
- Adjusting the in-store range and improving the in-store experience with new and exclusive brands added throughout the network;
- Completing the roll out of Click 'n Collect and trialling Click 'n Deliver, both of which involve our store network in the sale of product. Priceline customers can purchase in-store, online, via Click 'n Collect, and post half-year end via Click 'n Deliver from their nearest store; and
- We have improved the Sisterclub platform to enable more targeted involvement with, and marketing to, our customer base. The Sisterclub basket size increased by 13.8% on the prior corresponding period and is 33% higher than the basket size of non-members.

Due to the compelling Priceline brand position, demand for new stores from potential pharmacist franchise partners remains strong. Priceline Pharmacy network numbers totalled 488 at 29 February 2020 which is an increase of 9 stores on the prior corresponding period.

Pharmacy Distribution

Pharmacy Distribution revenue was up 4.8% compared to the prior corresponding period to $1.5 billion and Pharmacy Distribution revenue adjusted for the impact of Hepatitis C medicine sales and PBS price reductions was up 3.4%. These results were strong against the market and reflect both the retention of existing customers and acquisition of new pharmacy business. The focus on higher margin business, to win new customer groups and on growing our banner brands and retail services is succeeding.

Consumer Brands

Consumer Brands has a pipeline of new products, however, as a result primarily of delays in new OTC pharmaceutical contracts its revenue fell by 16.7% and $5.7 million to $28.3 million. The business experienced supplier delays relating to importing raw and completed product for the Personal Care and Pharma plants. Consumer Brands has significant sale contracts and the manufacturing business can be lumpy in nature. Consumer Brands' strategy remains on track and its outlook remains positive, the business continues to focus on expanding the product range in both Healthcare and Personal Care. We expect to see improvement in the second half with this business not materially impacted by COVID-19.

Clear Skincare

Clear Skincare revenue increased by 12.8% to $24.6 million. This increase reflects sales from the expanded clinic network. Clear Skincare had 59 clinics at half year end which was up by 12 clinics on the prior corresponding period. The business continues to focus on a high-quality consistent offering across its clinics, broadening the range of skin treatment offered, and the breadth of the products range. The Clear Skincare products range continues to sell well through Clear Skincare clinics and the Priceline network.

Clear Skincare closed its clinic network in New Zealand on 23 March and in Australia on 25 March in response to COVID-19. Our focus remains on the safety and wellbeing of our staff and customers. Further detail is provided in Note 13 Subsequent Events.

Significant event during the half

On 16 December 2019 API announced that they had sold the shares held in Sigma Healthcare Limited ('Sigma Healthcare'). The notice confirmed API assessed the fundamentals of the potential merger had diminished significantly, resulting in the sale.

Significant post balance date event

In March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. Various actions have been taken by the Australian governments and the Company as described in Note 13 to the financial statements.

COVID-19 did not have a material impact on the financial position, performance or operating activities of the Group during the half-year ended 29 February 2020.

At the date of these financial statements, the Group continues to manage the impact arising from the continuing spread of COVID-19 and associated government responses announced subsequent to balance date.

DIRECTORS' REPORT

Dividends

The Company paid a final dividend of 4.00 cents per share for the FY19 year on 12 December 2019, fully franked, amounting to $19.7 million.

Since the end of the half year the Directors have resolved to not pay an interim dividend. Whilst the Company continues to monitor developments relating to COVID-19, a prudent approach to cash preservation has been adopted.

Auditor's Independence Declaration

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 7 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 G Smith

Mark Smith
Chairman

Melbourne
22 April 2020

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 29 February 2020 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

KPMG

Tony Romeo

Partner

Melbourne

22 April 2020

INTERIM FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT

		Half year ended	
In thousands of AUD	**Note**	**29 Feb 20**	**28 Feb 19**
Revenue	3	2,033,067	1,977,097
Cost of sales		(1,777,852)	(1,711,201)
Gross profit		**255,215**	**265,896**
Other income	3	11,489	4,501
Warehousing and distribution expenses		(74,418)	(72,295)
Marketing and sales expenses		(99,368)	(107,492)
Administration and general expenses		(53,614)	(46,192)
Profit from operating activities (EBIT)		**39,304**	**44,418**
Finance income	4	77	310
Finance expenses	4	(10,331)	(8,389)
Net finance costs		**(10,254)**	**(8,079)**
Profit before tax		**29,050**	**36,339**
Income tax expense		(6,539)	(11,349)
Profit for the half year		**22,511**	**24,990**
Attributable to:			
Ordinary shareholders of the Company		21,757	24,240
Non-controlling interest		754	750
Profit for the half year		**22,511**	**24,990**
Earnings per share for profit attributable to the ordinary shareholders of the Company:		**cents**	**cents**
Basic earnings per share	5	4.4	4.9
Diluted earnings per share	5	4.4	4.9

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Half year ended	
In thousands of AUD	Note	29 Feb 20	28 Feb 19
Profit for the half year		**22,511**	**24,990**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to the consolidated income statement			
Changes in the fair value of financial assets at fair value through other comprehensive income (post tax)	9	(5,087)	(1,483)
Total items that will not be reclassified		**(5,087)**	**(1,483)**
Items that may be reclassified subsequently to the consolidated income statement			
Exchange fluctuations on translation of foreign operations (post tax)		593	550
Effective portion of changes in fair value of cash flow hedges (post tax)		(31)	(121)
Total items that may be reclassified		**562**	**429**
Total other comprehensive income/(loss) for the half year		**(4,525)**	**(1,054)**
Total comprehensive income for the half year		**17,986**	**23,936**
Attributable to:			
Ordinary shareholders of the Company		17,232	23,186
Non-controlling interest		754	750
Total comprehensive income for the half year		**17,986**	**23,936**

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

INTERIM FINANCIAL REPORT

CONSOLIDATED BALANCE SHEET

In thousands of AUD	Note	As at 29 Feb 20	31 Aug 19
Current assets			
Cash and cash equivalents		64,905	30,181
Trade and other receivables		533,189	657,932
Inventories		412,836	413,258
Lease receivables	12	7,204	-
Total current assets		**1,018,134**	**1,101,371**
Non-current assets			
Trade and other receivables		35,778	57,544
Lease receivables	12	23,729	-
Financial assets at fair value through other comprehensive income	9	-	87,849
Deferred tax assets		38,830	31,049
Right-of-use assets	12	146,198	-
Property, plant and equipment		120,156	107,130
Intangible assets	6	276,148	280,271
Total non-current assets		**640,839**	**563,843**
Total assets		**1,658,973**	**1,665,214**
Current liabilities			
Trade and other payables		731,655	790,270
Loans and borrowings	8	-	59,596
Lease liabilities	12	46,352	-
Provisions		31,173	35,235
Income tax payable		492	2,380
Total current liabilities		**809,672**	**887,481**
Non-current liabilities			
Trade and other payables		34,646	80,079
Loans and borrowings	8	140,819	169,683
Lease liabilities	12	157,968	-
Provisions		6,739	5,663
Total non-current liabilities		**340,172**	**255,425**
Total liabilities		**1,149,844**	**1,142,906**
Net assets		**509,129**	**522,308**
Equity			
Share capital		566,461	566,461
Reserves		59,837	62,645
Accumulated losses		(121,314)	(110,189)
Total equity attributable to members of the Company		**504,984**	**518,917**
Non-controlling interest in controlled entities		**4,145**	**3,391**
Total equity		**509,129**	**522,308**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to ordinary shareholders of API Limited										
In thousands of AUD	Share Capital	Accumulated Losses	Profits[i] Reserve	Translation Reserve	Hedging Reserve	Equity Reserve	Control Reserve	Fair Value Reserve	Total	Non-controlling interest	Total Equity
Balance at 31 August 2019	**566,461**	**(110,189)**	**116,656**	**1,358**	**(139)**	**5,717**	**(62,311)**	**1,364**	**518,917**	**3,391**	**522,308**
Adjustment on Adoption of AASB 16	-	(11,125)	-	-	-	-	-	-	(11,125)	-	(11,125)
Balance at 1 September 2019	**566,461**	**(121,314)**	**116,656**	**1,358**	**(139)**	**5,717**	**(62,311)**	**1,364**	**507,792**	**3,391**	**511,183**
Profit after tax	-	-	21,757	-	-	-	-	-	21,757	754	22,511
Total other comprehensive income/(loss)	-	-	-	593	(31)	-	-	(5,087)	(4,525)	-	(4,525)
Total comprehensive income for the half year	-	-	21,757	593	(31)	-	-	(5,087)	17,232	754	17,986
Transactions with owners, recorded directly in equity											
Dividends to equity holders	-	-	(19,706)	-	-	-	-	-	(19,706)	-	(19,706)
Unwinding of discount on put and call option	-	-	-	-	-	-	(1,140)	-	(1,140)	-	(1,140)
Share based payments	-	-	-	-	-	806	-	-	806	-	806
Total contributions by and distributions to owners	-	-	(19,706)	-	-	806	(1,140)	-	(20,040)	-	(20,040)
Balance at 29 February 2020	**566,461**	**(121,314)**	**118,707**	**1,951**	**(170)**	**6,523**	**(63,451)**	**(3,723)**	**504,984**	**4,145**	**509,129**
Balance at 31 August 2018	**566,461**	**(104,664)**	**99,811**	**737**	**68**	**6,271**	**(59,900)**	**-**	**508,784**	**2,995**	**511,779**
Adjustment on Adoption of AASB 9	-	(6,242)	-	-	-	-	-	-	(6,242)	-	(6,242)
Adjustment on Adoption of AASB 15	-	717	-	-	-	-	-	-	717	-	717
Balance at 1 September 2018	**566,461**	**(110,189)**	**99,811**	**737**	**68**	**6,271**	**(59,900)**	**-**	**503,259**	**2,995**	**506,254**
Profit after tax	-	-	24,240	-	-	-	-	-	24,240	750	24,990
Total other comprehensive income/(loss)	-	-	-	550	(121)	-	-	(1,483)	(1,054)	-	(1,054)
Total comprehensive income for the half year	-	-	24,240	550	(121)	-	-	(1,483)	23,186	750	23,936
Transactions with owners, recorded directly in equity											
Dividends to equity holders	-	-	(19,701)	-	-	-	-	-	(19,701)	-	(19,701)
Unwinding of discount on put and call option	-	-	-	-	-	-	(1,282)	-	(1,282)	-	(1,282)
Share based payments	-	-	-	-	-	296	-	-	296	-	296
Total contributions by and distributions to owners	-	-	(19,701)	-	-	296	(1,282)	-	(20,687)	-	(20,687)
Balance at 28 February 2019	**566,461**	**(110,189)**	**104,350**	**1,287**	**(53)**	**6,567**	**(61,182)**	**(1,483)**	**505,758**	**3,745**	**509,503**

(i) The profits reserve represents profits transferred to the reserve at the end of a financial period to preserve the characteristic of the profits and not appropriate those profits against prior year accumulated losses. These profits will be available to enable payment of franked dividends in the future.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CASH FLOWS

		Half year ended	
In thousands of AUD	Note	29 Feb 20	28 Feb 19
Cash flows from operating activities			
Cash receipts from customers (inclusive of GST)		2,381,858	2,198,571
Cash payments to suppliers and employees (inclusive of GST)		(2,252,653)	(2,261,775)
Cash inflows / (outflows) from operations		**129,205**	**(63,204)**
Interest received		77	310
Finance costs paid		(7,030)	(9,388)
Income taxes paid		(10,777)	(17,090)
Net cash inflows / (outflows) from operating activities		**111,475**	**(89,372)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		64	1,204
Payments for property, plant and equipment and intangibles		(21,350)	(13,245)
Proceeds from / (Payments for) financial assets at fair value through other comprehensive income		82,178	(85,901)
Receipts from subleases	12	4,481	-
Dividends received	3	1,373	788
Net cash inflows / (outflows) from investing activities		**66,746**	**(97,154)**
Cash flows from financing activities			
Proceeds from borrowings		2,000,030	1,606,449
Repayment of borrowings		(2,088,488)	(1,420,827)
Repayments of principal on lease liabilities	12	(35,331)	-
Payment of finance lease liabilities		-	(537)
Dividends paid		(19,706)	(19,701)
Net cash (outflows) / inflows from financing activities		**(143,495)**	**165,384**
Net increase / (decrease) in cash and cash equivalents		34,726	(21,142)
Cash and cash equivalents at the beginning of the financial period		30,181	35,948
Effect of exchange rate fluctuations on cash held		(2)	150
Cash and cash equivalents at the end of the half year (i)		**64,905**	**14,956**

(i) Cash and cash equivalents include bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Australian Pharmaceutical Industries Limited (the 'Company') is a for-profit company limited by shares incorporated and domiciled in Australia. The Consolidated Interim Financial Report (the 'Financial Report') of the Company for the half year ended 29 February 2020 comprises the Company and its subsidiaries (together referred to as the 'Group').

a) Statement of compliance

This general purpose 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 financial instruments and employee defined benefit plans which are stated at their fair value.

The Financial Report does not include all of the notes 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 2019, together with any public announcements made by the Company during or since the half year ended 29 February 2020 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

c) Estimates

The preparation of the Interim Financial Report 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 2019, except for the new significant judgements related to lease accounting under AASB 16 *Leases*, which are described in Note 12.

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. This is the first set of financial statements of the Group where AASB 16 *Leases* has been applied. Refer to Note 12 for information relating to the impacts on adoption of this standard.

e) Accounting standards issued but not yet implemented

The Group has not early adopted any new or amended standards in preparing the consolidated financial statements.

f) 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 of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016.

g) Comparatives

Where applicable, and except for the effect of AASB 16 *Leases,* comparative periods have been adjusted to disclose comparatives on the same basis as the current period.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SEGMENT REPORT

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the other segments. AASB 8 Operating Segments requires disclosure of segment information 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).

Segment information is presented to the CEO for the following segments:

Segment	Principal activities
Australia	Distribution of pharmaceutical, medical, health, beauty and lifestyle products to pharmacies, the purchase and sale of health, beauty and lifestyle products within the retail industry and provider of retail services to pharmacies, including the Clear Skincare business which specialises in non-invasive cosmetic products and procedures. The Group predominantly operates within Australia. Monthly management reports provided to the CEO report Australian reportable segment profit.
New Zealand	Manufacturer and owner of rights for pharmaceutical medicines and consumer toiletries. Products are sold in New Zealand and exported.

	Half year ended February							
	Australia		New Zealand		Eliminations		Consolidated	
In thousands of AUD	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Revenue								
External sales	1,936,319	1,873,273	20,287	26,416	-	-	1,956,606	1,899,689
External services	76,461	77,408	-	-	-	-	76,461	77,408
Inter-segment revenue[(i)]	-	-	8,057	7,636	(8,057)	(7,636)	-	-
Total segment revenue	2,012,780	1,950,681	28,344	34,052	(8,057)	(7,636)	2,033,067	1,977,097
Reportable segment gross profit	244,431	249,203	10,784	16,693	-	-	255,215	265,896
Reportable segment profit	**40,563**	**42,125**	**(1,259)**	**2,293**	**-**	**-**	**39,304**	**44,418**
Unallocated amounts								
Net financing costs							(10,254)	(8,079)
Profit before tax							**29,050**	**36,339**
Income tax expense							(6,539)	(11,349)
Profit for the half year							**22,511**	**24,990**
Attributable to:								
Ordinary shareholders of the Company							21,757	24,240
Non-controlling interest							754	750

(i) All inter-segment sales are on an arm's length basis.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE AND OTHER INCOME

	Half year ended	
In thousands of AUD	**29 Feb 20**	**28 Feb 19**
Revenue		
Sales revenue	1,956,606	1,899,689
Service revenue	76,461	77,408
Total revenue	**2,033,067**	**1,977,097**
Other income		
Gain on disposal of property, plant and equipment	64	253
Interest fee income	3,106	3,475
Net foreign exchange gain/(loss)	6	(15)
Dividend income	1,373	788
Change in the fair value of financial liabilities	6,940	-
Total other income	**11,489**	**4,501**

4. FINANCE INCOME AND COSTS

	Half year ended	
In thousands of AUD	**29 Feb 20**	**28 Feb 19**
Interest income on bank deposits	77	310
Finance Income	**77**	**310**
Interest expense	(3,884)	(4,533)
Borrowing costs	(1,327)	(1,423)
API rewards	(2,126)	(2,397)
Finance expense on leased assets	(2,994)	(36)
Finance expenses	**(10,331)**	**(8,389)**
Net finance costs	**(10,254)**	**(8,079)**

5. EARNINGS PER SHARE

	Half year ended	
In thousands of AUD	**29 Feb 20**	**28 Feb 19**
Profit attributable to shareholders of the Company	**21,757**	**24,240**
In thousands of shares		
Basic weighted average number of ordinary shares for the half year	492,608	492,498
Effect of potential ordinary shares on issue through conversion of performance rights	4,083	3,530
Diluted weighted average number of shares for the half year	**496,691**	**496,028**
In cents		
Basic earnings per share	4.4	4.9
Diluted earnings per share	4.4	4.9

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. INTANGIBLE ASSETS

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

The Group has identified the following cash generating units to which goodwill and brand names with indefinite useful lives have been allocated:

	Australia		New Zealand		Clear Skincare		Total	
In thousands of AUD	**29 Feb 20**	**31 Aug 19**	**29 Feb 20**	**31 Aug 19**	**29 Feb 20**	**31 Aug 19**	**29 Feb 20**	**31 Aug 19**
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
Clearskincare brand name	-	-	-	-	34,601	34,601	34,601	34,601
Brand names	**96,360**	**96,360**	**-**	**-**	**34,601**	**34,601**	**130,961**	**130,961**
Goodwill	**35,151**	**35,151**	**17,235**	**16,862**	**53,913**	**53,913**	**106,299**	**105,926**
Other intangible assets	**35,767**	**39,912**	**3,121**	**3,472**	**-**	**-**	**38,888**	**43,384**
Total intangible assets	**167,278**	**171,423**	**20,356**	**20,334**	**88,514**	**88,514**	**276,148**	**280,271**

Indefinite life intangible assets are tested for impairment at least annually by calculating the recoverable amount of the CGU to which the intangible assets belong, and comparing the recoverable amount to the carrying value of that CGU. They are then compared to the carrying value of that CGU. The Australia, New Zealand and Clear Skincare CGUs were assessed for impairment indicators at reporting date and no indicators of impairment were present. As a result of the subsequent event as set out in Note 13, the Clear Skincare CGU was subject to impairment testing over the carrying value of the CGU at 29 February 2020. From the result of the impairment testing, no impairment was required.

7. CONTINGENCIES

Contingent liabilities

	As at	
In thousands of AUD	**29 Feb 20**	**31 Aug 19**
Financial guarantees to pharmacists	9,275	9,175

Financial guarantees of $9,275,000 (31 August 2019: $9,175,000) 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 held over the assets.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. LOANS AND BORROWINGS

	As at	
In thousands of AUD	29 Feb 20	31 Aug 19
Current liabilities		
Insurance premium funding	-	2,822
Finance lease liabilities	-	286
Cash advance facilities - secured	-	54,544
Bank overdraft	-	1,944
Total current liabilities	**-**	**59,596**
Non current liabilities		
Finance lease liabilities	-	230
Securitisation of trade receivables	70,059	63,817
Cash advance facilities - secured	5,760	40,636
Interest bearing loans	65,000	65,000
Total non current liabilities	**140,819**	**169,683**

In December 2019, the Group repaid the $60.0m cash advance loan facility in current liabilities, and partially reduced the cash advance loan facility in non-current liabilities following the disposal of shares held in Sigma Healthcare Limited ('Sigma Healthcare'). The non-current cash advance loan facility term was extended to May 2021.

The facilities are secured by way of a fixed and floating charge over the assets of the Group. Interest is based on the bank-bill reference rate plus a margin charged by the lender.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 16 December 2019 the Group submitted to the ASX a notice indicating that it would cease to be a substantial holder in Sigma Healthcare, advising that the Group had sold its shareholding of 137,264,592 shares.

(a) Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) comprise of equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category.

(b) Financial assets at fair value through other comprehensive income

Financial assets at FVOCI comprise the following individual investments:

	As at	
In thousands of AUD	29 Feb 20	31 Aug 19
Non-current assets		
Sigma Healthcare Limited - Listed securities	-	87,849
Total financial assets at fair value through other comprehensive income	**-**	**87,849**

(c) Amounts recognised in the profit or loss and other comprehensive income

During the period, the following gains/(losses) were recognised in profit or loss and other comprehensive income.

	Half year ended	
In thousands of AUD	29 Feb 20	28 Feb 19
Changes in the fair v alue of financial assets at FVOCI recognised in other comprehensiv e income	(5,087)	(1,483)
Div idend from financial assets at FVOCI recognised in profit or loss	1,373	788

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(d) Risk exposure

Equity price risks refers to the risk that the value of a financial instrument or its associated cash flows will fluctuate due to changes in the underlying share prices. In the prior year, the Group had exposure to equity price risk arising from its holding of listed equity securities.

As a result of the sale of Sigma Healthcare shares on 16 December 2019, there were no holdings of financial assets at 29 February 2020 with equity price risk.

10. CAPITAL AND RESERVES

	As at	
In thousands of shares	**29 Feb 20**	**31 Aug 19**
Shares on issue at beginning of the period - fully paid	492,533	492,428
Ordinary shares issued during the period pursuant to the Company's Long Term Incentive Plan	123	105
Shares on issue at the end of the period - fully paid	**492,656**	**492,533**

Equity item	Description and accounting policy
Ordinary shares	The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid and are recognised at the fair value of the consideration received by the Company, net of post-tax share issue costs. 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 Company.
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.
Control reserve	The control reserve represents additional consideration to be paid for the acquisition of non-controlling shareholders' interests in Clear Skincare Clinics.
Non-controlling interest	Represents the non-controlling interest in the Clear Skincare Clinics business that is held by other minority shareholders. This is recognised as the non-controlling interest's proportionate share of Clear Skincare Clinic's net identifiable assets.
Fair value reserve	The net change in the fair value of financial assets measured at fair value through other comprehensive income is shown in this reserve and will not be subsequently reclassified to profit or loss.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. FAIR VALUE MEASUREMENTS

Financial assets at FVOCI are Level 1 financial instruments as the measurement is derived from quoted prices that are directly observable on the ASX. 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). The fair value of cash flow hedges have been obtained from third party valuations derived from forward interest rates at the balance sheet date. The employee defined benefit plan financial asset is measured using Level 3 inputs, being an independent actuarial valuation performed on an annual basis. The put and call option liability recognised on the acquisition of Clear Skincare has been measured using Level 3 inputs being the present value, discounted using a risk adjusted discount rate of the exercise price of the option which is a fixed amount.

Other financial liabilities include liabilities relating to the mandatory dividend payments and contingent consideration payable to non-controlling shareholders of CSC. The Group has assessed these liabilities as Level 3 financial instruments as there are no observable market inputs. The Group has determined fair value using the present value technique based on the probability weighted expected cash outflows, discounted using an appropriate risk adjusted discount rate. Probability assessment includes estimating the likelihood of performance hurdles being met for the payment of contingent consideration, and the expected level of future profitability of the CSC business for the payment of mandatory dividends.

There have been no transfers between levels 1, 2 and 3 for recurring fair value measurements during the half-year.

At 29 February 2020 the fair value of the financial assets at FVOCI were $nil (31 August 2019: $87,849,339), the cash flow hedges were a liability of $169,426 (31 August 2019: asset of $138,743), the employee defined benefit plan an asset of $682,000 (31 August 2019: asset of $682,000) and the financial liabilities payable to non-controlling shareholders amounted to $66,903,905 (31 August 2019: $72,832,706).

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.

12. NEW ACCOUNTING STANDARDS

a) New accounting standards and interpretations

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

- AASB 16 *Leases*
- AASB 2017-1 *Amendments to Australian Accounting Standards – Annual Improvements 2014-2016*
- AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015-2017*
- AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*

The adoption of all amending standards above, apart from AASB 16 *Leases,* did not have any material impact on the disclosures or amounts recognised in the consolidated financial report for the half year ended 29 February 2020.

AASB 16 Leases

The Group adopted AASB 16 *Leases* on 1 September 2019, using the modified retrospective approach, with the cumulative effect of initial application being recognised as an adjustment against the opening accumulated losses with no restatements for comparative periods.

AASB 16 *Leases* has established a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligations to make lease payments.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's accounting policies.

Operating lease expense is replaced by depreciation expense on the right-of-use asset and interest expense on the lease liability.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. NEW ACCOUNTING STANDARDS (CONTNIUED)

a) New accounting standards and interpretations (continued)

AASB 16 Leases (continued)

From time to time the Group enter into lease agreements on behalf of Franchisees, where the Group holds the head lease in a subleasing arrangement. In this scenario, determination must be made as to whether the lease is an operating or finance lease and is a matter of judgement which depends on the substance or form of the contract. For subleases that are deemed to be finance leases the Group recognises the assets held as a lease receivable at an amount equal to the net investment in the lease.

The lease liability is initially measured at the present value of the future lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group's lease portfolio includes various distribution centres, retail premises, warehouse machinery, motor vehicles and office equipment typically for fixed periods of 3 to 10 years. The Group's leases may have extension options in order to maximise operational flexibility when managing contracts. These options are exercisable only by the Group as a lessee and not the respective lessor. The lease agreements are negotiated individually and do not impose any covenants.

The Group has applied judgement to determine the lease term for some lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The adoption of AASB 16 had the following impact on the Consolidated Balance Sheet of the Group at 1 September 2019:

In thousands of AUD	Reported as at 31 Aug 19	AASB 16 impact	Opening balance as at 1 Sep19
Right-of-use asset	-	157,324	157,324
Lease receivable	-	34,927	34,927
Property Plant & Equipment	107,130	2,797	109,927
Net deferred tax assets	31,049	4,848	35,897
Total assets impact		**199,896**	
Trade and other payables – current	(790,270)	8,089	(782,181)
Lease liabilities - current	-	(50,722)	(50,722)
Lease liabilities - non-current	-	(168,388)	(168,388)
Total liabilities impact		**(211,021)**	
Accumulated losses	(110,189)	(11,125)	(121,314)
Total equity impact		**(11,125)**	

On adoption of AASB 16 *Leases*, the Group has recognised lease liabilities for leases previously classified as operating leases under the principles of the previous standard AASB 117 *Leases*. On adoption, these leases were measured at the present value of remaining lease payments discounted using the lessee's incremental borrowing rate as at 1 September 2019. The Group's incremental borrowing rate in its capacity as lessee was a weighted average of 2.64%.

The following practical expedients have been applied, as permitted by AASB 16 *Leases*:

- Application of a single incremental borrowing rate for a portfolio of leases with reasonably similar characteristics,
- Reliance on previous assessments on whether leases are onerous,
- Treatment of operating leases with a remaining lease term of less than 12 months at 1 September 2019 as short-term leases, and
- Application of hindsight in determining where the contract contains options to extend or terminate the lease.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. NEW ACCOUNTING STANDARDS (CONTINUED)

a) New accounting standards and interpretations (continued)

AASB 16 Leases (continued)

A reconciliation of operating lease commitments at 31 August 2019 to 1 September 2019 is provided below:

In thousands of AUD	2019
Operating lease commitment at 31 August 2019	210,712
Discounted using incremental borrowing rate at date of initial application	(24,498)
Adjustments for reasonably certain extension options and leases in holdover	33,120
Recognition exemptions - Short term leases	(224)
Lease liability at 1 September 2019	**(219,110)**
Lease liability - current	(50,722)
Lease liability - non-current	(168,388)

The movement in lease liabilities from adoption on 1 September 2019 to the half year 29 February 2020 is presented below:

In thousands of AUD	
Lease liability at 1 September 2019	(219,110)
Additions	(15,322)
Modifications	(1,631)
Disposals	54
Interest incurred	(3,456)
Payments on lease liabilities	35,331
Foreign currency exchange differences	(186)
Lease liability at 29 February 2020	**(204,320)**
Lease liability - current	(46,352)
Lease liability - non-current	(157,968)

The movement in right-of-use assets from adoption to the half year 29 February 2020 is presented below:

In thousands of AUD	
Opening right-of-use asset at 1 September 2019	160,121
Reclassifications between property, plant and equipment	(2,797)
Additions	15,162
Modifications	1,631
Disposals	(167)
Depreciation	(27,930)
Foreign currency exchange differences	178
Total right-of-use asset at 29 February 2020	**146,198**

The movement in lease receivables from adoption to the half year 29 February 2020 is presented below:

In thousands of AUD	
Opening lease receivable at 1 September 2019	34,927
Receipts from subleases	(4,481)
Interest incurred	470
Modifications	17
Total lease receivable at 29 February 2020	**30,933**

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. NEW ACCOUNTING STANDARDS (CONTINUED)

a) New accounting standards and interpretations (continued)

AASB 16 Leases (continued)

Adoption of the new standard has resulted in the Group no longer incurring operating lease expense under AASB 16 *Leases*, however, this has been replaced with an increase in interest and depreciation expense. The following segments were affected by the change in policy during the half year.

In thousands of AUD	AUS	NZ	Consolidated
Occupancy costs	(29,564)	(260)	(29,824)
Depreciation and amortisation	27,843	225	28,068
Finance costs	2,935	59	2,994
Income tax expense	(364)	(7)	(371)
Net profit after tax	**850**	**17**	**867**

b) Accounting standards issued but not yet implemented

The Group has not early adopted any new or amended standards in preparing the consolidated financial statements.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. SUBSEQUENT EVENTS

Dividends

Since the end of the half year the Directors have resolved to not pay an interim dividend.

Coronavirus Disease 2019 (COVID-19)

In January 2020, the World Health Organisation ('WHO') declared a "public health emergency of international concern" over the outbreak of COVID-19 in the city of Wuhan in China. By the end of February 2020, the total number of confirmed cases of the virus in Australia was below 30.

Subsequently, in March 2020 the WHO increased their rating of COVID-19, declaring it to be a "pandemic" and requested governments worldwide to escalate plans for containment. By mid-April the number of confirmed cases in Australia has grown to over 6,647 cases.

In March 2020 the Australian Government progressively increased containment measures. These have included social distancing, strict travel conditions both domestically and internationally, limits on indoor social gatherings, and temporary closures of non-essential businesses, services and schools. The Australian Government and Reserve Bank of Australia have introduced stimulatory fiscal and monetary policies in an effort to mitigate the expected economic impacts from the temporary containment measures.

The Group's approach to COVID-19 has been to keep the safety and wellbeing of our staff and customers paramount in our decision making. The Group has processes in place to protect people from, and to reduce the spread of, COVID-19 wherever possible. These processes are applicable to operations at our pharmacy distribution centres, manufacturing sites, retail stores and clinics, as well as our support offices.

COVID-19 did not have a material impact on the financial position, performance or operating activities of the Group during the half year ended 29 February 2020.

Since half-year end the Group has seen a positive increase in demand for PBS and other medicines through the pharmacy supply chain. Priceline Pharmacy continues to play an important role in the distribution of medicines to the community at this critical time. As a result of government health advice and increasingly stringent social distancing measures, on 25 March 2020, the Group announced a temporary closure of all Clear Skincare Clinics. At the date of these financial statements, the Group continues to manage the impact arising from the continuing spread of COVID-19 and associated government responses announced subsequent to balance date. The Directors are of the opinion that the Group's strong financial position will allow flexibility in managing its response to COVID-19 and the execution of its strategic plans.

Other than the situation described above, the Directors have not become aware of any other significant matter or circumstance that has arisen since 29 February 2020, 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 consolidated financial statements and notes set out on pages 8 to 23 are in accordance with the *Corporations Act 2001* including:

(i) giving a true and fair view of the financial position of the Group as at 29 February 2020 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 Melbourne this 22nd day of April 2020.

Signed in accordance with a resolution of the Directors:

Mark G Smith

Mark Smith
Chairman

Independent Auditor's Review Report

To the shareholders of Australian Pharmaceutical Industries Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim 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 29 February 2020 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 ***Interim Financial Report*** comprises:

- Consolidated balance sheet as at 29 February 2020
- Consolidated income statement, Consolidated statement of 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 13 comprising a summary of significant accounting policies and other explanatory information
- 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 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*
- 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 for the review of the Interim Financial Report

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 29 February 2020 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 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.

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

KPMG

KPMG

Tony Romeo

Partner

Melbourne

22 April 2020