APPENDIX 4E

Australian Pharmaceutical Industries Limited

ABN 57 000 004 320

Final report for the year ended 31 August 2020

The following information is presented in accordance with ASX Listing Rule 4.3A and should be read in conjunction with the attached Financial Report for the year ended 31 August 2020.

1. DETAILS OF THE REPORTING PERIOD AND THE PREVIOUS CORRESPONDING PERIOD

Current period	Year ended 31 August 2020
Previous corresponding period	Year ended 31 August 2019

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

For the year ended 31 August	2020 $'000	2019 $'000	Change $'000	Change %
Revenue from ordinary activities	**4,019,525**	4,010,725	8,800	0.2%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**91,940**	123,115	(31,175)	(25.3%)
Earnings before interest and tax (EBIT)	**4,432**	94,046	(89,614)	(95.3%)
Profit / (loss) before tax	**(14,647)**	73,740	(88,387)	(119.9%)
Net profit / (loss) after tax for the year (NPAT)	**(7,937)**	56,577	(64,514)	(114.0%)
Underlying net profit after tax for the year(i)	**30,647**	56,577	(25,930)	(45.8%)
Underlying net profit after tax for the year(i) (excl. AASB 16 *Leases*)	**32,468**	56,577	(24,109)	(42.6%)
Earnings per share (in cents)				
Basic earnings per share	**(1.7)**	11.2	(12.9)	(115.2%)
Diluted earnings per share	**(1.7)**	11.1	(12.8)	(115.3%)
Underlying basic earnings per share - consolidated group (i)	**6.2**	11.5	(5.3)	(46.1%)

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 EPS to underlying net profit and underlying basic EPS.

Commentary on the results for the period

For an explanation of the results, refer to the Results Announcement and Results Presentation issued 22 October 2020.

3. DIVIDEND INFORMATION

	Amount per share (cents)	Franking percentage	Total Amount A$	Date of payment
Year ended 31 August 2020				
Final ordinary dividend - proposed	2.00	100%	9,853,120	15 December 2020
Record date: 12 November 2020				
Interim ordinary dividend	-	-	-	-
Year ended 31 August 2019				
Final ordinary dividend - paid	4.00	100%	19,706,241	12 December 2019
Interim ordinary dividend - paid	3.75	100%	18,740,013	31 May 2019

There is no dividend reinvestment plan currently in operation.

APPENDIX 4E

Australian Pharmaceutical Industries Limited

ABN 57 000 004 320

Final report for the year ended 31 August 2020

4. NET TANGIBLE ASSET BACKING (CENTS PER SHARE)

As at 31 August	2020	2019
Net tangible asset backing - cents per share	38.5	41.2

(i) The NTA as at 31 August 2020 includes the right-of-use assets in respect of leases of $125.1m and lease liabilities recognised under AASB 16 Leases of $182.2m. If right-of-use assets were excluded as at 31 August 2020, the NTA calculation would have been 13.1 cents per share.

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

There were no acquisitions, disposals, or loss of control over any entities during the year ended 31 August 2020. There were several newly incorporated entities during the year, for further details please see Note 17.

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 4E disclosure requirements can be found in the attached Financial Report for the year ended 31 August 2020, which contains the Directors' Report (including the audited Remuneration Report), the Directors' Declaration and the 31 August 2020 consolidated financial statements and accompanying notes as follows:

- Consolidated income statement;
- Consolidated statement of comprehensive income;
- Consolidated balance sheet;
- Consolidated statement of changes in equity;
- Consolidated statement of cash flows;
- Notes to the consolidated financial statements; and
- Operating and Financial Review (OFR).

The consolidated financial statements have been audited and the auditor has provided an unmodified opinion.

7. SHAREHOLDER CALENDAR

Results announcement	22 October 2020
Record date	12 November 2020
Final dividend payment	15 December 2020
2021 Annual General Meeting	
Date	20 January 2021
Time	2:00 pm
Location	Four Seasons Hotel 199 George Street Sydney 2000 (To be confirmed)
Approximate date that Annual Report will be available	15 December 2020

8. FURTHER INFORMATION

INVESTOR CONTACT
Richard Vincent or Carolyn Ireland
Phone: +61 3 8855 3007

MEDIA CONTACT
Gabriel McDowell
Phone: +61 417 260 918
Email: gmcdowell@respublica.com.au

APPENDIX 4E

Australian Pharmaceutical Industries Limited

ABN 57 000 004 320

Final report for the year ended 31 August 2020

ATTACHMENT 1 – RECONCILIATION OF REPORTED INFORMATION TO UNDERLYING INFORMATION

Reconciliation of reported NPAT to underlying NPAT	**Year ended 31 August**	
In thousands of AUD	**2020**	**2019**
Reported net profit / (loss) after tax	(7,937)	56,577
Add:		
Impairment of brand name	26,250	-
Costs incurred for business restructuring and reorganisation [(i)]	12,334	-
Underlying NPAT	**30,647**	56,577
Underlying basic earnings per share - consolidated group (in cents)	**6.2**	11.5
Impact of adoption of AASB 16 *Leases* after tax	**1,821**	-
Underlying NPAT (excl. AASB 16 *Leases*)	**32,468**	**56,577**
Underlying basic earnings per share - consolidated group (in cents) (excl. AASB 16 *Leases*)	**6.6**	**11.5**

(i) Costs associated with business restructuring and reorganisation are reflected within Cost of sales ($4.1m) and Administration and general expenses ($8.2m) within the Consolidated Income Statement

Underlying NPAT and underlying basic EPS – 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.

AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

ABN: 57 000 004 320

ASX Code: API

FINANCIAL REPORT FOR THE YEAR ENDED 31 AUGUST 2020

TABLE OF CONTENTS

Glossary

Below is a glossary of abbreviations used in the Financial Report including the Directors' Report (including the Remuneration Report.

All currencies are expressed in Australian Dollars, unless stated otherwise.

Abbreviation	Definition	Abbreviation	Definition
AASB	Australian Accounting Standards Board	LTIFR	Lost Time Injury Frequency Rate
CAGR	Compound Annual Growth Rate	LTIP	Long Term Incentive Plan
CEO	Chief Executive Officer	MTI	Medical Treatment Injury
CODB	Underlying Cost of Doing Business as a percentage of total revenues for the year - includes total operating expenses excluding cost of sales, depreciation, amortisation and excludes one-off charges	MTIFR NPAT PBS	Medical Treatment Injury Frequency Rate Net Profit After Tax Pharmaceutical Benefits Scheme
CSC	Clear Skincare business	ROCE	Return on Capital Employed
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation	ROE	Return on Equity
EBIT	Earnings before Interest and tax	ROIC	Return on Invested Capital
EPS	Earnings Per Share	STIP	Short Term Incentive Plan
FBT	Fringe Benefits Tax	TRIFR	Total Recordable Injury Frequency Rate
FY18	Financial Year ended 31 August 2018	TSR	Total Shareholder Return
FY19	Financial Year ended 31 August 2019	VWAP	Volume Weighted Average Closing Price
FY20	Financial Year ended 31 August 2020		
GRI	Global Reporting Initiative		
IFRS	International Financial Reporting Standards		
KMP	Key Management Personnel		
LTI	Lost Time Injury		

DIRECTORS' REPORT
BOARD OF DIRECTORS

The Directors are pleased to present their report together with the financial report of Australian Pharmaceutical Industries Limited (the Company or API) and its controlled entities (the Group) for the financial year ended 31 August 2020 and the auditor's report.

This Report is made on 21 October 2020.

DIRECTORS

The Directors of the Company during the financial year and up to the date of this Report are:

Director	Appointment date and Committee memberships	Profile
Mr Kenneth W. Gunderson-Briggs B. Bus, FCAANZ, MAICD, FIML, JP	Independent non-executive Director appointed on 6 May 2014 Senior Independent Non-Executive Director from 2 September 2015 until 29 January 2019 Chair – Audit and Risk Committee appointed on 25 January 2017 and member since 6 May 2014 Member – Remuneration Committee appointed on 8 April 2015 Member – Nomination Committee appointed on 3 August 2020 Interim Chair of the Board - appointed on 4 September 2020.	Mr Gunderson-Briggs is a chartered accountant in public practice, registered company auditor and a public company Director, with broad experience in finance and the retail franchise sectors. Mr Gunderson-Briggs was a Director of Glenaeon Rudolf Steiner School Limited from 2009 until May 2018, and its Chair from 2013 until May 2018. <u>Other listed company directorships at any time during the last 3 years:</u> • Harvey Norman Holdings Limited (June 2003 - current)
Ms Lee Ausburn **M.Pharm,B.Pharm, Dip.Hosp.Pharm, FAICD**	Independent Non-executive Director appointed on 7 October 2008 Member – Audit and Risk Committee appointed on 7 October 2008 Chair – Nomination Committee appointed on 8 April 2015 and member since 15 August 2012 Member – Remuneration Committee appointed on 3 August 2020.	Ms Ausburn is a pharmacist with experience in retail and hospital pharmacy and in academia. She had a long career in the pharmaceutical industry with Merck Sharp and Dohme (Australia) Pty Ltd and was previously Vice President, Asia, for Merck and Co Inc with responsibility for the company's operations across Asia. Ms Ausburn was President, Pharmacy Faculty Foundation, University of Sydney until December 2017. <u>Other listed company directorships at any time during the last 3 years:</u> • nib Holdings Limited (November 2013 - current) • SomnoMed Limited (September 2011 – 24 August 2020)

DIRECTORS' REPORT
BOARD OF DIRECTORS (CONTINUED)

Director	Appointment date and Committee memberships	Profile
Ms Jennifer Macdonald B.Com, ACA, MEI, GAICD	Independent Non-executive Director appointed on 9 November 2017 Member – Audit and Risk Committee appointed on 9 November 2017 Chair – Remuneration Committee and member appointed on 22 January 2020	Ms Macdonald has a strong background in financial and general management roles across a range of industry sectors including fast moving consumer goods, travel and digital media. Ms Macdonald was previously Chief Financial Officer and Interim Chief Executive Officer at Helloworld Travel and Chief Financial Officer and General Manager International at REA Group. Ms Macdonald is a member of the Institute of Chartered Accountants ANZ and has a Masters of Entrepreneurship and Innovation from Swinburne University. Other listed company directorships at any time during the last 3 years: • Redbubble Limited (February 2018 - current) • Bapcor Limited (September 2018 - current) • Redflow Limited (December 2017 – September 2019)
Mr Richard C. Vincent **B.Bus, (Accountancy), CPA**	Executive Director CEO and Managing Director appointed on 15 February 2017	Mr Vincent started his professional career in finance with Bridgestone before moving to Britax Rainsfords where he was CFO. He joined FH Faulding & Co Limited in 1998 and remained with that company until 2005, during which time he held a number of senior leadership roles, including responsibility for the pharmacy distribution, retail merchandise and generic pharmaceutical development. Mr Vincent joined API in 2005. He has held a number of general management roles including pharmacy distribution and business development, strategy, supply chain, franchise recruitment, IT, manufacturing and mergers and acquisitions. Mr Vincent is the Chair of the National Pharmaceutical Services Association and was also a Director of CH2 Holdings Pty Ltd from 2006 to 2015.

New Director from 23 October 2020		
Ms Janine Allis	Independent Non-executive Director appointed with effect from 23 October 2020	Ms Allis is a successful businesswoman with extensive experience in retail and franchising. She founded Boost Juice Bars and the Retail Zoo group of food retail brands and has led innovation in digital marketing and customer engagement. Ms Allis has won numerous retail and franchise awards and has been appointed an Ambassador to United Nations High Commission for Refugees. She is currently a non-executive director of the Olivia Newton-John Foundation and was previously a Director of the Hawthorn Football Club. Other listed company directorships at any time during the last 3 years: • Michael Hill International Limited (June 2016 – current; will retire on 27 October 2020)

DIRECTORS' REPORT
BOARD OF DIRECTORS (CONTINUED)

Retired Directors		
Mr Mark Smith Dip Business (Marketing), FAICD, FIML, FAMI, CPM	Independent Non-executive Director appointed on 6 September 2017 Chair of the Board appointed on 24 January 2018 Member (interim) Audit and Risk Committee from 6 September to 9 November 2017	Mr Smith ceased to be a Director and Chair on 4 September 2020.
Mr Robert D. Millner FAICD	Non-executive Director appointed on 5 May 2000 Member – Remuneration Committee appointed on 2 October 2007 Member – Nomination Committee appointed on 15 August 2012	Mr Millner ceased to be a Director and Committee Member on 9 July 2020.
Mr Gerard J. Masters	Independent Non-executive Director appointed on 7 September 2010 Member – Nomination Committee appointed on 15 August 2012 Chair – Remuneration Committee appointed on 30 January 2014 Member (interim) – Audit and Risk Committee from 1 March 2017 to 6 September 2017	Mr Masters ceased to be a Director and Committee Member on 22 January 2020.

COMPANY SECRETARY

Ms Anne Mustow, B.Com., LLB, GAICD, Grad. Dip. Applied Finance has been Company Secretary and General Counsel since 26 July 2019. Ms Mustow was admitted to legal practice in 1994, holds a current practising certificate, is a former Partner of Blake Dawson Waldron (now Ashurst), is the former General Counsel and Company Secretary of Bunnings Group and is a former Non-executive Director of two not for profit organisations.

DIRECTORS' MEETINGS

The number of Board and Board Committee meetings held and attended by each of the Directors who are members of them during the financial year are listed below. In addition, Directors who are not members of Board Committees are invited to all Committee meetings and attend Committee meetings from time to time, with the Chair and the CEO and Managing Director attending most Committee meetings by invitation.

DIRECTORS' REPORT
BOARD OF DIRECTORS (CONTINUED)

Director	Board		Audit and Risk		Remuneration		Nomination	
	Held(i)	Attended	Held(i)	Attended	Held(i)	Attended	Held(i)	Attended
Mr Kenneth W. Gunderson- Briggs	14	14	7	7	4	4	-	-
Ms Lee Ausburn(ii)	14	14	7	7	2	2	1	1
Ms Jennifer Macdonald(iii)	14	14	7	7	2	2	-	-
Mr Richard C. Vincent	14	14	-	-	-	-	-	-
Retired Directors								
Mr Mark Smith(iv)	14	13	-	-	-	-	-	-
Mr Robert Millner(v)	12	12	-	-	2	2	1	1
Mr Gerard J. Masters(vi)	6	5	-	-	2	2	1	1

(i) Number of meetings held during the time the Director was a member of the Board or Committee.
(ii) Appointed Remuneration Committee member on 3 August 2020
(iii) Appointed Remuneration Committee Chair and member on 22 January 2020
(iv) Ceased to be a Director and Chair on 4 September 2020
(v) Ceased to be a Director on 9 July 2020
(vi) Ceased to be a Director on 22 January 2020

DIRECTORS' REPORT
OPERATING AND FINANCIAL REVIEW

The Directors are pleased to present their report, together with the financial statements.

The Company has included the following non-statutory measures which are used by the Chief Operating Decision Maker to measure the financial performance of the Company:

- Underlying NPAT
- Underlying EBITDA
- Total network register sales (including dispensary)
- Cash Conversion Days
- Revenue excluding Hepatitis C Medicine, and
- Cost of Doing Business (CODB) (excluding Hepatitis C Medicine)

The Directors are of the view that these non-statutory measures provide useful information to allow shareholders to understand the financial performance of the Company, but should not be considered as an indication of, or substitution for reported information. These non-statutory measures have not been audited or reviewed in accordance with Australian Auditing Standards.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the wholesale distribution of pharmaceutical goods to pharmacies, retail services to pharmacies, retail of health and beauty products to consumers through a network of Priceline and Priceline Pharmacy franchise stores and company owned Priceline stores in Australia, and the provision of non-invasive aesthetic beauty services and the sale of beauty products through the Clear Skincare network of clinics in Australia and New Zealand. In addition, Clear Skincare manufactured beauty products in Australia and the Group manufactured pharmaceutical and toiletry goods in New Zealand for distribution to the New Zealand, Australian and Asian markets. There have been no significant changes in the nature of the principal activities during the year.

FINANCIAL PERFORMANCE

FINANCIAL HIGHLIGHTS VERSUS PRIOR YEAR

$3.9B	-$181.1M	-4.2 DAYS	-70BPS	2.0c
REVENUE EXCLUDING HEP UP 1.6%	NET DEBT TO $18.0 MILLION	CASH CONVERSION DAYS TO 16.8	COST OF DOING BUSINESS TO 10.2%	DIVIDEND PAYOUT 33% OF UNDERLYING NPAT

COMPANY GROWTH

UNDERLYING NPAT* ($'M)

**FY20 excludes AASB16*

DIRECTORS' REPORT
OPERATING AND FINANCIAL REVIEW (CONTINUED)

FINANCIAL PERFORMANCE (Continued)

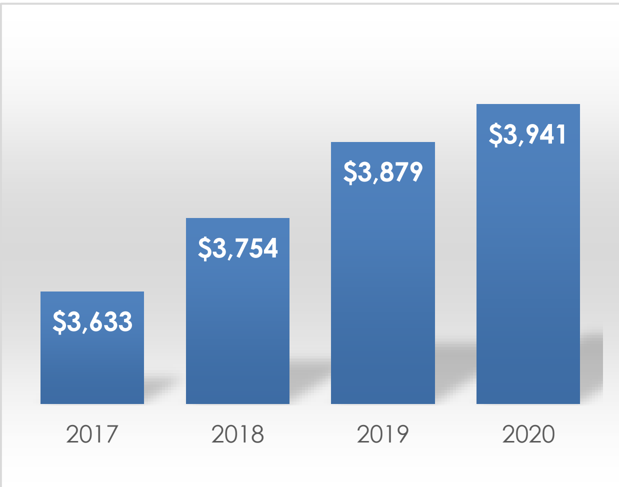
Consolidated $'000	FY2019	FY2020	Change
Revenue*	3,878,859	3,940,683	1.6%
Gross Profit*	517,540	473,910	(8.4%)
Operating Expenses**	451,784	487,753	8.0%
Reported EBITDA**	123,115	32,215	(73.8%)
Underlying EBITDA**	123,115	87,334	(29.1%)
Reported NPAT	56,577	(7.937)	(114.0%)
Underlying NPAT**	55,109	32,468	(42.6%)

**Reported on an ex Hepatitis C Medicine basis*
*** FY2020 Normalised for AASB16*

Our Financial Performance has been impacted by two crises this year, the bushfires in the Eastern States and more significantly the COVID-19 pandemic. COVID-19 resulted in changes in demand which were experienced by all of our businesses and it particularly impacted negatively upon Priceline, Priceline Pharmacy and Clear Skincare. The COVID-19 lockdown regulations resulted in temporary store and clinic closures which in turn resulted in reduced revenue for these businesses. We also incurred costs associated with COVID-19 responses which are included in our Underlying adjustment, and the Clear Skincare business received COVID-19 support and assistance which partly subsidised staff costs when Clear Skincare clinics were temporarily closed.

The Group's revenue excluding Hepatitis C Medicine(i) was $3.9 billion representing a 1.6% increase on prior year. This increase reflects the resilience of our businesses despite the negative impact during the year of two crises – the bushfires in the Eastern States in the first half of the financial year and COVID-19 in the second half of the year which resulted in temporary closures of all Clear Skincare clinics at different times and 22 Priceline stores were temporarily closed in Victoria as a result of lockdown restrictions. Despite the significant impact of these crises, Pharmacy Distribution revenue was $2.9 billion (excluding Hepatitis C Medicine), up 6.4% on prior year. Priceline and Priceline Pharmacy recorded a decline in total network register sales(ii) by 5.2% on the prior year and Clear Skincare revenue was $40.3 million, down 11.7% on prior year reflecting particularly the impact of COVID-19. The Priceline and Priceline Pharmacy store network reduced by a net 14 stores to 474 as a result of the closure of stores including ones in central business district locations in larger cities that had been adversely impacted by the move to working from home. The closure of these stores has resulted in an optimised network that we believe is positioned to grow. Clear Skincare increased by 15 clinics to 67 at year end and it also has a strong growth pipeline.

REVENUE ($'M EXCLUDING HEPATITIS C MEDICINE)



(i) Hepatitis C medicine sales are excluded due to its very high cost and inconsequential profit contribution.

(ii) Register sales by Pharmacies do not form part of the sales of the Group.

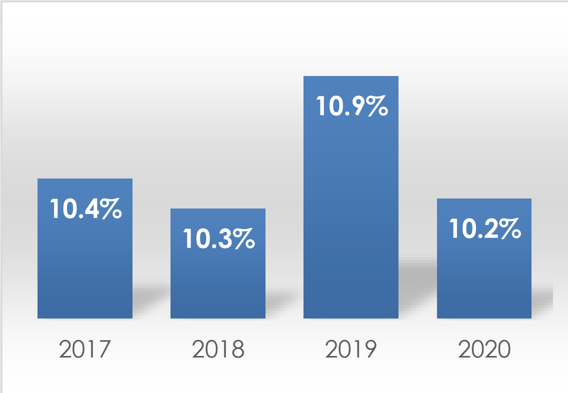
DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

FINANCIAL PERFORMANCE (Continued)

The Group's CODB[(iii)] has reduced significantly this year as a result of our focus on driving efficiencies through the business. When comparing the past four years and noting that 2017 and 2018 were prior to the inclusion of Clear Skincare which had driven this metric up, CODB has remained consistently low reflecting a strong focus on cost management. In FY20 we continued our focus on building a strong operating platform for future growth. We have closed 2 Distribution Centres which will permanently reduce costs and we have undertaken a reorganisation that will also deliver ongoing cost savings.

UNDERLYING COST OF DOING BUSINESS (EXCLUDING HEPATITIS C MEDICINE)[(iii)*]



(iii) CODB includes warehousing, distribution, marketing, sales, administration, and general expenses excluding depreciation and is a percent of Revenue

** FY20 Normalised for AASB16*

OPERATING PERFORMANCE

Priceline and Priceline Pharmacy

Priceline and Priceline Pharmacy recorded a reduction in total network register sales (including dispensary) of 5.2% to $2.1 billion. Of note is that 'register' sales made by franchisees do not form part of the financial results of API Ltd. During the past 12 months the bushfires in the southern states followed by COVID-19 had a significant impact upon revenue in this business. Despite these setbacks the Priceline and Priceline Pharmacy teams have remained focused on the following achievements:

- The Priceline Sister Club loyalty program remains one of the leading health and beauty membership programs and largest programs by membership in Australia. The program was relaunched with a new structure and benefits for Sister Club members. We now have tiered member levels that reward our high margin and loyal customers, and we are tracking customer behaviour closely with active customer management and more targeted marketing.

- The Priceline online store has proven to be successful. Our omni channel ecommerce includes Click and Collect from store and Click and Deliver to our customer from our stores which take advantage of our significant national network. Our online orders are despatched to customers, on average, inside 20 hours.

- Priceline launched a new brand belief – 'We believe people only feel better when they feel they matter'. This is the Priceline story, and it will inform everything from how Priceline interacts with customers, the products it ranges and the way it presents to the market. This increased customer insight will drive a step-change enhancement in customer service and customer engagement; and

- The Priceline store network was optimised by taking swift action to close stores during the year including company owned non-pharmacy stores in CBD locations in response to structural changes resulting from customers working from home. We had 474 stores at year end, a net reduction of 14 stores over the year. The business is positioned to grow the franchise network over the coming year with a strong pipeline of new stores in place and pharmacists continuing to join the network.

We expect the result of these significant achievements over the year place Priceline and Priceline Pharmacy in a strong position for continued growth.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

OPERATING PERFORMANCE (Continued)

Pharmacy Distribution

Pharmacy Distribution revenue was $3.0 billion, a 3.9% increase on prior year. Excluding Hepatitis C Medicine, overall reported sales growth was 6.1%. This is a strong result in the current environment. The business grew independent accounts as well as adding a number of large pharmacy groups, demonstrating strong pharmacy advocacy driven by the sales support API provides and the retail programs offered by API that are tailored to suit the individual business needs of our customers.

During the second half of the year, the 7th Community Pharmacy Agreement (7CPA) was agreed and it commenced on 1 July 2020 for five years. This agreement provides increased funding and certainty of funding for the Community Services Obligation pool (CSO) participants, including API, for four years and certainty of funding for our community pharmacies which are core to our business. The 7CPA resulted in the CSO funding pool increasing with the potential for additional distribution revenue per unit for API that will defray ongoing costs. A floor price was introduced, amongst a number of other positive changes.

Clear Skincare

Clear Skincare revenue was $40.3 million, a decrease of 11.7% on prior year. This decrease reflects the impact of mandated COVID-19 closures in Australia and New Zealand that meant that at some stage during the year all clinics were temporarily closed. Clear Skincare was eligible for COVID-19 support and assistance totalling $3.8 million which partially offset the cost of the clinic staff that were unable to work when their clinics were temporarily closed.

Clear Skincare continued its rapid growth phase with an increase of 15 clinics for the year reaching a total of 67. This represents an increase of 23 clinics since the business was purchased in 2018. Taking advantage of the temporary clinic closures during the year the business launched 'Clear Skincare @home' online site that resulted in an increase in Clear Skincare online products sales. In addition, Clear Skincare relocated five clinics to improved locations and maintained a focus on safety and efficiency by implementing new COVID-19 safe procedures. Clear Skincare also added two new higher margin skin treatments to its product range; Skin Pen and HydraFacial, with these treatments expected to grow Clear Skincare's margin.

API Consumer Brands

New Zealand manufacturing segment revenue was $63.3 million, an 18.3% decrease on prior year. COVID-19 impacted negatively on this business primarily as a result of reduced access to raw materials, resulting in lost revenue. The business sources a significant amount of raw material from China and India and these avenues were restricted at times during the year. Despite these setbacks the business increased its range of products particularly in generics and skincare and now produces over 590 products up from 370 last year. During the year it produced half a million units of hand sanitiser with sales of sanitiser for the New Zealand market.

Underlying adjustments

We have written down our Soul Pattinson brand name, a reduction before tax of $37.5 million. There were 43 Soul Pattinson stores in the network at year end and it is expected that the store numbers will remain at around the current level, with these stores suited to their respective locations and trading well. We do not intend to grow the Soul Pattinson network further which has resulted in this write down. We have 1,505 members in all of our pharmacy programs, an increase of 42 stores on prior year, and our focus will be on growing this combined network.

In addition, we have restructuring and reorganisation underlying adjustments totalling $17.6 million before tax and these include costs associated with COVID-19 safety and compliance, the cost of Priceline store closures, the cost of closing two Distribution Centres and other restructuring costs.

DIRECTORS' REPORT
OPERATING AND FINANCIAL REVIEW (CONTINUED)

OPERATING PERFORMANCE (Continued)

Response to COVID-19

API continues to benefit from its efficient national distribution network, the non-discretionary nature of a significant portion of its sales and efficient working capital and this has been evident throughout COVID-19. Our approach to COVID-19 and the impact thereof is as follows:

1. Focus on safety and support; our first priority was and remains the safety of our staff, franchise partners and our customers. We introduced appropriate safety measures in our Priceline stores, Clear Skincare clinics, Distribution Centres, our manufacturing sites and in our offices. While distribution is an essential service and people needed to work on site, some support areas worked from home and this was implemented effectively. We added appropriate assistance and leave arrangements for our staff to support their wellbeing. Our staff engagement increased over the year and this reflects the success of these programs to ensure our staff are safe and well.
2. Responded to changes in customer demand; Pharmacy Distribution, Priceline and Priceline Pharmacy experienced unprecedented demand at the onset of COVID-19 as consumers brought forward spend in pharmaceutical and over the counter products. These businesses experienced a slow-down in demand in subsequent months and both Priceline company stores, and Clear Skincare clinics experienced temporary store and clinic closures. We took the opportunity to restructure our Priceline business, continue with our cost reengineering program and further improve our balance sheet and cash position.
3. Accelerated digital capabilities; we have focussed on customer loyalty, digital personalisation and omni channel e commerce which allows our customer to decide when and how they interact with us. The pandemic reinforced the importance of our approach and we accelerated the roll out of Click and Deliver, adding to our existing Click and Collect offering, which enables online orders to be delivered to our customer from their closest store which shortens our despatch times. We upgraded our Clear Skincare online store and launched our at home products.
4. During the year we further strengthened Balance Sheet; this allow us the capacity and agility to grow organically and inorganically. This has positioned up well to respond to COVID-19. Our Net Debt at $18.0 million has improved by $181.1 million over the year and this places us to grow in the year ahead.

FINANCIAL POSITION

The Company reported a net debt position of $18.0 million, compared to $199.1 million in prior year reflecting the success of an Inventory optimisation program that introduced world leading Artificial Intelligence machine learning to optimise inventory ordering based on current customer behaviour and buyer data. This program has driven permanent cost savings for API combined with the sale of Sigma shares in the first half and working capital improvement reducing inventory levels by $45.1 million in addition to further improvements in Debtor and Creditor management. Net cash conversion days was 16.8 days reflecting a strong focus on working capital management. The Company is currently operating comfortably within the Group's debt finance facility limits and associated banking covenants.

Our re-engineered Balance Sheet has sufficient capacity to allow us to self-fund the Sydney Distribution Centre development fitout, with a spend in the order of $50.0 million with the majority of the spend in our 2022 financial year. We have recently signed contracts with the developer and construction is expected to commence later this year.

The capital expenditure for the year was $40.0 million, a $4.3 million increase on prior year reflecting an increase of 15 Clear Skincare clinics compared to an increase of 8 clinics in the prior year, and spend on business growth projects including new product development in Consumer Brands.

Recognising a strong underlying performance and strong cash generation despite the impact of COVID-19, the Board has decided to pay a fully franked final dividend of 2.0 cents per share fully franked.

BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

API remains focused on leveraging its organisational, strategic and physical assets across Australia and New Zealand to drive value accretion for its shareholders.

To ensure that API's business strategies remain relevant and market leading, the Company's Board performs a regular review of the short and long term overall strategy and strategic initiatives. The Board reviews and approves the Company's strategic goals and supporting initiatives across all business units and functions and particularly recently in light of the social and economic changes that have and will arise as a result of COVID-19.

Our Vision is 'Enriching Life' and our ways of working are *be well, show you care, make it better, act now*. The overall business strategies relating to this Vision and which are relevant to the Company's future financial position and performance are set out below.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

OPERATING PERFORMANCE (Continued)

By applying these strategic goals to the Company's business plans, there is a continued emphasis on capitalising on the strengths of the Company, particularly in the health and beauty retail market and in non-invasive skin treatments, while maintaining the Group's strong national community pharmacy wholesale distribution business. This means the Company intends to continue to:

- consistently deliver a differentiated and personalised experience for our customers and continue to promote the Priceline Pharmacy franchise proposition to grow the store network;
- continue to operate Priceline Pharmacy to be a compelling proposition for pharmacists who wish to offset the impact of PBS reforms, leverage retail and pharmacy expertise and drive further growth from integrated dispensary and retail programs;
- build loyalty, increase engagement with the Priceline Sister Club loyalty program and promote increased customer engagement through all channels including the Priceline website and social media;
- optimise the size and value of the store network for all brands;
- deliver superior value and service to independent pharmacy customers driving scale for Pharmacy Distribution;
- provide consistent, valued, and measurable service improvement to all customers and suppliers;
- drive continuous improvement and cost savings through our Supply Chain;
- grow our Clear Skincare offer to customers, both through opening clinics and offering new products and services;
- continue to innovate and optimise our Consumer Brands manufacturing business;
- optimise the value of our business portfolio with a focus on our retail businesses through investment, divestment, and acquisition;
- be at the forefront of health, beauty and wellbeing industry trends, insights and innovation and use customer insights to drive connectivity of health and beauty offerings;
- enrich the community by active support of our Sisterhood Foundation;
- continually enhance our employees experience and wellbeing, and promote an environment to generate, prioritise and execute innovation; and
- improve our sustainability activities including but not limited to safety performance.

Certain strategic information has been omitted from this Report because its inclusion would be likely to result in material prejudice to the Group.

DIRECTORS' REPORT
OPERATING AND FINANCIAL REVIEW (CONTINUED)

MATERIAL BUSINESS RISKS

The Group's activities expose it to a number of economic and business risks. The Group addresses these risks through a risk management framework which is aligned with the strategic planning process and integrated into all areas of the business.

The risk management process involves examining the risk profile of the Group, identifying the risk universe and documenting those factors which contribute to the risk environment. An annual review is performed by management, along with a refresh at half year which includes assessing the effectiveness of the current controls which are in place to manage identified risks.

The results of these reviews are provided to the Audit and Risk Committee for its consideration and for it to make recommendations to the Board. The most recent update was provided to the Audit and Risk Committee in respect of the Group's risk profile and risk management plans in August 2020.

The COVID-19 pandemic has impacted all areas of the business over the second half of the financial year. The recently completed risk assessment has considered all material risks for the Group arising from the pandemic with robust strategies and action plans developed to address them.

The following is a summary of the most material and significant risks facing the Group and how the Group addresses them.

Risk	How the risk is addressed by the Group
Structural reforms within the Australian community pharmacy sector This relates to the risk of unfavourable Government reforms and changes in Government initiatives, regulation and legislation (including, for example, changes to the PBS).	The Group works to minimise any adverse commercial impacts and responds where appropriate. Responsive strategies may include a combination of adjusted discounts to pharmacy customers and operational changes. The Group also closely monitors costs associated with complying with its Community Service Obligation. Additional funding has been secured through 7CPA negotiation.
Ongoing competitor threats There is a risk that the Group is exposed to significant existing and/or new competitors in the Australian pharmacy, retail, health and beauty markets.	API continues to focus on its customer value proposition. It leverages the market leading Priceline offer, including, for example, further personalisation of offers to Priceline Sister Club members, offer new and exclusive products and continue to ensure it provides high quality and innovative services to customers.
Continuity of supply There is a risk that the Group is exposed to substantial supply chain disruption, as has been experienced during the COVID-19 pandemic.	API is focussed on negotiating and securing robust supply agreements with appropriate due diligence and negotiation processes. Effective relationships are maintained with key suppliers, both domestic and international, to minimise supply chain disruptions and where appropriate, alternate sources of supply are explored.
Cyber security and IT systems failure There is a risk that the Group's IT systems are compromised by third party actions. The risks include customer privacy breaches and major IT system failures which adversely impact the ability of the Group to conduct business.	The Group performs regular reviews of all security configurations aligned with current industry standards. There is regular security testing across the entire IT landscape and protocols in place for regular monitoring and reporting.
Financial risk The Group is exposed to a number of financial risks including customer payment defaults, financial guarantees supporting pharmacy customers and the risk of general retail trading conditions impacting revenue.	The Group adopts a financial risk management program which seeks to minimise potential adverse impacts on the financial performance of the Group.
Professional services and products There is a risk that customers are exposed to inappropriate treatments, service delivery or unsafe products.	The Group has governance and compliance management structures and standards in place that aim for continuous improvement. The supporting compliance frameworks and processes are subject to regular management risk assessment and internal audit review with strategic oversight provided by the Audit and Risk Committee.

DIRECTORS' REPORT

OTHER MATTERS

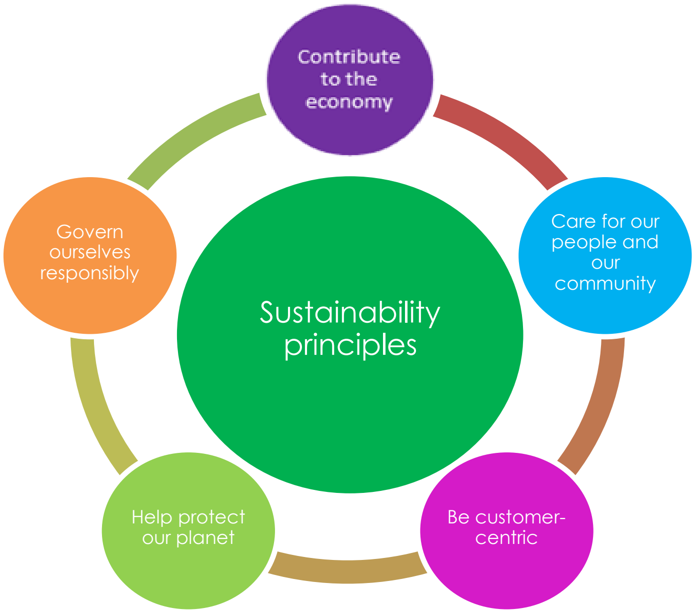
SUSTAINABILITY

This year, the Group has prepared a more comprehensive Sustainability Report which may be downloaded from the API website https://www.api.net.au/investor/annual-reports/ .

In summary, during the year, the Group introduced its new Sustainability Vision and updated its Sustainability Principles.

The Sustainability Vision and Principles align with the Group's Vision of "Enriching Life" and reflect its corporate culture.

We enrich our world through sustainable choices which help our community and our environment



The Sustainability Committee coordinates the management of sustainability risks and benefits. It comprises senior executives from across the Group and is chaired by the CEO & Managing Director. The Board, through the Audit and Risk Committee, has oversight of Sustainability.

Sustainable choices in action

Whilst the year has been tumultuous in respect of the bushfires and the COVID-19 pandemic, there are three particular highlights which reflect the Group's Sustainability Principles: Priceline stores raising $241,000 for bushfire relief; adding more than $1 million to our tally of support for the Priceline Sisterhood Foundation; and the Group's response to the COVID-19 pandemic.

The importance of the Group's role from the wider community's perspective, has remained front and centre of the Group's decision-making during the COVID-19 pandemic; prioritising communities and people, to enable and support them.

Environmental performance

The Group has further progressed its management of environmental risk during the year. There has been no known noncompliance with environmental laws or action taken against any part of the Group by environmental regulators. A number of initiatives were undertaken during the financial year to reduce our impact on the environment, including:

- installation of LED lighting
- "paperless" initiatives
- a focus on plastic reduction and
- making various environmentally-friendly decisions relating to the design of the new Sydney distribution centre.

Also, climate change risk is monitored as part of the Group's risk management framework.

These matters are described in more detail in the API 2020 Sustainability Report.

DIRECTORS' REPORT

OTHER MATTERS (CONTINUED)

INSURANCE AND INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the year, the Company paid a premium in respect of a contract insuring the Directors and officers against liabilities to another person, other than the Company or a related body corporate, that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The contract of insurance insures any past, present or future director, secretary, executive officer or employee of the Group. Further details have not been included in this Report due to confidentiality provisions of the contract of insurance.

Each Director and the Company Secretary is party to a Director's Access, Indemnity and Insurance Deed. In each case, this Deed includes an indemnity in favour of the relevant officer, by the Company (subject to and to the fullest extent permitted by applicable law), summarised as follows:

a) for any liability incurred by the Director as an officer of the Company;

b) for legal costs incurred by the Director in defending proceedings for a liability incurred as an officer of the Company, or in seeking relief from that liability under applicable law; and

c) for any liability for legal costs incurred by the Director in connection with legal proceedings of a Government or Regulatory authority which is brought against the Director because of their present or former capacity as on officer of the Company.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the nature of the activities of the Group during the year, other than the changes resulting from the COVID-19 pandemic, including many employees working from home and some permanent closure of Priceline stores and temporary closures of Priceline and Clear Skincare stores during the pandemic.

SUBSEQUENT EVENTS

On 1 September 2020, the Group paid $32.9m to the minority shareholders of the Clear Skincare business to increase the ownership in this business from 50.2% to 75.2%. This acquisition was agreed as part of the original acquisition of Clear Skincare in 2018 and further details are included in Note 25 to the Financial Report. Subsequent to year-end, investment in the Group's distribution network continued with operations scheduled to commence at a new Distribution Centre in Sydney (New South Wales) in 2022.

Details of the final dividend, which the Board resolved after the balance date to propose to pay, is set out in Note 7 to the Financial Report.

No other matter or circumstance has arisen since the end of the financial year which may significantly affect the future operations or results of the Group or the future state of affairs of the Group.

DIVIDENDS

A dividend was paid by the Company during the year ended 31 August 2020 in respect of the year ended 31 August 2019. This payment was made on 12 December 2019. The dividend was at the rate of 4.0 cents per share, fully franked and totalled $19.7 million.

No interim dividend was paid by the Company in respect of half year ended 29 February 2020.

LIKELY DEVELOPMENTS

The Group will continue to pursue its policy of improving the profitability and market share of each of its major operating businesses during the next financial year, including delivering on the strategies and initiatives outlined in the operating and financial review.

Further information regarding the business strategies of the Group and the expected results of operations in future financial years have not been included in this Report as disclosure of this information would likely result in unreasonable prejudice to the Group.

NON-AUDIT SERVICES

During the year KPMG, auditors of the Group, have performed some non-audit services..

The Board has considered the non-audit services provided during the year by the auditor. In accordance with written advice provided and endorsed by resolution of the Audit and Risk Committee, the Board is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the general standard of auditor independence imposed by the Corporations Act 2001, for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and

DIRECTORS' REPORT

OTHER MATTERS (CONTINUED)

- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group, or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, for audit and non-audit services provided during the year are set out in Note 23 to the Financial Report.

The Board, through the Audit & Risk Committee, reviews and approves any non-audit services provided by the auditor having regard to market benchmarks and to ensure that the provision of these services delivers value for the benefit of shareholders and does not impact the independence of the audit.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration is set out on page 30 and forms part of the Directors' Report.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that Instrument, amounts in the consolidated financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated 21 October 2020

Signed in accordance with a resolution of the Directors:

Ken Gunderson-Briggs

Kenneth W. Gunderson-Briggs

Interim Chair

DIRECTORS' REPORT
REMUNERATION REPORT

Dear Shareholder,

On behalf of the Board, I am pleased to present the Remuneration Report for the year ended 31 August 2020 (FY20).

The FY20 financial year has presented unprecedented challenges for the Group and the global community more broadly. The COVID-19 pandemic compounded with the devastating bushfires and wide-spread drought in Australia has resulted in significant health, environmental and economic consequences. As an essential service provider in Australia's medicines supply chain, API has been at the forefront in responding to these challenges by supporting community pharmacies and providing critical services.

As the COVID-19 pandemic began to develop, the management team worked with the Australian Government and our industry to ensure community pharmacies were able to continue to operate and distribute medicine. We have worked hard with pharmacies and with landlords to try and minimise the financial pain inflicted by the pandemic. We have provided flexibility to our business partners to allow them to better cope with the pandemic, including reducing franchise fees for a number of franchisees and assisting some with their rental obligations. Paramount to this was the safety of all our staff, partners and customers.

Like many companies, these challenges have had a financial impact on the FY20 results of the Group. The various State governments mandated COVID-19 lockdown regulations resulting in temporary Priceline store and Clear Skincare clinic closures and costs incurred with managing the COVID-19 response have resulted in a decrease in FY20 earnings. In addition, and to ensure that we emerged from these challenges in a strong position and to drive growth for the future, we restructured the business and incurred one-off costs associated with this. The challenges experienced in FY20 have had an impact on remuneration and this Report describes the way in which Directors and Executives have been remunerated.

SUMMARY OF REMUNERATION MATTERS FOR FY20

The following is a summary of the matters impacting the Group's remuneration structure and strategy:

- there have been no changes to the Short Term Incentive Plan (STIP) or the Long Term Incentive Plan (LTIP) measures or opportunities during the financial year;
- the NPAT of the Group for FY20 did not meet the minimum gateway requirements for any STIP payments. Accordingly, no Executive KMP will receive an STI award in respect of FY20. The internal forecast in February, prior to the onset of the COVID-19 pandemic, indicated that the FY20 NPAT gate was likely to be achieved however the Board has elected not to apply discretion to pay any KMP executive an amount under the FY20 STIP;
- the three-year performance period for the 2017 LTIP ended on 31 August 2020. Vesting of the 2017 LTIP performance rights was subject to meeting the cumulative ROE and EPS CAGR performance conditions. Whilst consideration was given to the impact of the COVID-19 pandemic on the financial performance of the Group, there was no vesting of an award under the 2017 LTIP;
- as flagged in previous reports an independent review of market data had shown Board fees to be well below market median. As a result, the Board decided to implement increases to align with market median over a two year period. The second year of the Board fee adjustments were completed in January 2020, prior to the COVID-19 pandemic, details are provided in Section 3 of this Report. There will be no changes to Non-Executive Director fees (including Committee fees) in FY21; and
- separately, a discretionary bonus of $100,000 paid to the CEO and $50,000 to the CFO in November 2019 pertaining to strategic initiatives undertaken in FY19.

DIRECTORS' REPORT
REMUNERATION REPORT (CONTINUED)

EXECUTIVE REWARDS FOR FY21 AND BEYOND

The Group's executive remuneration and reward structure has been unchanged for many years. Accordingly, in FY21 a full review of the structure will be undertaken to ensure that it continues to:

- align with current contemporary thinking around reward and remuneration;
- support our business objectives;
- be market competitive and sustainable; and
- align with shareholders interest.

We thank you for your support in FY20.

Yours sincerely
Jenny Macdonald
Chair of the Remuneration Committee

REMUNERATION REPORT - AUDITED

This Report explains the processes used in remuneration decisions and the outcomes of remuneration decisions for KMP for FY20 and is prepared in accordance with Section 300A of the Corporations Act 2001 (as amended) for the Company and its subsidiaries.

The rest of this Report has been audited by the Group's Auditor, KPMG, as required by Section 308(3C) of the Corporations Act 2001.

This Remuneration Report is in sections as follows:

Section 1 Overview of Remuneration Reporting and Governance

1.1 Key Management Personnel

1.2 Non-Executive Director Key Management Personnel

1.3 Executive Key Management Personnel

1.4 Remuneration Governance

Section 2 Executive KMP Remuneration (including the CEO and Managing Director)

2.1 Policy and Principles

2.2 Remuneration Structure

2.3 Short Term Incentive Plan (STIP)

2.4 Long Term Incentive Plan (LTIP)

2.5 Employment Contracts

2.6 Remuneration of Executive KMP

Section 3 Non-executive Director KMP Remuneration

3.1 Policy and Principles

3.2 Remuneration of Non-executive Director KMP

Section 4 Other matters required by Section 300A Corporations Act 2001

4.1 Movement in shares held by the KMP

4.2 Earnings and Consequences of Performance on Shareholders' Wealth

4.3 Comments on Remuneration Report at the most recent Annual General Meeting (AGM) of the Company

4.4 Related party transactions

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

SECTION 1 OVERVIEW OF REMUNERATION REPORTING AND GOVERNANCE

1.1 KEY MANAGEMENT PERSONNEL

As defined under AASB124, KMP have the authority and responsibility for planning, directing and controlling the activities of the Group. At API they are:

1. the Non-executive Directors;
2. the CEO and Managing Director; and
3. the Chief Financial Officer.

1.2 NON-EXECUTIVE DIRECTOR KEY MANAGEMENT PERSONNEL

Mark Smith	Chair (ceased 4 September 2020)
Lee Ausburn	Director
Gerard Masters	Director (ceased 22 January 2020)
Robert Millner	Director (ceased 9 July 2020)
Kenneth Gunderson-Briggs	Director (Interim Chair from 4 September 2020)
Jennifer Macdonald	Director

1.3 EXECUTIVE KEY MANAGEMENT PERSONNEL

Richard Vincent	CEO and Managing Director
Peter Mendo	Chief Financial Officer

1.4 REMUNERATION GOVERNANCE

Ultimately, the Board is responsible for the Group's remuneration policies and practices. To assist the Board with this, it has established the Remuneration Committee to review issues and practices relating to remuneration and reward and to make recommendations to the Board. The Remuneration Committee is governed by its Charter (available on www.api.net.au) which has been prepared taking into account the ASX Corporate Governance Principles and Recommendations. The Charter specifies the purpose, authority, membership and activities of the Remuneration Committee and the Charter is annually reviewed by the Committee to ensure it remains consistent with regulatory requirements. The Charter has recently been amended to reflect the inclusion of succession planning and oversight of corporate culture in the scope of the Remuneration Committee's work.

Membership of the Remuneration Committee consists of Non-executive Directors. During the year members of the Remuneration Committee were Mr Gerard Masters, Mr Robert Millner, Mr Kenneth Gunderson-Briggs, Ms Jennifer Macdonald and Ms Lee Ausburn. Ms Macdonald was appointed as Chair of the Remuneration Committee following Mr Masters' retirement, and Ms Ausburn was appointed to the Committee following Mr Millner's resignation.

Engagement of Remuneration Consultants

While the Remuneration Committee seeks external advice from advisers who are independent of management on remuneration matters, it did not receive a remuneration recommendation as defined under Section 9B of the Corporations Act 2001 during the year ended 31 August 2020.

SECTION 2 EXECUTIVE KMP REMUNERATION (INCLUDING THE CEO AND MANAGING DIRECTOR)

2.1 Policy and Principles

The policy of the Board for determining Executive KMP remuneration is to:

- offer a remuneration structure that will attract, focus, retain and reward highly capable people;
- ensure that remuneration takes into account a fair and transparent job evaluation processes which are linked to comparable market data and relevant experience of the employee;
- clearly and transparently link performance with remuneration outcomes;
- encourage and integrate appropriate risk management within the reward framework;
- build employee engagement;
- ensure total remuneration is competitive by market standards; and
- align management and shareholder interests through the ownership of Company shares.

DIRECTORS' REPORT
REMUNERATION REPORT (CONTINUED)

Executive KMP remuneration is determined having regard to the nature of the Executive KMP's position, benchmarking data and the performance of the individual.

The policy referred to above is linked to performance of the Company through the total remuneration of each Executive KMP incorporating variable "at risk" elements to link reward with the achievement of business objectives and financial performance (including earnings) of the Group.

The role of the Remuneration Committee includes reviewing and making recommendations to the Board regarding Executive KMP remuneration. The Remuneration Committee may seek independent advice on the appropriateness of remuneration levels.

2.2 Remuneration Structure

The Executive remuneration framework as it applies to the Executive KMP comprises:

- fixed remuneration; and
- performance linked remuneration in the form of STIP and LTIP opportunities.

Fixed Remuneration

Fixed remuneration includes salary, fringe benefits, charges related to employee benefits (including motor vehicles) and employer contributions to superannuation funds.

Fixed remuneration levels are typically reviewed annually, each November, and set with regard to each position and the median market level for comparable roles. Any adjustment needs to consider individual segment results and overall performance of the Group. In addition, external consultants provide data and analysis from time to time to help ensure that executive remuneration is appropriate in the context of market practice and stakeholder expectations.

Performance linked remuneration

Performance linked remuneration includes both short term and long term incentives and is designed to reward Executive KMP and other executives for meeting or exceeding their financial and non-financial objectives. The short term incentive is in the form of a cash payment and deferred rights to acquire shares ("STIP Performance Rights") while the long term incentive is in the form of deferred rights to acquire shares ("LTIP Performance Rights"). Performance Rights will only vest subject to meeting the relevant performance conditions and length of service requirements.

The Board has discretion in relation to the making of awards under the STIP and the LTIP, including discretion to cancel any unvested STIP Performance Rights in appropriate circumstances (for example, excessive risk taking, material misstatement of financial statements or fraudulent or gross misconduct).

The Group has a policy prohibiting recipients of share-based payments from entering into arrangements to hedge their exposure to losses arising from share price decreases, noting that entering into such arrangements has also been prohibited by law since 1 July 2011.

2.3 Short Term Incentive Plan (STIP)

The STIP is an annual incentive plan for Executives and certain other senior employees. The STIP is designed to reward performance in the following areas:

- Group NPAT performance
- business unit financial performance; and
- individual achievement of performance goals linked to the Group's strategic objectives and demonstration of Group values and behaviours.

The aims of the STIP are to:

- provide a clear link between individual and organisational performance on the one hand and executive reward on the other;
- recognise individual, team and Group performance, and encourage collaboration between business units and functions;
- align the interests of executives; and
- drive a high performance leadership culture.

The STIP performance conditions have been determined to reflect these aims. Actual STIP awards depend on meeting certain criteria; however the Board retains discretion as to application of the criteria and the making of STIP awards.

The determination of STIP awards reflects Group performance as follows:

- for each eligible individual, a target incentive, which is set at the beginning of the financial year (as a percentage of salary) (**Target Incentive**);

DIRECTORS' REPORT
REMUNERATION REPORT (CONTINUED)

- a gateway requirement of Group Net Profit After Tax (NPAT) set by the Board (**Group Performance Gateway**); and
- for each eligible individual, whether he or she has satisfied the relevant weighted financial and non-financial eligibility criteria.

The STIP structure reflects the Board's view that multiple measures of performance help to diversify risk.

The Board approves the performance conditions for the STIP pool each financial year, which includes the minimum financial performance that must be met, and the maximum amount of the STIP pool.

For FY20 the STIP performance-payout calibration was as follows:

- Minimum STIP pool = 90% of Group Performance Gateway
- Maximum STIP pool = 110% of Group Performance Gateway

STIP Payment and STIP Performance Rights

Fifty percent of any STIP awarded to the executive is paid in cash and fifty percent is provided in the form of STIP Performance Rights. STIP Performance Rights vest and can be converted for no consideration into fully paid ordinary shares in the Company on a one for one basis after a 12 month deferral period.

The number of STIP Performance Rights awarded is determined by dividing the value of fifty percent of the STIP award by the Volume Weighted Average Closing Price (VWAP) of API shares on the ASX in the 10-day period after announcement of full year results of the grant year.

Executives who have been awarded STIP Performance Rights will be eligible to receive, at the time of vesting of shares upon conversion of those rights, a cash payment equal to the dividends which would have been paid on those shares during the 12 month deferral period prior to vesting.

The deferred component of the STIP award is designed to manage risk by ensuring that decisions taken in the previous 12 months have resulted in sustainable Group benefit.

CEO and Managing Director

For FY20 The CEO and Managing Director's STIP Target Incentive is equal to: 32.5% of his fixed remuneration if 90% of NPAT Group Performance Gateway is achieved; 65% of his fixed remuneration if the NPAT Group Performance Gateway is achieved; and a maximum payment of 100% of his fixed remuneration if 110% or more of NPAT Group Performance Gateway is achieved.

The CEO and Managing Director's eligibility criteria is determined by the Board each year and is drawn from financial measures such as NPAT and Return on Capital Employed (ROCE). Non-financial measures may include retail sales growth, Priceline Pharmacy network growth, pharmacy distribution market share and improvement targets relating to workplace safety.

The performance measures and weightings for FY20 for the CEO and Managing Director's FY20 STIP award were:

Performance measure	Weighting
NPAT and ROCE	55%
Operational performance	30%
Safety performance (LTIFR)	5%
Succession	5%
Strategic projects	5%

The NPAT result for FY20 did not exceed 90% of the Group Performance Gateway and accordingly the Board did not approve a STIP award for the CEO and Managing Director.

Separately, a discretionary bonus of $100,000 was paid in November 2019, pertaining to strategic initiatives undertaken in FY19.

DIRECTORS' REPORT
REMUNERATION REPORT (CONTINUED)

Other Executive KMP

The STIP award Target Incentive for Executive KMP other than the CEO and Managing Director ("**other Executive KMP**") is equal to: 10% of fixed remuneration if 90% of Group Performance Gateway is achieved; 20% of fixed remuneration if the Group Performance Gateway is achieved; and a maximum payment of 40% of fixed remuneration if 110% or more of the Group Performance Gateway is achieved.

For each other Executive KMP, STIP award entitlement depends on the Executive's business unit meeting an EBIT measure (40% weighting), the Group meeting a ROCE measure (40% weighting) and the individual meeting all of certain key performance indicators (20% weighting) with the first two of these (the financial measures) having to be met before any STIP award is achieved.

The following table summarises the basis of the calculation of the STIP award for other Executive KMP.

	NPAT gateway	Financial Measure 1 40% weighting	Financial Measure 2 40% weighting	Personal Measure 20% weighting
Target	90% of NPAT Target	Business unit EBIT	Company ROCE Target	Individual Targets

The NPAT result for FY20 did not exceed 90% of the Group Performance Gateway and accordingly the Board did not approve a STIP award for other Executive KMP.

2.4 Long Term Incentive Plan (LTIP)

The LTIP provides for the grant of LTIP Performance Rights to eligible Executives to acquire fully paid ordinary shares in API for nil consideration, subject to LTIP Performance Conditions being satisfied. The Board is responsible for granting awards under the LTIP and for overseeing administration of the LTIP.

The key features and application of the LTIP are:

LTIP Offer

- LTIP Performance Rights are granted to participants as soon as practicable after the full year results are announced. This ensures the allocation of LTIP Performance Rights reflects the best informed assessment by the market of Group value and share price;
- the number of LTIP Performance Rights granted is derived by dividing the participant's LTIP target amount by the 10-day VWAP of API shares immediately after announcement of full year results – that is, the 'face value' methodology;
- the maximum value of the LTIP awarded to Executive KMP is respectively:
  - CEO and Managing Director: 60% of Fixed Remuneration; and
  - other Executive KMP: 30% of Fixed Remuneration.
- In the case of the CEO and Managing Director LTIP Performance Rights are subject to shareholder approval at the Annual General Meeting and granted once approval is received.

LTIP Vesting subject to Performance Conditions and other Requirements

- LTIP Performance Rights vest upon the Board confirming that the LTIP Performance Conditions have been met and can then be converted for no consideration into fully paid ordinary shares in the Company on a one-for-one basis.
  - For offers made prior to September 2019 Performance Rights automatically convert to shares upon vesting;
  - For offers since September 2019, participants may elect to convert Performance Rights to shares during a permitted share trading window up until 5 years after vesting. Any Performance Rights not converted by that date will lapse. Upon vesting and conversion, the participant will receive a cash amount equivalent to the declared dividends paid during the performance period in respect of the relevant number of shares.
  - No dividends are received by participants on unvested LTIP Performance Rights during the performance period.
- The LTIP Performance Conditions are tested at the end of the three year performance period. No dividends are received by Executives on unvested LTIP Performance Rights during the performance period but upon vesting, the recipient will receive a cash amount equivalent to the declared dividends paid during the performance period in respect of the relevant number of shares;
- if the Performance Conditions are not fully met, the LTIP Performance Rights lapse proportionately to the extent to which they are met, in accordance with the weightings established at the time of grant;
- to enable shares to be delivered in accordance with the LTIP, the LTIP provides for API shares to be purchased on market on behalf of the participant or for new shares to be issued by the Company;

DIRECTORS' REPORT
REMUNERATION REPORT (CONTINUED)

- the Performance Conditions will be tested only once and any LTIP Performance Rights that do not meet the Performance Conditions will lapse and not be re-tested. If an LTIP participant ceases to be employed before the end of the Performance Period for reasons other than redundancy, death, disability or illness, their LTIP Performance Rights will automatically lapse, subject to Board discretion. If a participant ceases to be employed before the end of the Performance Period and the date of employment ceasing is on or after the first anniversary date of grant and is due to redundancy, death, disability or illness, the number of LTIP Performance Rights will be reduced pro-rata to reflect the proportion of the Performance Period for which the participant was employed;
- the LTIP provides for the clawback of an award if, during the 12 month period after the award is made, issues relating to performance of a participant arise which, if they had been known at the time of the award, would have resulted in no award being made;

Details of LTIP Performance Conditions

- The performance conditions for the 2017, 2018 and 2019 LTIPs include (i) a target measure of earnings per share (EPS) compound annual growth rate (CAGR) over the three year performance period; and (ii) the cumulative return on equity (ROE) achieved by the Group during the three year performance period, compared to the target ROE set by the Board for the same period (Target ROE).

  Each of the two performance conditions (EPS and ROE) contribute equally to a LTIP award – in other words, 50% of the award is dependent on achievement against targets for the ROE metric, and 50% of the award is dependent on achievement against targets for the EPS metric.

  - ROE is expressed as a percentage created by dividing NPAT for the relevant financial period by total shareholder equity for the relevant financial year. The ROE targets are cumulative and derived from the API Group corporate plan for the three years commencing at the beginning of the performance period. The ROE may be varied by the Board in its absolute discretion;
  - the EPS performance condition compares the actual EPS CAGR achieved during the three-year performance period against the target EPS CAGR set by the Board. Target EPS CAGR is derived from the Corporate Plan for the three years commencing at the beginning of the performance period. The initial benchmark EPS that serves as the basis for calculating the CAGR, and the EPS from may be varied by the Board in its absolute discretion;
  - a minimum and maximum target is set for each performance measure;
  - the number of LTIP Performance Rights which will vest under each measure is based on the level of performance between the minimum and maximum target, with performance below the minimum resulting in no payout; performance at the minimum target delivering 20% of the maximum vesting for that measure; performance at the maximum delivering 100% of the maximum vesting for that measure; and performance between the minimum and maximum delivering between 20% and 100% vesting on a straight-line basis; and
  - in determining whether LTIP Performance Rights will vest, the Board will have regard to a range of factors to ensure alignment with long-term overall Group performance, strategic business drivers and long term shareholder returns.

DIRECTORS' REPORT
REMUNERATION REPORT (CONTINUED)

Details of the performance conditions and offer parameters for each LTIP offers currently on foot are:

2017 LTIP offer

Performance Period: 1 September 2017 to 31 August 2020
Shareholder approval for offer to the CEO and Managing Director: Annual General Meeting 24 January 2018

The following are the performance results declared for the 2017 LTIP offer:

Performance Condition	Weighting	Targets		Result Achieved	% Vesting
		Min.	Max.		
ROE (cumulative)	50%	24.32%	39.52%	18.78%	0.0%
EPS CAGR (i)	50%	7.5%	10.0%	(153.20) (ii)	0.0%
Vesting Calibration		20%	100%		0.0%

(i) EPS starting point- 10.7 cents per share
(ii) Based on reported EPS.

the three-year performance period for the 2017 LTIP ended on 31 August 2020. Vesting of the 2017 LTIP performance rights was subject to meeting the cumulative ROE and EPS CAGR performance conditions. Whilst consideration was given to the impact of the COVID-19 pandemic on the financial performance of the Group, there was no vesting of an award under the 2017 LTIP;

2018 LTIP offer

Performance Period: 1 September 2018 to 31 August 2021
Shareholder approval for offer to the CEO and Managing Director: Annual General Meeting 23 January 2019

Performance Condition	Weighting	Targets	
		Min.	Max.
ROE (cumulative)	50%	32.96%	53.56%
EPS CAGR (i)	50%	7.5%	10.0%
Vesting Calibration		20%	100%

(i) EPS starting point – 9.8 cents per share

2019 LTIP offer

Performance Period: 1 September 2019 to 31 August 2022
Shareholder approval for offer to the CEO and Managing Director: Annual General Meeting 22 January 2020

Performance Condition	Weighting	Targets	
		Min.	Max.
ROE (cumulative)	50%	26.48%	43.03%
EPS CAGR (i)	50%	3.65%	5.92%
Vesting Calibration		20%	100%

(i) EPS starting point – 11.5 cents per share

2.5 Employment Contracts

The Company has entered into Executive Service Agreements ("**Agreements**") with Executive KMP. These Agreements outline the components of remuneration to be paid to the Executive KMP. Remuneration levels are reviewed each year to take into account any change in the scope of the role performed, and any other changes required to meet the principles of the Remuneration Policy.

DIRECTORS' REPORT
REMUNERATION REPORT (CONTINUED)

The employment conditions and remuneration of KMP are formalised in the Agreements. No fixed terms are specified in the Agreements and the following termination provisions apply:

- Mr Vincent may resign from the Company by giving three months' written notice. The Company may terminate Mr Vincent's Agreement without cause by providing twelve months' written notice or making a payment in lieu of the notice period. The Agreement provides for a non-compete restriction of up to twelve months after cessation of employment; and
- Mr Mendo may resign from the Company by giving six months' written notice. The Company may terminate Mr Mendo's Agreement without cause by providing six months' written notice or by making a payment in lieu of the notice period. The Agreement provides for a non-compete restriction of up to six months after cessation of employment.

The Company may summarily terminate an Executive KMP's employment in specified circumstances with immediate effect and no termination benefits will apply other than accrued entitlements.

2.6 Remuneration of Executive KMP

Details of the nature and amount of each major element of remuneration of each of the Executive KMP of the are as follows:

Year ended	Salary, fees and compensated absences(i)	Short-term cash profit sharing and other bonuses– STIP	Short-term cash profit sharing and other bonuses - other	Non-monetary benefits/other short-term employee benefits	Total	Post-employment Superannuation contributions	Other post-employment benefits- Long Service Leave	Final benefits	Equity value of Performance Rights granted under STIP(ii)	Equity value of Performance Rights granted under LTIP(ii)	Total Remuneration
	$	$			$	$	$	$	$	$	$
Mr R Vincent – CEO and Managing Director											
31 August 2020	1,099,737	-	108,268[iii]	-	1,208,005	21,118	28,164	-	-	45,373	1,302,660
31 August 2019	1,072,040	-	-	-	1,072,040	20,610	28,778	-	-	(152,809)	968,619
Mr P Mendo – Chief Financial Officer											
31 August 2020	488,963	-	52,597[iv]	-	541,560	21,118	18,014	-	-	11,770	592,462
31 August 2019	478,833	-	-	-	478,833	20,610	12,459	-	-	(42,669)	469,233

(i) Salary & Fees is inclusive of annual leave entitlements.

(ii) The Equity Value reflects the fair value of each Performance Right, and for some, an adjustment is made to reflect the actual and/or likely number that will vest based upon the assessment of applicable non-market based Performance Conditions. An adjustment may result in a negative value to reflect the change from the prior period of the number estimated to vest.

(iii) Includes discretionary bonus awarded in November 2019 for FY19 performance related to recent strategic projects ($100,000), dividend equivalent payment for 2016 LTIP Performance Rights vested ($7,448) and employee service recognition award ($820).

(iv) Dividend equivalent payment for 2016 LTIP Performance Rights vested ($2,597), and payment in relation to living away from home expenses ($50,000).

	Proportion of remuneration performance related (%)	Value of rights as proportion of remuneration (%)
Mr R Vincent – CEO and Managing Director		
31 August 2020	11.8	3.5
31 August 2019	(15.8)	(15.8)
Mr P Mendo – Chief Financial Officer		
31 August 2020	10.9	2.0
31 August 2019	(9.1)	(9.1)

Analysis of Performance Rights over Equity Instruments granted as Compensation (share based payments)

Details of the LTIP Performance Rights awarded as remuneration to each Executive KMP are below.

DIRECTORS' REPORT
REMUNERATION REPORT (CONTINUED)

Executive	Tranche	Number	Fair value per right	Total value	Included in FY20 remuneration	As at the date of this Report Vested	Forfeited(i)
			$	$	$	%	%
Richard C. Vincent							
	2017 LTIP	402,264	1.36	547,079	(89,356)	0.0%	0.0%
	2018 LTIP	416,954	1.17	487,836	(40,653)	0.0%	0.0%
	2019 LTIP(ii)	495,711	1.08	535,368	175,383	0.0%	0.0%
Peter Mendo							
	2017 LTIP	92,311	1.32	121,851	(19,902)	0.0%	0.0%
	2018 LTIP	95,218	1.26	119,975	(9,898)	0.0%	0.0%
	2019 LTIP (ii)	113,300	1.12	126,896	41,570	0.0%	0.0%

(i) The % forfeited in the year represents the reduction from the maximum number of Performance Rights available to vest due to the performance criteria not being achieved.

(ii) The 2019 LTIP offer permits the recipient of Performance Rights which vest to elect the time of conversion of the Performance Rights into shares within a 5 year window.

FY20 STIP Summary

No STIP awards were approved for FY19 or FY20 and therefore no STIP Performance Rights have been issued for those financial years.

FY20 LTIP summary

The Performance Conditions for the current LTIP Performance Rights offers on foot are outlined in section 1.4 of this Report.

The fair value of LTIP Performance Rights is determined in accordance with the requirements of AASB2: Share-Based Payment These requirements invoke the Black Scholes valuation methodology, which takes account of the share price at the time of offer, the volatility of the share price, the performance period and a number of other factors.

The fair value of LTIP Performance Rights varies between the CEO and Managing Director on the one hand, and the other KMP on the other hand, due to the specific timing of the respective offers and the Group closing share price on the actual offer date. The LTIP offer to the CEO and Managing Director is not made until after the annual general meeting approving the relevant offer.

Summary of the valuations of current LTIP Performance Rights:

Grant Date	Valuation of LTIP Performance Rights CEO and Managing Director	Other KMP
2017	1.36	1.32
2018	1.17	1.26
2019	1.08	1.12

Performance Rights over equity instruments

The movement during the reporting period in the number of Performance Rights held directly or beneficially by each Executive KMP, including their related parties, is as follows:

Executive KMP	Held at the beginning of the year	STIP Performance Rights		LTIP Performance Rights			Total held at the end of the year
		Granted during the year	Vested during the year	Granted during the year(i)	Vested during the year	Other changes(ii)	
Financial year 2020							
Richard C. Vincent	1,041,990	-	-	495,711	(35,465)	(187,307)	1,314,929
Peter Mendo	262,529	-	-	113,300	(11,940)	(63,060)	300,829

(i) Total KMP grants of 609,011 rights during the period over new issue shares were equal to 0.12% of common shares outstanding.

(ii) Other changes represent Performance Rights that expired or were forfeited during the year

At the end of the year, no Performance Rights held by Executive KMP have become vested but not convertible to shares.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

SECTION 3 NON-EXECUTIVE DIRECTOR KMP REMUNERATION

3.1 Policy and Principles

Non-executive Directors' fees are determined within an aggregate fee pool limit. An annual total fee pool of $1,200,000 was approved by shareholders at the 25 January 2017 Annual General Meeting. Total Non-executive Directors remuneration including Board Committee fees, non-monetary benefits and superannuation paid at the statutory rate for the year ended 31 August 2020 was $890,377, an increase of 1.9% over those paid in FY19. This total excludes the $170,040 retirement benefit paid to Mr Robert Millner under the Directors' Retirement Scheme (details below).

The Board's policy for remuneration of Non-executive Directors is that it will be determined having regard to non-executive director remuneration benchmarking data (which the Group typically procures biennially), the need to attract and retain appropriately qualified Directors, fee levels applied in companies of similar financial size (total and net assets, revenue, EBITDA and market capitalisation) and business operations, and Board judgement as to whether any adjustments are appropriate. Due to the impact of the COVID-19 pandemic, no increases in Board chair or member fees are planned for FY2021. Non-executive Directors do not receive performance related remuneration.

As reported to shareholders in recent years, independent remuneration benchmarking since 2012 has regularly shown the Group's Board fees to be well below the median of fees paid by comparable companies. The most recent independent review (conducted in 2018) reported that fees were below the 10th percentile for a peer group of comparable companies, and around 25% below the median of fees paid by this peer group. Based on these findings the Board approved an increase of fees in 2019 and 2020 in order to align remuneration with the median of fees for that peer group. The final adjustment was made with effect from 1 January 2020, prior to the COVID-19 pandemic.

The Board considers that market competitive fees are necessary in order to attract and retain high calibre Non-executive Directors.

Under the Directors' Retirement Scheme, which was approved by Shareholders at the 1994 AGM, retiring Non-executive Directors are paid on a pro-rata basis up to ten (10) years' service to a maximum of three (3) times the average annual remuneration in the three (3) years preceding retirement. The retirement benefit is capped at $220,000 per Director and applies only to Directors appointed prior to 9 September 2003. The Directors agreed to freeze this benefit as at 31 August 2009. Mr Robert Millner was the only Director eligible under the Scheme and with his departure, and payment of his entitlement, the Directors' Retirement Scheme is no longer in operation.

Annual non-executive director fees (including superannuation) are as follows, with effect from 1 January 2020:

Role	Annual Fee
Board Chair (including Interim Chair)	$311,327
Board Member	$127,855
Audit and Risk Committee Chair	$35,000
Audit and Risk Committee Member	$8,700
Remuneration Committee Chair	$17,398
Remuneration Committee Member	$8,700
Nomination Committee Chair	(no fee)
Nomination Committee Member	(no fee)

The Board Chair does not receive Committee fees, although the Interim Chair will receive both Chair and relevant Committee fees since Mr. Gunderson-Briggs is continuing as an active member of his current Committees, in conjunction with the additional duties as Interim Chair.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

3.2 Remuneration of Non-Executive Director KMP

Name	Year	Short term benefits ($)	Post-employment benefits ($)		Total remuneration ($)
		Director fees	Other post-employment benefits	Superannuation benefits	
Mark Smith	**2020**	**286,146**	**-**	**7,001**	**293,147**
	2019	223,034	-	20,021	243,055
Robert D. Millner (i)	**2020**	**101,286**	**170,040(ii)**	**9,622**	**280,949**
	2019	101,363	-	9,630	110,993
Lee Ausburn	**2020**	**119,608**		**11,363**	**130,971**
	2019	101,363	-	9,630	110,993
Gerard J. Masters (iii)	**2020**	**46,072**	**-**	**4,377**	**50,449**
	2019	109,019	-	10,359	119,378
Ken Gunderson-Briggs(iv)	**2020**	**150,420**	-	**14,290**	**164,710**
	2019	162,620	-	15,449	178,069
Jennifer Macdonald	**2020**	**128,185**	**-**	**12,008**	**140,193**
	2019	101,363	-	9,630	110,993
TOTAL	**2020**				**1,060,419(v)**
	2019				873,481

(i) For the period 1 September 2019 until 9 July 2020.
(ii) Entitlement under the Directors' Retirement Scheme, amount is reported due to the Director's departure during FY20; however payment was made after 31 August 2020.
(iii) For the period 1 September 2019 until 22 January 2020.
(iv) Ceased holding the position of Senior Independent Director on 29 January 2019.
(v) Total excluding retirement benefit $890,377

SECTION 4 OTHER MATTERS REQUIRED BY SECTION 300A CORPORATIONS ACT 2001

4.1 Movements in shares held by the KMP

The movement during the year (or, in the case of directors who ceased during the year, up until their departure) in the number of ordinary shares of the Company, held directly, indirectly or beneficially by each Executive and Non-executive KMP, including their personally related parties is as follows:

	Number of shares			
KMP	Held at the beginning of the year	Purchases or issues	Sale of shares	Held at the end of the year
Financial year 2020				
Mark Smith	305,000	110,000		415,000
Robert D. Millner(i)	1,755,620			1,755,620
Lee Ausburn	83,334			83,334
Gerard J. Masters(ii)	218,000			218,000
Ken Gunderson-Briggs	30,000			30,000
Jennifer Macdonald	35,000	15,000		50,000
Richard C. Vincent	446,368	35,465(iii)		481,833
Peter Mendo	46,496	11,940(iii)		58,436

(vi) Ceased to be a Director and KMP on 9 July 2020.
(vii) Ceased to be a Director and KMP on 22 January 2020.
(viii) Issued in November 2020 pursuant to the LTIP offer for the performance period 1 September 2016 to 31 August 2019 (2016 LTIP offer)

DIRECTORS' REPORT
REMUNERATION REPORT (CONTINUED)

4.2 Earnings and Consequences of Performance on Shareholders' Wealth

In considering the performance of the Group and the benefits for shareholder wealth, the Board has regard to a range of indicators in respect of senior executive remuneration and have linked these to the previously described short and long term incentives.

The following table presents these indicators over the past 5 financial years, taking into account dividend payments, share price changes and returns of capital during the financial years:

Year ended	31 August 2020	31 August 2019	31 August 2018	31 August 2017	31 August 2016
Earnings (EBIT)	4,432	94,046	82,397	89,276	87,131
Net profit/(loss) ($'000)	($7,937)	56,577	48,202	52,371	51,670
Dividends (cents per share)	2.00	7.75	7.5	7.0	6.0
Share price as at end of year ($)	1.08	1.32	1.85	1.47	1.77

4.3 Comments on Remuneration Report at the most recent annual general meeting of the Company

The Company's most recent annual general meeting was held on 22 January 2020. At this meeting:

a) no comments were considered on the 2019 Remuneration Report;

b) in relation to the resolution that the Remuneration Report be adopted at the meeting, at least 75% of the votes cast were in favour of adoption of that report.

4.4 Related party transactions

Transactions with Related Parties are set out in Note 20. The Company has not entered into any loan arrangements with any KMP, KMP family member or entity under their control.

THE REMUNERATION REPORT CONCLUDES AT THIS POINT.

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 audit of Australian Pharmaceutical Industries Limited for the financial year ended 31 August 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Tony Romeo

Partner

Melbourne

21 October 2020

FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT

		Year ended 31 August	
In thousands of AUD	Note	2020	2019
Revenue	3	4,019,525	4,010,725
Cost of sales		(3,545,031)	(3,492,420)
Gross profit		**474,494**	**518,305**
Other income	3	14,470	27,525
Warehousing and distribution expenses		(145,553)	(141,557)
Marketing and sales expenses		(190,035)	(217,934)
Administration and general expenses		(111,444)	(92,293)
Impairment of brand name	11	(37,500)	-
Profit from operating activities (EBIT)		**4,432**	**94,046**
Finance income		67	395
Finance expenses	4	(19,146)	(20,701)
Net finance costs		**(19,079)**	**(20,306)**
Profit / (loss) before tax		**(14,647)**	**73,740**
Income tax (expense) / benefit	5	6,710	(17,163)
Profit / (loss) for the year		**(7,937)**	**56,577**

Attributable to:		
Ordinary shareholders of the Company	(8,395)	55,109
Non-controlling interest	458	1,468
Profit / (loss) for the year	**(7,937)**	**56,577**

Earnings per share for profit attributable to the ordinary shareholders of the Company:		**cents**	**cents**
Basic earnings per share	6	(1.7)	11.2
Diluted earnings per share	6	(1.7)	11.1

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

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 August	
In thousands of AUD	Note	2020	2019
Profit / (loss) for the year		**(7,937)**	**56,577**
Other comprehensive income / (loss)			
Items that will not be reclassified subsequently to the consolidated income statement			
Remeasurement of the defined benefit asset (post tax)		(1)	(93)
Changes in the fair value of financial assets at fair value through other comprehensive income (post tax)	13	(5,087)	1,364
Total items that will not be reclassified		**(5,088)**	**1,271**
Items that may be reclassified subsequently to the consolidated income statement			
Exchange fluctuations on translation of foreign operations (post tax)		(900)	621
Effective portion of changes in fair value of cash flow hedges (post tax)		(81)	(207)
Total items that may be reclassified		**(981)**	**414**
Total other comprehensive income / (loss) for the year		**(6,069)**	**1,685**
Total comprehensive income / (loss) for the year		**(14,006)**	**58,262**
Attributable to:			
Ordinary shareholders of the Company		(14,464)	56,794
Non-controlling interest		458	1,468
Total comprehensive income / (loss) for the year		**(14,006)**	**58,262**

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

FINANCIAL REPORT

CONSOLIDATED BALANCE SHEET

In thousands of AUD	Note	2020	As at 31 August 2019 (restated)[i]
Current assets			
Cash and cash equivalents	26	60,713	30,181
Trade and other receivables	8	537,899	657,932
Inventories	8	368,180	413,258
Lease receivables	24	6,530	-
Total current assets		**973,322**	**1,101,371**
Non-current assets			
Trade and other receivables	8	22,534	57,544
Lease receivables	24	23,002	-
Financial assets at fair value through other comprehensive income	13	1,200	87,849
Deferred tax assets	5	19,900	-
Right-of-use assets	24	125,079	-
Property, plant and equipment	9	109,817	107,130
Intangible assets	11	268,117	301,901
Total non-current assets		**569,649**	**554,424**
Total assets		**1,542,971**	**1,655,795**
Current liabilities			
Trade and other payables	8	741,945	790,270
Loans and borrowings	14	8,260	59,596
Lease liabilities	24	40,404	-
Provisions	12	34,632	35,235
Income tax payable	5	7,441	2,380
Total current liabilities		**832,682**	**887,481**
Non-current liabilities			
Trade and other payables	8	33,431	80,079
Deferred tax liabilities	5	-	8,239
Loans and borrowings	14	70,423	169,683
Lease liabilities	24	141,790	-
Provisions	12	6,899	5,663
Total non-current liabilities		**252,543**	**263,664**
Total liabilities		**1,085,225**	**1,151,145**
Net assets		**457,746**	**504,650**
Equity			
Share capital		566,461	566,461
Reserves		38,526	62,645
Accumulated losses		(151,090)	(127,847)
Total equity attributable to members of the Company		**453,897**	**501,259**
Non-controlling interest in controlled entities		**3,849**	**3,391**
Total equity		**457,746**	**504,650**

(i) The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Notes 5, 11 and 27 for further details.

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

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to ordinary shareholders of API Limited										
In thousands of AUD	Share Capital	Accumulated Losses[ii]	Profits[i] Reserve	Translation Reserve	Hedging Reserve	Equity Reserve	Control Reserve	Fair Value Reserve	Total	Non-controlling interest	Total Equity[ii]
Balance at 31 August 2019	**566,461**	**(127,847)**	**116,656**	**1,358**	**(139)**	**5,717**	**(62,311)**	**1,364**	**501,259**	**3,391**	**504,650**
Adjustment on Adoption of AASB 16	-	(11,125)	-	-	-	-	-	-	(11,125)	-	(11,125)
Balance at 1 September 2019	**566,461**	**(138,972)**	**116,656**	**1,358**	**(139)**	**5,717**	**(62,311)**	**1,364**	**490,134**	**3,391**	**493,525**
Profit / (loss) after tax	-	(8,395)		-	-	-	-	-	(8,395)	458	(7,937)
Total other comprehensive income / (loss)	-	-	(1)	(900)	(81)	-	-	(5,087)	(6,069)	-	(6,069)
Total comprehensive income /(loss) for the year	-	(8,395)	(1)	(900)	(81)	-	-	(5,087)	(14,464)	458	(14,006)
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	-	-	-	-	-	-	(2,310)	-	(2,310)	-	(2,310)
Share based payments	-	-	-	-	-	243	-	-	243	-	243
Transfer of fair value reserve to accumulated losses	-	(3,723)	-	-	-	-	-	3,723	-	-	-
Total contributions by and distributions to owners	-	(3,723)	(19,706)	-	-	243	(2,310)	3,723	(21,773)	-	(21,773)
Balance at 31 August 2020	**566,461**	**(151,090)**	**96,949**	**458**	**(220)**	**5,960**	**(64,621)**	**-**	**453,897**	**3,849**	**457,746**
Balance at 31 August 2018 [ii]	**566,461**	**(122,322)**	**99,811**	**737**	**68**	**6,271**	**(59,900)**	**-**	**491,126**	**1,923**	**493,049**
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**	**(127,847)**	**99,811**	**737**	**68**	**6,271**	**(59,900)**	**-**	**485,601**	**1,923**	**487,524**
Profit after tax	-	-	55,109	-	-	-	-	-	55,109	1,468	56,577
Total other comprehensive income / (loss)	-	-	(93)	621	(207)	-	-	1,364	1,685	-	1,685
Total comprehensive income for the year	-	-	55,016	621	(207)	-	-	1,364	56,794	1,468	58,262
Transactions with owners, recorded directly in equity											
Dividends to equity holders	-	-	(38,171)	-	-	-	-	-	(38,171)	-	(38,171)
Unwinding of discount on put and call option	-	-	-	-	-	-	(2,411)	-	(2,411)	-	(2,411)
Share based payments	-	-	-	-	-	(554)	-	-	(554)	-	(554)
Total contributions by and distributions to owners	-	-	(38,171)	-	-	(554)	(2,411)	-	(41,136)	-	(41,136)
Balance at 31 August 2019	**566,461**	**(127,847)**	**116,656**	**1,358**	**(139)**	**5,717**	**(62,311)**	**1,364**	**501,259**	**3,391**	**504,650**

(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 year accumulated losses. These profits will be available to enable payment of franked dividends in the future.

(ii) The 31 August 2018 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Note 5, 11 and 27 for further details.

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

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 August	
In thousands of AUD	Note	2020	2019
Cash flows from operating activities			
Cash receipts from customers (inclusive of GST)		4,575,669	4,359,494
Cash payments to suppliers and employees (inclusive of GST)		(4,336,241)	(4,301,329)
Cash inflow from operations		**239,428**	**58,165**
Interest received		67	396
Finance costs paid		(13,045)	(19,502)
Income taxes paid		(10,935)	(27,450)
Net cash inflows from operating activities	26	**215,515**	**11,609**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	1,533
Payments for property, plant and equipment and intangibles		(39,992)	(35,704)
Proceeds from / (Payments for) financial assets at fair value through other comprehensive income		80,978	(85,901)
Receipts from subleases		8,771	-
Dividends received		1,373	3,533
Net cash inflows / (outflows) from investing activities		**51,130**	**(116,539)**
Cash flows from financing activities			
Proceeds from borrowings		4,034,050	2,722,269
Repayment of borrowings		(4,182,794)	(2,585,935)
Lease payments during the period		(70,400)	-
Payment of finance lease liabilities		-	(891)
Dividends paid		(19,706)	(38,171)
Net cash (outflows) / inflows from financing activities		**(238,850)**	**97,272**
Net increase / (decrease) in cash and cash equivalents		27,795	(7,658)
Cash and cash equivalents at the beginning of the year		28,237	35,948
Effect of exchange rate fluctuations on cash held		29	(53)
Cash and cash equivalents at the end of the year [(i)]		**56,061**	**28,237**

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

	Year ended 31 August	
In thousands of AUD	2020	2019
Cash and cash equivalents in the Consolidated balance sheet	**60,713**	**30,181**
Bank overdrafts repayable on demand and used for cash management purposes	(4,652)	(1,944)
Cash and cash equivalents in the Consolidated statement of cash flows	**56,061**	**28,237**

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

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ABOUT THIS REPORT

1. About This Report

Australian Pharmaceutical Industries Limited (the 'Company') is a for-profit public company limited by shares incorporated and domiciled in Australia. The financial report was authorised for issue by the Directors on 21 October 2020.

Significant accounting policies adopted in preparing the financial report have been consistently applied to all the years presented, unless otherwise stated and are described in the note to which they relate. Accounting policies relevant to understanding the financial report as a whole are set out below.

a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards adopted by the AASB including Australian Interpretations and the *Corporations Act 2001*. The financial report also complies with IFRS and interpretations adopted by the International Accounting Standards Board.

The Financial Report is presented in Australian dollars which is the functional currency of the Company. 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.

This is the first set of the Group's annual financial statements in which AASB 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 24.

b) Consolidation

The financial report of the Company comprises the Company and its subsidiaries (together referred to as the 'Group'). Subsidiaries are all entities over which the Group has control as defined in AASB 10 *Consolidated Financial Statements*. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the power, directly or indirectly, to affect those returns. Details of controlled subsidiaries are set out in Note 17.

The financial report includes information and results of each subsidiary from the date on which the Group obtains control until such time as the Group ceases to control the entity. In preparing the financial report, all intercompany balances, transactions and unrealised profits arising within the Group are eliminated in full. Accounting policies of the Company and all subsidiaries in the Group are consistently applied.

c) Foreign currency

Translation of foreign currencies into Australian dollars is as follows:

- Transactions in foreign currency are translated at the exchange rate at the date of the transactions.
- Financial assets and liabilities are translated at the exchange rate on balance date.
- Non-financial assets and liabilities are translated at historical rates at the date of the transaction.
- Exchange gains and losses on translation are recognised in the income statement, unless they relate to qualifying cash flow hedges which are deferred in equity and recognised in other comprehensive income.

Assets and liabilities, including goodwill and fair value adjustments on consolidation, of foreign subsidiaries are translated to Australian dollars at the exchange rate on balance date. Foreign exchange differences on translation are recognised in other comprehensive income in the foreign currency translation reserve.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. About This Report *(continued)*

d) Impact of COVID-19

The COVID-19 pandemic has caused significant impact on the global economy and the confidence of financial markets. The responses of governments across the world and nationally have impacted on the Group's operations. During the current period, the Group experienced the following impacts on its operations and financial statements:

- Clear Skincare Clinics operating in the beauty therapies industry was classed as non-essential and entered mandatory shutdown throughout New Zealand and Australia. As of the 31 August 2020 all Clinics are open except for Victoria.
- Stage four restrictions in Victoria resulted in the closure of Priceline retail stores. Priceline Pharmacies and associated wholesale activities are classified as essential services and continue to operate.
- Changes in consumer demand and panic buying placed pressure on the supply chain due to an increase in the demand for pharmaceutical products.
- Temporary closure and deep cleaning of the Melbourne Distribution Centre as a result of staff testing positive to COVID-19.

In preparing the consolidated financial statements in line with Australian Accounting Standards, consideration has been given to judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on historical experience and conditions existing and emerging as at 31 August 2020. The ongoing COVID-19 pandemic has increased estimation uncertainty in the preparation of the consolidated financial statements due to the impact of actions of governments, businesses and consumers to contain the spread of the virus, the extent and duration of the expected economic downturn and the effectiveness of government support measures for businesses and consumers.

As at the 31 August, the Group has reassessed all significant judgements, assumptions and critical estimates included in the consolidated financial statements including but not limited to impairment of non-current assets, provisions for trade and other receivables and provisions for inventories. The key estimates and judgements are outlined in Note 1e) Key estimates and judgements.

e) Key estimates and judgements

Preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial report. The estimates and judgements are continually evaluated and reviewed based on historical experience and other factors, including reasonable expectations of future events. Changes in the assumptions underlying the estimates may result in a significant impact on the financial statements. Management believes the estimates used in preparing the financial statements are reasonable and in accordance with the accounting standards.

Key assumptions and judgements that have the most significant impact on the amount recognised in the financial report are set out in the following notes:

Note	Judgement area
Note 8 Working Capital	Carrying value of trade receivables Carrying value of inventories Carrying value of financial liabilities payable to non-controlling shareholders
Note 11 Intangible assets	Impairment assessment for cash generating units with indefinite life intangible assets
Note 12 Provisions and Contingencies	Determination of exposure under financial guarantee contingent liabilities
Note 24 New accounting standards – AASB 16 *Leases*	Determination of lease term for leases with extension options

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. About This Report *(continued)*

f) Notes to the financial statements

The notes include information that is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- The amount to which the information relates is significant because of its size or nature;
- The information is important for understanding the results of the Group;
- It helps to explain the impact of significant changes in the Group's operations; or
- It relates to an aspect of the Group's operations that is important to its future performance.

The notes have been organised in five separate sections based on their nature. The beginning of each section describes the information presented.

g) Rounding

The amounts shown in this Financial Report, including the Directors' 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.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL PERFORMANCE

This section provides information about the Group's financial performance during the year including performance of its operating segments and the Group's financial results including revenue and other income, expenses, earnings per share, taxation and dividends.

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 and retail services to pharmacies, the purchase and sale of health, beauty and lifestyle products within the retail industry including cosmetic products and non-invasive 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.

	Year ended 31 August							
	Australia		New Zealand		Eliminations		Consolidated	
In thousands of AUD	2020	2019	2020	2019	2020	2019	2020	2019
Revenue								
External sales	3,822,290	3,793,776	47,808	52,713	-	-	3,870,098	3,846,489
External services	149,427	164,236	-	-	-	-	149,427	164,236
Inter-segment revenue(i)	-	-	15,479	24,782	(15,479)	(24,782)	-	-
Total segment revenue	3,971,717	3,958,012	63,287	77,495	(15,479)	(24,782)	4,019,525	4,010,725
Reportable segment gross profit	448,700	491,169	25,325	33,276	469	(6,141)	474,494	518,305
Reportable segment profit	**3,565**	**95,171**	**398**	**5,016**	**469**	**(6,141)**	**4,432**	**94,046**
Unallocated amounts								
Net financing costs							(19,079)	(20,306)
Profit / (loss) before tax							**(14,647)**	**73,740**
Income tax (expense) / benefit							6,710	(17,163)
Profit / (loss) for the year							**(7,937)**	**56,577**
Attributable to:								
Ordinary shareholders of the Company							(8,395)	55,109
Non-controlling interest							458	1,468
Other segment information:								
Depreciation and amortisation	85,649	27,301	1,859	1,768	-	-	87,508	29,069
Additions of property, plant and equipment and intangible assets	34,072	31,354	5,920	4,350	-	-	39,992	35,704

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

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL PERFORMANCE *(CONTINUED)*

3. Revenue and other income

In thousands of AUD	Year ended 31 August 2020	2019
Revenue		
Sales revenue	3,870,098	3,846,489
Service revenue	149,427	164,236
Total revenue	**4,019,525**	**4,010,725**
Other income		
Gain on disposal of property, plant and equipment	64	253
Interest fee income	5,444	5,765
Net foreign exchange gain/(loss)	110	(60)
Dividend income	1,373	3,533
Changes in the fair value of financial liabilities	7,479	18,034
Total other income	**14,470**	**27,525**

Accounting policies – Revenue from contracts with customers

Revenue stream	Description	Performance obligation	Timing of recognition
Sales revenue			
Sale of goods	Sale of goods to customers, including an allowance for product returns during a certain time period. Revenue is recognised at the agreed sale price, net of returns, allowances, trade discounts and volume rebates.	Delivery of goods to customers E.g. Over the counter sales or at delivery to a pharmacy	Point in time
Community Service Obligation (CSO)	Income received from the Federal Government in recognition for the Group providing the Australian community access to full range of PBS medicines to Australian local pharmacies within a short time frame.	CSO income is recognised when the Group has complied with the conditions attached to the obligation	Over time
Service revenue			
Service revenue	Income received from services provided to customers, including clinical treatments. Revenue is recognised at agreed sales price net of allowances and trade discounts.	Completion of services to be rendered	Point in time
Loyalty program	Under the loyalty card program deferred revenue is recognised as a reduction in sales revenue when the products or services are sold. The deferred revenue liability is recognised based on historical loyalty card redemption data and a weighting of possible outcomes against the associated probabilities. Revenue is earned when loyalty card awards are redeemed.	Redemption of loyalty points	Over time
Marketing income	Income received from suppliers for promotional and marketing services rendered.	Completion of services to be rendered	Over time

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL PERFORMANCE *(CONTINUED)*

3. Revenue and other income *(Continued)*

Accounting policies – Revenue from contracts with customers			
Revenue stream	**Description**	**Performance obligation**	**Timing of recognition**
Membership and brand fees	Fees received in return for access to the brand names from Priceline, Soul Pattinson and Pharmacist Advice stores.	Access to brand names over the term of the franchise agreement	Over time
Franchise service fees	Income received from franchisees for operational services including store development, lease negotiation, human resource and information technology assistance.	Completion of services to be rendered	Over time

Accounting policies – Other income	
Revenue stream	**Recognition policy**
Interest fee income	Interest fee income includes interest charges on overdue debtors and is recognised on an accrual basis.
Dividend income	Dividends are received from financial assets at FVOCI. Dividends are recognised as income in the profit or loss when the right to receive payment is established.
Changes in the fair value of financial liabilities	Changes in the fair value of financial liabilities include changes in the fair value of contingent consideration and changes in the fair value of mandatory distribution of profits to non-controlling shareholders. Financial liabilities payable to non-controlling shareholders held at fair value are reassessed each reporting period. Refer to Note 8 for further information on the accounting policies for financial liabilities.

4. Expenses

	Year ended 31 August	
In thousands of AUD	**2020**	**2019**
Wages and salaries expense	192,541	192,278
Superannuation expense	15,097	15,407
Share based payments expense	243	(554)
Other employee expenses	18,047	19,024
Employee benefits expense	**225,928**	**226,155**
Interest expense	7,230	12,551
Borrowing costs	2,188	3,125
API rewards	3,905	4,973
Finance expense on leased assets	5,823	52
Finance expenses	**19,146**	**20,701**
Depreciation and amortisation	87,508	29,069

During the financial year, the Group received or was entitled to receive COVID-19 support and assistance under the JobKeeper (Australia) and Wage Subsidy (New Zealand) programs totalling $3,750,405 (pre-tax). This amount is included within employee benefits expense above. The Group also received an amount of payroll tax relief from certain jurisdictions amounting to $174,732.

During the financial year, the Group incurred business restructuring and reorganisation expenses of $17,622,051 (pre-tax). These include the cost of Priceline store closures, the cost of closing two Distribution Centres, an Inventory Optimisation program, costs associated with COVID-19 safety compliance and other restructuring costs. These expenses have been recognised within the Consolidated Income Statement under Administration and general expenses $11,642,051 (pre-tax) and Cost of sales $5,980,000 (pre-tax).

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL PERFORMANCE *(CONTINUED)*

4. Expenses *(Continued)*

Accounting policies	
Employee benefits	Employee benefits includes wages, salaries, superannuation benefits, personal leave, annual leave, long service leave and any non-monetary benefits paid to employees in consideration of services rendered. These are expensed as incurred. Refer to Note 12 for details on calculation of employee benefits provisions. Refer to Note 22 for accounting policies on share-based payments.
Finance expenses	Finance expenses are recognised as expenses in the period as incurred and include: • Interest on bank overdrafts, short-term and long-term borrowings; • Interest payable on securitisation programs; • Interest expense on lease liabilities; • Amortisation of ancillary costs incurred in connection with the arrangement of borrowings; • Net interest charges on the API rewards program; and • Discount unwind on financial liabilities held at fair value.

5. Taxation

	Year ended 31 August	
In thousands of AUD	**2020**	**2019**
(a) Income tax expense recognised in the income statement		
Current tax expense	15,379	23,905
Deferred tax expense	(22,133)	(6,858)
Adjustments in current year tax relating to prior year	44	116
Total income tax expense / (benefit)	**(6,710)**	**17,163**
Reconciliation of prima facie tax expense/(benefit) to income tax expense/(benefit)		
Profit / (loss) before income tax	(14,647)	73,740
Prima facie income tax at 30%	(4,394)	22,122
Tax effect of items which increase/(decrease) tax expense/(benefit):		
Share based payments expense	73	(167)
Entertainment and other sundry expenses	122	221
Fair value movement of financial liabilities	(2,160)	(5,410)
Other	(395)	282
Adjustment for prior years	44	115
Income tax expense / (benefit)	**(6,710)**	**17,163**

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL PERFORMANCE *(CONTINUED)*

5. Taxation *(Continued)*

	As at 31 August	
	2020	**2019**
In thousands of AUD		**(restated)[ii]**
(b) Current tax liability [i]	**7,441**	**2,380**
(c) Deferred tax assets/(liabilities)		
Employee benefits	7,779	7,494
Provision for impairment losses	14,047	12,323
Other provisions	10,251	6,541
Property, plant and equipment	(1,921)	(3,642)
Brand names	(28,038)	(39,288)
Other	17,782	8,333
Net deferred tax asset/(liability)	**19,900**	**(8,239)**
Comprised of:		
Entities incorporated in Australia - net deferred tax asset/(liability)	19,550	(8,257)
Entities incorporated in New Zealand - net deferred tax asset/(liability)	350	18
Net deferred tax asset / (liability)	**19,900**	**(8,239)**
Movements in deferred tax		
Balance at 1 September	(8,239)	(16,742)
Expense recognised in the income statement	22,133	6,858
New Zealand tax losses recognised	152	-
Deferred tax recognised directly in equity	1,006	(723)
Deferred tax recognised on adoption of new accounting standards	4,848	2,368
Balance at 31 August	**19,900**	**(8,239)**

(i) The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Note 11 and 27 for further details.

	Year ended 31 August	
In thousands of AUD	**2020**	**2019**
(d) Deferred tax recognised directly in equity		
Remeasurement of the defined benefit asset	(1)	(38)
Changes in the fair value of financial assets at fair value through other comprehensive income	(584)	584
Exchange fluctuations on translation of foreign operations	(386)	266
Effective portion of changes in fair value of cash flow hedges	(35)	(89)
Total deferred tax recognised directly in equity	**(1,006)**	**723**

Accounting policies	
Income tax expense / (benefit)	Income tax on the profit or loss for the year comprises of current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.
Current tax liability	Current tax liability is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years less any payments made during the year.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL PERFORMANCE *(CONTINUED)*

5. Taxation (*Continued*)

Accounting policies	
Deferred tax	Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No temporary differences are recognised on goodwill or differences arising from the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit at the time of the transaction. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. If certain criteria are met deferred tax assets and liabilities are offset in the financial statements.
Tax consolidation	Australian Pharmaceutical Industries Limited is the head entity of the Australian tax consolidated group. The head entity and the members of the Australian tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members in respect of tax amounts. The head entity recognises the tax effects of its own transactions and the current tax liabilities and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the subsidiaries. Members of the tax consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The Clear Skincare Clinics business acquired in July 2018 is not part of the API tax consolidated group as it is not 100% owned. Subsequent wholly owned new Clinic entities are however part of the API tax consolidated group.

6. Earnings per share

	Year ended 31 August	
In thousands of AUD	**2020**	**2019**
Profit / (loss) attributable to shareholders of the Company	**(8,395)**	**55,109**
In thousands of shares		
Basic weighted average number of ordinary shares for the year	492,632	492,516
Effect of potential ordinary shares on issue through conversion of performance rights	3,994	3,530
Diluted weighted average number of shares for the year	**496,626**	**496,046**
In cents		
Basic earnings per share	(1.7)	11.2
Diluted earnings per share [(i)]	(1.7)	11.1

(i) *The performance rights on issue throughout the year ended 31 August 2020 are not dilutive in effect, as the Group recorded a loss for the year.*

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL PERFORMANCE *(CONTINUED)*

7. Dividends

	Year ended 31 August	
In thousands of AUD	2020	2019
Dividends paid during the year		
Final dividend for 2019 financial year of 4.00 cents per share fully franked (2018: Final dividend of 4.0 cents per share fully franked)	19,706	19,701
Interim dividend for 2020 financial year (2019: Interim dividend of 3.75 cents per share fully franked)	-	18,470
Total dividends paid during the year	**19,706**	**38,171**

Dividend franking account		
Franking credits available to shareholders for subsequent financial years based on tax rate of 30%[(i)]	67,441	66,931

(i) The ability to utilise the franking credits is dependent upon there being sufficient available profits to pay dividends. The future reduction in the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability at balance date is $4,222,766 (31 August 2019: $8,443,431).

Accounting policies

Dividends are recognised as a liability when an obligation to pay a dividend arises. The obligation arises following a resolution to pay the dividend by the Board.

Dividends proposed after balance date

On 21 October 2020, the Directors proposed to pay a final dividend of 2.00 cents per share amounting to $9,853,120 in respect of the 2020 financial year. The dividend will be payable out of the Profits Reserve and will be fully franked to be paid on 15 December 2020. The financial effect of this dividend is not included in the financial statements for the year ended 31 August 2020 and will be recognised in the financial statements for the year ended 31 August 2021.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATING ASSETS AND LIABILITIES

This section provides information about the Group's operating assets and liabilities, including working capital, tangible and intangible assets, provisions and commitments.

8. Working capital

	As at 31 August	
In thousands of AUD	**2020**	**2019**
Current		
Trade and other receivables	589,900	698,214
Provision for impairment losses (a)	(52,001)	(40,282)
Net trade and other receivables	**537,899**	**657,932**
Lease receivables	6,530	-
Inventories		
Raw materials and consumables	9,876	7,990
Finished goods	377,679	409,719
Provision for obsolescence and shrinkage	(19,375)	(4,451)
Net inventories	**368,180**	**413,258**
Trade and other payables	(707,725)	(790,270)
Net working capital - current	**204,884**	**280,920**
Financial liabilities payable to non-controlling shareholders	(34,220)	-
Total current	**170,664**	**280,920**
Non-current		
Non-current trade receivables	25,236	65,462
Provision for impairment losses (a)	(3,350)	(8,600)
Defined benefit plan asset	648	682
Net non-current trade and other receivables	**22,534**	**57,544**
Lease receivables	23,002	-
Lease payable	-	(7,246)
Trade and other payables	(50)	-
Financial liabilities payable to non-controlling shareholders	(33,381)	(72,833)
Total non-current	**12,105**	**(22,535)**
(a) Movement in provision for impairment losses		
Balance at beginning of the year	(48,882)	(29,114)
Adjustment on adoption of AASB 9	-	(8,917)
Amounts provided for during the year	(13,428)	(18,432)
Amounts written off during the year	6,959	7,581
Balance at end of the year	**(55,351)**	**(48,882)**

Accounting Policies

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price less estimated selling expenses.

Inventories are recognised on the weighted average cost basis including the purchase price of inventories and associated costs, net of rebates and trade discounts. Cost of manufactured goods includes direct labour, direct material and overhead expenses based on normal operating capacity.

During the year, $18.2 million (2019: $12.5million) was recognised as an expense for inventories remeasured to net realisable value. This is included in cost of sales in the consolidated income statement.

Key accounting estimate and judgement – carrying value of inventories

Management judgement is applied to determine the net realisable value of inventories. Provisions are established for all obsolete or slow-moving inventories, taking into consideration the ageing profile of inventories, discontinued lines, sales trends and forecast sales. The COVID-19 pandemic has resulted in the mandated closure of stores and a rationalisation of the store network during the period. The uncertainty surrounding the trading environment has required an additional amount of judgement in determining the value of inventory.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATING ASSETS AND LIABILITIES *(CONTINUED)*

8. Working Capital *(Continued)*

Accounting Policies	
Trade payables	Liabilities are recognised as amounts to be paid in the future for goods or services received or provided prior to the end of the reporting period. Trade accounts payable are normally settled within 30-60 days of the invoice date, being the agreed trading terms with the vendor.
Trade receivables	Trade and other receivables are initially recognised at transaction price (invoice value) and subsequently measured at amortised cost, less allowance for impairment losses (expected credit loss). The majority of trade receivables are settled within 30-120 days of the invoice date. Trade receivables are presented as current assets unless collection is not expected for more than 12 months after the reporting date, in which case they are recognised at their present value, discounted using the appropriate interest rate. Securitised receivables are recognised as the Group assumes the risks and rewards of these receivables.

Key accounting estimate and judgement – carrying value of trade receivables
The circumstances of the COVID-19 outbreak have impacted consumer spending and retail sales. The recoverability of trade debtors as at 31 August 2020 has been assessed to consider COVID-19 impacts and the changing trading and economic environment moving forward.

The Group measures the expected credit loss (ECL) using the simplified approach, which uses lifetime expected credit losses on trade receivables. Management judgement is applied in assessing the lifetime expected credit losses.

Lifetime expected credit losses are determined with reference to the historical credit loss rates across the trade receivables portfolio, adjusted for forward looking observable data.
Forward looking observable data used to determine lifetime ECL includes:

- Financial conditions of specific counterparties on expected settlement;
- Macroeconomic indicators including consumer spending, GDP growth, unemployment and inflation forecasts impacting on different geographical areas; and
- Regulatory or industry specific changes impacting on the retail and pharmaceutical sectors.

Management judgement is applied to assess the recoverability of trade receivables on an ongoing basis and at each reporting period. Recoverability of specific counterparties is assessed with reference to the customer's ability to repay amounts due, which includes an assessment of:

- The anticipated cash flows of the customer;
- The estimated security held by the Group over the customer's property and assets;
- Estimated value of other security held such as retention of title of inventory; and
- The ranking of the Group's debt compared to other creditors of the customer.

The provision for expected credit losses at 31 August 2020 have been determined in a manner consistent with the methodology applied on adoption, with consideration to the impact of COVID-19 on the current trading and economic environment.

Any provision for impairment for trade receivables is recognised against profit during the reporting period within 'Marketing and sales expenses'. Trade receivables that are deemed uncollectible are written off.

Financial liabilities payable to non-controlling shareholders	Contingent consideration, subject to certain performance hurdles being met, has been recognised by the Group as a financial liability at fair value. A symmetrical put and call option with a fixed $32,900,000 payable on each of 1 September 2020 and 1 September 2021 for the Group to acquire the remaining 49.8% of Clear Skincare Clinics shares not initially acquired. The Group has assessed that the put and call option is virtually certain to be exercised. In accordance with AASB 9 *Financial Instruments*, this liability has been measured at the exercise price of the option at present value, discounted using a risk adjusted discount rate. The exercise price of the option is a fixed amount. Financial liabilities relating to the mandatory distribution of profits to the non-controlling shareholders have been recognised at the discounted present value of the amount that may become payable.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATING ASSETS AND LIABILITIES *(CONTINUED)*

8. Working Capital *(Continued)*

Accounting Policies

Key accounting estimate and judgement – carrying value of financial liabilities payable to non-controlling shareholders

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 present value, based on the probability weighted expected cash outflows, discounted using an appropriate risk adjusted discount rate.

The probability assessment for the payment of mandatory dividends includes estimating the likelihood of performance hurdles being met for the payment of contingent consideration, and the expected level of future profitability of the Clear Skincare Clinics that were acquired.

9. Property, plant and equipment

	As at 31 August			
In thousands of AUD	Land and buildings	Plant and equipment	Capital work in progress	Total
Financial year 2020				
Cost	10,360	259,332	13,557	283,249
Accumulated depreciation and impairment	(6,330)	(167,102)	-	(173,432)
Net book value	**4,030**	**92,230**	**13,557**	**109,817**
Balance 1 September 2019	4,391	86,334	16,405	107,130
Additions	-	9,331	29,830	39,161
Disposals	-	(5,168)	-	(5,168)
Depreciation expense for the year	(273)	(17,473)	-	(17,746)
Reversal of impairment loss	-	463	-	463
Reclassification of assets	-	15,906	(15,906)	-
Transfer of assets to intangibles	-	-	(16,701)	(16,701)
Transfer of assets to right-of-use assets	-	2,797	-	2,797
Foreign currency exchange differences	(88)	40	(71)	(119)
Balance at 31 August 2020	**4,030**	**92,230**	**13,557**	**109,817**
Financial year 2019				
Cost	10,606	243,660	16,405	270,671
Accumulated depreciation and impairment	(6,215)	(157,326)	-	(163,541)
Net book value	**4,391**	**86,334**	**16,405**	**107,130**
Balance 1 September 2018	4,564	88,891	7,560	101,015
Additions	-	2,905	32,338	35,243
Disposals	-	(4,238)	-	(4,238)
Depreciation expense for the year	(273)	(17,241)	-	(17,514)
Impairment loss	-	(55)	-	(55)
Reclassification of assets	21	15,981	(16,002)	-
Transfer of assets to intangibles	-	-	(7,496)	(7,496)
Foreign currency exchange differences	79	91	5	175
Balance at 31 August 2019	**4,391**	**86,334**	**16,405**	**107,130**

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATING ASSETS AND LIABILITIES *(CONTINUED)*

9. Property, plant and equipment (*Continued*)

Accounting policies	
Acquisitions and disposals	Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be reliably measured. Assets under construction are not depreciated until ready for use. Profit and losses on disposal of property, plant and equipment are recognised in the income statement. Dismantling provisions and fit-out contributions relating to an obligation for site closure or restoration costs have been transferred to the right-of-use asset in line with AASB 16 *Leases*.
Depreciation	Property, plant and equipment, other than land, is depreciated on a straight-line basis over the estimated life of each asset to the Group. Estimated useful lives of each class of asset are as follows: • Buildings 40 years • Plant and equipment 3 to 15 years
Impairment of assets	The carrying amounts of tangible and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. Intangible assets with indefinite useful lives are formally assessed for impairment at least on an annual basis or earlier if indicators exist. If any such indication exists, the recoverable amount of the asset is first assessed on an asset basis before testing for impairment at the Cash Generating Unit (CGU) and goodwill level. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised in the income statement. Impairment losses at the CGU level are allocated first to reduce the carrying amount of the goodwill allocated to that CGU. The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal and its value in use calculated as the estimate of future cash flows discounted to present value. An impairment loss is reversed, except impairment losses relating to goodwill, if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

10. Commitments

	As at 31 August	
In thousands of AUD	**2020**	**2019**
Non-cancellable operating leases - Group as lessee		
Less than one year	-	58,004
Between one and five years	-	122,457
More than five years	-	30,251
Total non-cancellable operating leases	**-**	**210,712**
Non-cancellable operating leases - Group as lessor	**-**	**(38,397)**
Lease expense during the year	**-**	**62,834**
Capital expenditure contracted but not provided for or payable	**111**	**886**

From 1 September 2019, the Group has recognised right-of-use assets and corresponding lease liabilities in respect of these leases, see Note 24 for further detail.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATING ASSETS AND LIABILITIES *(CONTINUED)*

11. Intangible assets

In thousands of AUD	Goodwill	Brand names	Software	Development costs	Total
	As at 31 August				
Financial year 2020					
Cost	201,931	133,601	136,387	2,346	474,265
Accumulated amortisation and impairment	(74,019)	(40,140)	(90,312)	(1,677)	(206,148)
Net book value	**127,912**	**93,461**	**46,075**	**669**	**268,117**
Balance 1 September 2019	127,556	130,961	42,406	978	301,901
Transfer from property, plant and equipment	-	-	16,679	-	16,679
Additions	831	-	-	-	831
Disposals	-		(1)		(1)
Amortisation expense for the year	-	-	(12,955)	(303)	(13,258)
Impairment	-	(37,500)	-	-	(37,500)
Foreign currency exchange differences	(475)	-	(54)	(6)	(535)
Balance at 31 August 2020	**127,912**	**93,461**	**46,075**	**669**	**268,117**
Financial year 2019					
Cost (restated)(i)	201,574	133,601	130,894	2,395	468,464
Accumulated amortisation and impairment (i)	(74,018)	(2,640)	(88,488)	(1,417)	(166,563)
Net book value	**127,556**	**130,961**	**42,406**	**978**	**301,901**
Balance 1 September 2018 (restated)(i)	126,689	130,961	46,488	875	305,013
Transfer from property, plant and equipment	-	-	7,134	362	7,496
Additions	461	-	-	-	461
Amortisation expense for the year	-	-	(11,280)	(274)	(11,554)
Foreign currency exchange differences	406	-	64	15	485
Balance at 31 August 2019(i)	**127,556**	**130,961**	**42,406**	**978**	**301,901**

(i) *The 31 August 2018 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Notes 5 and 27 for further details*

a) Assets with indefinite useful lives

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

	As at 31 August							
	Australia		New Zealand		Clear Skincare		Total	
In thousands of AUD	2020	2019 (restated)(i)	2020	2019	2020	2019 (restated)(i)	2020	2019 (restated)(i)
Brand names								
Soul Pattinson brand name	-	37,500	-	-	-	-	-	37,500
Priceline brand name	58,860	58,860	-	-	-	-	58,860	58,860
Clear Skincare brand name	-	-	-	-	34,601	34,601	34,601	34,601
Brand names	**58,860**	**96,360**	**-**	**-**	**34,601**	**34,601**	**93,461**	**130,961**
Goodwill	**47,232**	**46,401**	**16,387**	**16,862**	**64,293**	**64,293**	**127,912**	**127,556**
Other intangible assets	**43,419**	**39,912**	**3,262**	**3,472**	**63**	**-**	**46,744**	**43,384**
Total intangible assets	**149,511**	**182,673**	**19,649**	**20,334**	**98,957**	**98,894**	**268,117**	**301,901**

(i) *The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Notes 5 and 27 for further details*

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATING ASSETS AND LIABILITIES *(CONTINUED)*

11. Intangible assets *(Continued)*

a) Assets with indefinite useful lives (*continued)*

AASB 136 *Impairment of Assets* requires intangible assets to be assessed at the end of each reporting period where there is any indication that an asset may be impaired. A review of indicators of impairment using both external and internal sources of information has been undertaken.

As at 31 August 2020, impairment indicators were identified for the Soul Pattinson Chemist brand name, within the Australian operating segment, due to changes in the operating environment and its performance, and the way in which management intend to use the asset. The Group engaged an independent valuation specialist to assess the fair value of the Brand using the 'relief from royalty' method on a fair value less cost of disposal basis. The independent valuation considered the environment, operations and future operating strategy. Fair value was measured largely using Level 2 and Level 3 inputs under AASB 13 *Fair Value Measurements* including comparable royalty rates in the health and community pharmacy franchise industry in addition to other relevant transactions. The results of this assessment, in addition to management's consideration of the present industry in which the Brand operates and its intended use of the Brand moving forward, resulted in an impairment loss of $37.5m being recognised.

b) Accounting policies

Identifiable intangible assets are recognised at cost less accumulated amortisation and impairment losses where applicable. Intangible assets acquired separately are capitalised at cost or, if arising from a business combination, at fair value as at the date of acquisition.

Unidentified intangible assets are recognised as goodwill when the fair value of the consideration paid for a business acquisition exceeds the fair value of the identifiable net assets acquired.

Below are the key accounting policies and criteria for recognition of each category of intangible assets.

Intangible asset	Capitalisation criteria	Useful life
Goodwill	Business combinations are accounted for by applying the acquisition method. Goodwill represents the excess of the consideration over the fair value of the net identifiable assets acquired. Acquisition-related expenses are recognised in the income statement as incurred. Goodwill is tested for impairment on an annual basis and is stated at cost less any accumulated impairment losses. An impairment loss recognised for goodwill cannot be reversed in subsequent periods.	Indefinite
Brand names	Brand names acquired are recognised initially at fair value, using independent valuations obtained during the twelve-month measurement period following acquisition. Brand names are assessed to have indefinite useful lives. Brand names with indefinite useful lives are assessed for impairment at least on an annual basis.	Indefinite

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATING ASSETS AND LIABILITIES *(CONTINUED)*

11. Intangible assets *(Continued)*

Intangible asset	Capitalisation criteria	Useful life
Research and development	Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as an expense as incurred. Expenditure on development activities, where research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and appropriate proportion of overheads. Other development expenditure is recognised against profit as an expense as incurred.	1 to 4 years
Software	Capitalised software is initially recorded at cost and amortised on a straight-line basis over the estimated useful lives but not greater than a period of 7 years.	1 to 7 years

c) Impairment assessment for cash generating units (CGU) with indefinite life intangible assets

Indefinite life intangible assets are tested for impairment at least annually by calculating the recoverable amount of the CGU to which the assets are part. The assets are then compared to the carrying value of that CGU. Refer to Note 9 for accounting policies and determination of recoverable amount.

Key accounting estimate and judgement – carrying value of indefinite life intangibles

Management judgement is applied to identify the CGUs and determine the recoverable amounts, as outlined in Note 9, using a fair value less cost of disposal assessment for the Australia, New Zealand and Clear Skincare CGUs. In the prior year the Australia and New Zealand CGU recoverable amounts were estimated using value in use methodology.

The estimate of the recoverable amount of each CGU is based on conditions existing and emerging as at 31 August 2020, including management's assessment arising from current and future impacts of COVID-19.

Fair value less cost of disposal is an estimate of the amount that a market participant would pay for an asset or CGU, less the cost of disposal. The fair value less cost of disposal calculation is estimated using discounted cash flows and considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

Management judgements include establishing forecasts of future financial performance, as well as the assessment of earnings growth rates, discount rates and terminal growth rates based on past experience and expectations for the future. The cash flow assessments use five-year projections for each CGU and for the Clear Skincare CGU, further future forecasts for newly established clinics. The cash flows used are based on business plans and FY21 Board approved budget. The forecasts use management estimates to determine revenue, expenses, working capital movements, capital expenditure and associated cash flows for each CGU.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATING ASSETS AND LIABILITIES *(CONTINUED)*

11. Intangible assets *(Continued)*

c) Impairment assessment for cash generating units (CGU) with indefinite life intangible assets *(Continued)*

The key assumptions for impairment assessment of each of the Australian, New Zealand and Clear Skincare CGUs are as follows:

Key assumption	Australia CGU	New Zealand CGU	Clear Skincare CGU
Budgeted EBITDA growth for the next five years	Based on a five-year business plan and a board approved budget and uses estimates made from the perspective of a market participant including: Pharmaceutical distribution business growth reflects the Board approved budget and is based on recent history. New franchise store rollout estimates derived from the analysis by management of the likely net annual increase in franchise stores in the five-year forecast period, based on recent past history, applications from prospective franchisees currently under consideration and the potential pool of new franchisees, after adjusting for the risks associated with execution of the strategic plan and the potential for loss of existing franchisees. The cash flow contribution from new franchise stores is based on the estimates by management of net contribution from individual stores, including working capital, marketing and supply chain costs. Like-for-like store sales growth is based on management estimates and recent history for the period from FY21 to FY25.	Based on a five-year business plan and a board approved budget and uses estimates made from the perspective of a market participant including: Contracts entered into with new local and international customers, that will provide annual sales increases.	Based on a five-year business plan and board approved budget. For newly established clinics further future forecasts are determined. Uses estimates made from the perspective of a market participant including: New clinic rollout estimates derived from the analysis by management of the likely net annual increase in clinics over the forecast period, based on recent past history and current industry trends, after adjusting for the risks associated with execution of the strategic plan. The cash flow contribution from new clinics is based on the estimates by management of net contribution from individual stores, including working capital, marketing and supply chain costs.
Discount rate	Based on a market- determined, risk adjusted post-tax nominal discount rate of 7.8% (2019: 8.0%), representing the post-tax weighted average cost of capital (WACC) including specific risks relating to the CGU.	Based on a market-determined, risk adjusted post-tax nominal discount rate of 11.0% (2019: 11.0%), representing the post-tax weighted average cost of capital (WACC) including specific risks relating to the CGU.	Based on a market-determined, risk adjusted post-tax nominal discount rate of 11.3% (2019: 12.0%), representing the post-tax weighted average cost of capital (WACC) including specific risks relating to the CGU.
Terminal long term growth rate	The terminal growth rate of 2.5% adopted for all CGUs represents the growth rate applied to cash flows beyond the five-year forecast period. The terminal growth rate is based on management expectations of the CGUs' long-term performance after considering current conditions and available external market data.		

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATING ASSETS AND LIABILITIES *(CONTINUED)*

12. Provisions and contingencies

a) Provisions

In thousands of AUD	As at 31 August 2020	2019
Current provisions		
Employee benefits	22,919	22,490
Other provisions	11,713	12,745
Total current provisions	**34,632**	**35,235**
Non current provisions		
Employee benefits	3,442	2,886
Other provisions	3,457	2,777
Total non current provisions	**6,899**	**5,663**

As at 31 August *In thousands of AUD*	Directors' retirement scheme	Provision for goods return	Provision for dismantling costs	Provision for loyalty programs	Total other provisions
Financial year 2020					
Balance 1 September 2019	146	4,309	3,988	7,079	15,522
Provisions made during the year, net of write-back	24	3,378	1,017	7,440	11,859
Provisions used during the year	-	(3,604)	(275)	(8,427)	(12,306)
Unwinding of discount	-	-	95	-	95
Balance at 31 August 2020	**170**	**4,083**	**4,825**	**6,092**	**15,170**
Financial year 2019					
Balance 1 September 2018	146	-	4,467	6,893	11,506
Adjustment on adoption of AASB 15	-	4,878	-	-	4,878
Provisions made during the year, net of write-back	-	1,781	(422)	7,637	8,996
Provisions used during the year	-	(2,350)	(197)	(7,451)	(9,998)
Unwinding of discount		-	140	-	140
Balance at 31 August 2019	**146**	**4,309**	**3,988**	**7,079**	**15,522**

b) Contingencies

In thousands of AUD	As at 31 August 2020	2019
Financial guarantees to pharmacists	9,175	9,175

Financial guarantees of $9,175,000 (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 or pharmacy group.

Key accounting estimate and judgement – financial guarantee contingent liabilities

Management judgement is applied to assess likely net exposures relating to financial guarantees provided in respect of pharmacy customers. These assessments take into account total amounts owed by pharmacy customers to third-party financiers and trade debts owed to API. In addition, pharmacy valuations and the assessed value of any security offered by pharmacy customers to API is included in determining whether a net exposure to API is likely. The Group only recognises a provision if an event has occurred that gives rise to a present obligation and it is probable that a loss will eventuate.

At balance date, 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.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATING ASSETS AND LIABILITIES *(CONTINUED)*

13. Financial assets at fair value through other comprehensive income

On 16 December 2019 the Group ceased to be a substantial holder in Sigma Healthcare, selling it's shareholding of 137,264,592 shares.

On 8 July 2020, the Group acquired a 5% share in SiSU Wellness Pty Ltd for an amount of $1,200,006.

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 31 August	
In thousands of AUD	**2020**	**2019**
Non-current assets		
Sigma Healthcare Limited - Listed securities	-	87,849
SiSU Wellness Pty Ltd - Unlisted securities	1,200	
Total financial assets at fair value through other comprehensive income	**1,200**	**87,849**

At 31 August 2020 these financial assets were classified as non-current as the Group intends to hold the shares for long term investment.

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

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

	Year ended 31 August	
In thousands of AUD	**2020**	**2019**
Changes in the fair value of financial assets at FVOCI recognised in other comprehensive income	(5,087)	1,364
Dividend from financial assets at FVOCI recognised in profit or loss	1,373	3,533

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL AND RISK MANAGEMENT

This section provides information about the Group's capital structure, funding arrangements, exposure to financial risks and how the Group manages these risks.

14. Loans and borrowings

	As at 31 August	
In thousands of AUD	**2020**	**2019**
Current liabilities		
Insurance premium funding	3,608	2,822
Finance lease liabilities	-	286
Cash advance facilities - secured	-	54,544
Bank overdraft	4,652	1,944
Total current liabilities	**8,260**	**59,596**
Non current liabilities		
Finance lease liabilities	-	230
Securitisation of trade receivables	-	63,817
Cash advance facilities - secured	5,423	40,636
Interest bearing loans	65,000	65,000
Total non current liabilities	**70,423**	**169,683**

Accounting policies

Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the term of the liabilities on an effective interest method basis.

Amortised cost is calculated by taking into account any issue costs and any discount or premium on issuance. Gains and losses are recognised in the income statement in the event that the liabilities are derecognised.

Interest-bearing liabilities are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least twelve months after reporting date.

Foreign currency denominated interest-bearing liabilities are translated to Australian Dollars at the applicable exchange rate at year-end with the gain or loss attributable to exchange rate movements recognised in the Statement of Comprehensive Income.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL AND RISK MANAGEMENT (CONTINUED)

14. Loans and borrowings *(Continued)*

a) Financing facilities

In thousands of AUD	Facilities utilised(i)	Facilities unutilised(ii)	As at 31 August Total facilities
Financial year 2020			
Bank overdraft	4,652	23,087	27,739
Cash advance facilities	5,423	65,060	70,483
Securitisation of trade receivables	-	300,000	300,000
Interest bearing loans	65,000	-	65,000
Total at 31 August 2020	**75,075**	**388,147**	**463,222**
Financial year 2019			
Bank overdraft	1,944	25,874	27,818
Cash advance facilities	95,180	33,462	128,642
Securitisation of trade receivables	63,817	211,183	275,000
Interest bearing loans	65,000	-	65,000
Total at 31 August 2019	**225,941**	**270,519**	**496,460**

(i) Average used facilities during the year, excluding interest bearing loans relating to the Clear Skincare acquisition, was $214,087,490 (2019: $245,643,260).

(ii) Average unused facilities during the year was $103,343,290 (2019: $65,965,182).

Financing facilities	
Bank overdraft	The Company is a guarantor to a bank facility agreement which provides a total overdraft facility of $27,738,726 (31 August 2019: $27,817,960) to entities within the Group. The facility is subject to a set of arrangements between companies within the Group. Interest on bank overdrafts is charged at prevailing market rates. The bank overdraft is repayable on demand and subject to annual review.
Cash advances	The consolidated cash advance facilities of $70,483,451 (31 August 2019: $128,641,920) are secured over the assets of the Group. Interest is based on the bank-bill reference rate plus margin charged by the lender.
Securitisation	The Group has access to funds through the securitisation of current trade receivables provided the receivables meet certain criteria. The securitisation facility of $300,000,000 consists of a daily redraw overdraft facility of $130,000,000 and a term facility of $170,000,000. The facilities are interest bearing, based on a variable interest plus margin. The funds available under the securitisation facility are capped at the amount of the qualifying trade receivables. The trade receivables are collateralised in full against amounts drawn. The facility imposes rights and obligations on the Group with respect to the quality and maintenance of the receivables, collection of receivables, settlement and reporting to the financier. The Group has complied with its obligations under the facility throughout the financial year.
Interest bearing loans	The interest-bearing loan facilities are in respect of the acquisition of the Clear Skincare business and are revolving loan facilities with an expiry of 31 March 2022. The facilities are secured over the assets of the Group. Interest is based on the bank-bill reference rate plus a margin charged by the lender.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL AND RISK MANAGEMENT (CONTINUED)

15. Financial risk management

The Group has exposure to various financial risks as part of its operating activities. The Group's risk management program seeks to mitigate these risks and reduce the volatility of the Group's financial performance through use of various financial instruments.

The Board has overall responsibility for the establishment and oversight of the risk management framework of the Group. The Audit and Risk Committee ("Committee") of the Board is responsible for assessing and monitoring the risk management program and making recommendations to the Board.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the activities of the Group.

The Committee oversees the monitoring of compliance with the risk management policies and procedures by management and reviews the adequacy of the risk management framework in relation to the risks, with assistance from the internal audit function.

The Group has exposure to the following principal financial risks:

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Group's receivables from customer sales and financial guarantees the Group has provided for certain trade debtors. The maximum exposure to credit risk is the carrying value of trade receivables and the financial guarantee contingent liabilities.

The Group has established credit policies that ensure new customers are subject to credit worthiness verification including review of external credit ratings, financial position, past experience and industry reputation. Purchase limits are established for each customer. Customers that fail to meet the benchmark credit worthiness transact with the Group on a prepaid basis. In monitoring customer credit risk, customers are grouped by state and reviewed monthly. "High risk" customers are placed on "credit hold", with orders manually released as appropriate. All goods sold are subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim in respect of the goods sold.

The circumstances of the COVID-19 outbreak have impacted on the Group's assessment of credit risks associated with trade debtors, with consideration of the impact on the current trading and economic environment. Refer to Note 8 for further information on the determination of the provision for expected credit losses at 31 August 2020. The ageing profile of current and non-current trade receivables, including provision for impairment assessment at balance date is set out below:

	As at 31 August	
In thousands of AUD	**2020**	**2019**
Not past due	461,636	588,421
Past due 0 - 30 days	12,453	31,444
Past due 31+ days	141,047	143,811
Total trade receivables	**615,136**	**763,676**
Provision for impairment losses	(55,351)	(48,882)
Net trade receivables	**559,785**	**714,794**

b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as those financial obligations fall due. The approach to managing liquidity is to ensure, as far as possible, that there will be sufficient liquidity to meet liabilities when due, under both normal and stressed conditions.

The Group has varying borrowing levels based on seasonal requirements of the business. The Group's processes for managing liquidity risk include scenario modelling and analysis on current trading expectations and known events. These assessments have included the Group's assessments of the impact of COVID-19 on forecast performance. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL AND RISK MANAGEMENT (CONTINUED)

15. Financial risk management *(Continued)*

			As at 31 August			
In thousands of AUD	**Carrying Amount**	**Contractual cash flows**	**0 - 1 year**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**
Financial year 2020						
Insurance premium funding	3,608	3,608	3,608	-	-	-
Trade and other payables	707,725	707,725	707,136	564	25	-
Cash advance facility	5,423	5,423	-	5,423	-	-
Interest bearing loans	65,000	65,000	-	65,000	-	-
Lease liabilities	182,194	204,072	48,317	39,734	79,105	36,916
Payable to Non-controlling interest	67,651	68,838	34,223	34,615	-	-
Balance at 31 August 2020	**1,031,601**	**1,054,666**	**793,284**	**145,336**	**79,130**	**36,916**
Financial year 2019						
Finance lease liabilities	516	516	286	230	-	-
Insurance premium funding	2,822	2,822	2,822	-	-	-
Trade and other payables	796,273	796,273	789,535	1,056	3,765	1,917
Cash advance facility	95,180	95,180	54,544	40,636	-	-
Securitisation of trade receivables	63,817	63,817	-	63,817	-	-
Interest bearing loans	65,000	65,000	-	65,000	-	-
Payable to Non-controlling interest	74,076	81,924	4,530	34,494	42,900	-
Balance at 31 August 2019	**1,097,684**	**1,105,532**	**851,717**	**205,233**	**46,665**	**1,917**

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the income of the Group or the value of the financial instruments held by the Group. The objective of market risk management is to manage and monitor market risk exposures within acceptable parameters, whilst optimising the return on risk.

(i) Currency risk

The Group had no material exposure to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the entities within the Group.

(ii) Interest rate risk

The Group is exposed to interest rate risk on its financing facilities. The Group adopts a hedging policy to limit its exposure to the changes in interest rates on its variable rate borrowings. At 31 August 2020, the Group had interest rate swaps with a notional contract amount of $70,000,000, with a maturity date of September 2020 and weighted rate of 1.04%.

The Group classifies interest rate swaps as cash flow hedges. The notional contracted interest cash flows are consistent with highly probable forecast interest cash flows to August 2020 based on the forecast of interest-bearing financing liabilities.

Effective interest rates

The following table shows the effective interest rates for the financial assets and interest-bearing financial liabilities at reporting date.

In thousands of AUD	**Effective interest rate**	**Carrying amount**
Financial year 2020		
Financial assets[(i)]	1.67%	85,949
Financial liabilities - fixed rate	2.98%	(70,000)
Financial liabilities - variable rate	3.40%	(6,759)
Balance at 31 August 2020		**9,190**
Financial year 2019		
Financial assets[(i)]	3.83%	95,643
Financial liabilities - fixed rate	3.62%	(50,516)
Financial liabilities - variable rate	2.68%	(178,824)
Balance at 31 August 2019		**(133,697)**

(i) Includes cash and cash equivalents which have a variable interest rate. Other financial assets have fixed rates.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL AND RISK MANAGEMENT (CONTINUED)

15. Financial risk management (*Continued*)

(iii) Equity price risk

The Group had no material exposure to equity price risk due to no longer being a substantial holder in Sigma Healthcare at 31 August 2020.

d) Financial instruments at fair value

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.

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

The following table indicates the periods in which the cash flows and profit and loss impact associated with derivatives that were designated as cash flow hedges existing as at balance date are expected to occur.

As at 31 August *In thousands of AUD*	**Fair value**	**Expected cash flows**	**0 - 1 year**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**
Financial year 2020						
Interest rate swap	(52)	(52)	(52)	-	-	-
Foreign exchange forward	(261)	(261)	(261)	-	-	-
Net asset/(liability)	**(313)**	**(313)**	**(313)**	**-**	**-**	**-**
Financial year 2019						
Interest rate swap	(295)	(295)	(39)	(256)	-	-
Foreign exchange forward	97	97	97	-	-	-
Net asset/(liability)	**(198)**	**(198)**	**58**	**(256)**	**-**	**-**

(i) Sensitivity analysis

A strengthening by 100 basis points in interest rates at balance date would have had the following impact:

	As at 31 August 2020			**As at 31 August 2019**		
In thousands of AUD	**Impact on profit/(loss)**	**Impact on equity**	**Impact on cash flows**	**Impact on profit/(loss)**	**Impact on equity**	**Impact on cash flows**
Interest rate swap - 100bp increase	-	52	52	-	649	649
Interest rate swap - 100bp decrease	-	(52)	(52)	-	(1,241)	(1,241)

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. A change in interest rate would not have a cash flow impact on the underlying hedged item, unless terminated early or varied.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL AND RISK MANAGEMENT (CONTINUED)

15. Financial risk management *(Continued)*

e) Fair value estimation

The methods and assumptions used to estimate the fair values are:

	Financial instruments	Fair value technique
Carrying value approximates fair value	Loans and borrowings	Calculated based on discounted expected future principal and interest cash flows using market rates of interest.
	Finance lease liabilities	Present value of future cash flows, discounted at market interest rates
	Put and call option liability	The put and call option liability recognised on the acquisition of the Clear Skincare business (Note 8) has been measured at the exercise price of the option at present value, discounted using a risk adjusted discount rate. The exercise price of the option is a fixed amount.
	Trade receivables / payables	For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect fair value. All other receivables / payables are discounted at market interest rates to determine the fair value.
Measured at fair value	Interest rate swaps	Determined using present value of estimated future cash flows based on observable yield curves and market implied volatility. 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 has been obtained from third party valuations derived from forward interest rates at the balance date.
	Foreign exchange forwards	Fair value is determined using prevailing forward exchange rates.
	Defined benefit asset	The employee defined benefit plan financial asset is measured using Level 3 inputs, being an independent actuarial valuation performed on an annual basis.
	Other financial liabilities (Amounts payable to non-controlling interests)	The amounts payable include liabilities relating to the mandatory dividend payments and contingent consideration payable to non-controlling shareholders of Clear Skincare (Note 8). 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. The probability assessment for the payment of mandatory dividends includes estimating the likelihood of performance hurdles being met for the payment of contingent consideration, and the expected level of future profitability of the Clear Skincare business.
	Financial assets at fair value through other comprehensive income (FVOCI)	Financial assets at 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. Financial assets at FVOCI are Level 3 financial instruments as the fair value can only be determined using unobservable inputs being the equity interest in a non-listed entity. In the prior year, financial assets at FVOCI were Level 1 financial instruments as the measurement was derived from quoted prices, directly observable on the ASX.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL AND RISK MANAGEMENT (CONTINUED)

15. Financial risk management *(Continued)*

f) Capital Management

The policy of the Board is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the approach of the Group to capital management during the year. The details of the various financing facilities the Group uses to manage its debt facilities are set out in Note 14.

16. Capital and reserves

a) Share capital

In thousands of shares	As at 31 August 2020	2019
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. However, the net change may be reclassified within equity.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GROUP STRUCTURE

This section provides information about the Group's structure and subsidiaries.

17. Subsidiaries

The Group's financial statements include the consolidated information on assets, liabilities and results of the following subsidiaries.

	As at 31 August Ownership interest held by the group				As at 31 August Ownership interest held by the group		
Entity name	2020	2019	Notes	Entity name	2020	2019	Notes
API Services Australia Pty Ltd	100.0%	100.0%	(i)	CSC Bayside Frankston Pty Ltd	100.0%	100.0%	
API Victoria Pty Ltd	100.0%	100.0%	(i)	CSC Ashfield Mall Pty Ltd	100.0%	100.0%	
Canberra Pharmaceutical Supplies Trust	100.0%	100.0%		Clearskincare Auckland Ltd	100.0%	N/A	(ii) & (iii)
Pharma-Pack Pty Ltd	100.0%	100.0%	(i)	CSC Mt Ommaney Pty Ltd	100.0%	N/A	(iii)
API (Canberra) Pty Ltd	100.0%	100.0%	(i)	CSC Forrest Chase Pty Ltd	100.0%	N/A	(iii)
Making Life Easy - Mobility and Independent Living Superstores Pty Ltd	100.0%	100.0%	(i)	CSC Joondalup Pty Ltd	100.0%	N/A	(iii)
API Healthcare Holdings (NZ) Ltd	100.0%	100.0%	(ii)	CSC Forest Hill	100.0%	N/A	(iii)
Garrett Investments Ltd	100.0%	100.0%	(ii)	CSC Northbridge Pty Ltd	100.0%	N/A	(iii)
New Price Retail Services Pty Ltd	100.0%	100.0%	(i)	CSC Manuka Pty Ltd	100.0%	N/A	(iii)
Soul Pattinson (Manufacturing) Pty Ltd	100.0%	100.0%	(i)	CSC Riverton Pty Ltd	100.0%	N/A	(iii)
API Financial Services Australia Pty Ltd	100.0%	100.0%	(i)	Clearskincare Chatswood Pty Ltd	50.2%	50.2%	(iv)
Priceline Unit Trust	100.0%	100.0%		Clearskincare Doncaster Pty Ltd	50.2%	50.2%	(iv)
Priceline Proprietary Ltd	100.0%	100.0%	(i)	Clearskincare Clinics Payroll Pty Ltd	50.2%	50.2%	(iv)
MLE Unit Trust	100.0%	100.0%		Clearskincare Adelaide Street Pty Ltd	50.2%	50.2%	(iv)
Priceline (NZ) Pty Ltd	100.0%	100.0%	(ii)	Clearskincare Collins St Pty Ltd	50.2%	50.2%	(iv)
Second Priceline Unit Trust	100.0%	100.0%		Clearskincare South Yarra Pty Ltd	50.2%	50.2%	(iv)
CSC Holdings Australia Pty Ltd	100.0%	100.0%	(i)	Clearskincare Macarthur Square Pty Ltd	50.2%	50.2%	(iv)
CSC Products Pty Ltd	100.0%	100.0%	(i)	Clearskincare Southport Pty Ltd	50.2%	50.2%	(iv)
Synapse Finance Pty Ltd	100.0%	100.0%	(i)	Clearskincare Cronulla Pty Ltd	50.2%	50.2%	(iv)
New Price Retail Finance Pty Ltd	100.0%	100.0%	(i)	Clearskincare Brighton Pty Ltd	50.2%	50.2%	(iv)
Australian Pharmaceutical Industries (Queensland) Pty Ltd	100.0%	100.0%	(i)	Clearskincare Quentin Ave Pty Ltd	50.2%	50.2%	(iv)
New Price Retail Pty Ltd	100.0%	100.0%	(i)	Clearskincare Moonee Ponds Pty Ltd	50.2%	50.2%	(iv)
PSM Healthcare Ltd	100.0%	100.0%	(ii)	Clearskincare Sunshine Plaza Pty Ltd	50.2%	50.2%	(iv)
API Leasing Pty Ltd	100.0%	100.0%	(i)	Clearskincare Fremantle Pty Ltd	50.2%	50.2%	(iv)
CSC Franchising Pty Ltd	100.0%	100.0%	(i)	Clearskincare QV Melbourne Pty Ltd	50.2%	50.2%	(iv)
API Owned CSC Pty Ltd	100.0%	100.0%	(i) & (vi)	Clearskincare Bondi Junction Pty Ltd	50.2%	50.2%	(iv)
CSC Whitford Pty Ltd	100.0%	100.0%		Clearskincare Carousel Pty Ltd	50.2%	50.2%	(iv)
CSC West Lakes Pty Ltd	100.0%	100.0%		Clearskincare Hurstville Pty Ltd	50.2%	50.2%	(iv)
CSC Holdings New Zealand Ltd	100.0%	100.0%	(ii) & (v)	Clearskincare Clinics Pty Ltd	50.2%	50.2%	(iv)
CSC Ponsonby Limited	100.0%	100.0%	(ii)	Clearskincare Bendigo Pty Ltd	50.2%	50.2%	(iv)
CSC Shared Services Pty Ltd	100.0%	100.0%		Clearskincare Carindale Pty Ltd	50.2%	50.2%	(iv)
CSC Camberwell Pty Ltd	100.0%	100.0%		Clearskincare City Square Pty Ltd	50.2%	50.2%	(iv)
CSC Port Melbourne Pty Ltd	100.0%	100.0%		Clearskincare Chermside Pty Ltd	50.2%	50.2%	(iv)
CSC Mordialloc Pty Ltd	100.0%	100.0%		Clearskincare Macquarie Centre Pty Ltd	50.2%	50.2%	(iv)
CSC North Sydney Pty Ltd	100.0%	100.0%		Clearskincare Norwood Pty Ltd	50.2%	50.2%	(iv)

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GROUP STRUCTURE (CONTINUED)

17. Subsidiaries *(Continued)*

	As at 31 August Ownership interest held by the group				As at 31 August Ownership interest held by the group		
Entity name	2020	2019	Notes	Entity name	2020	2019	Notes
Clearskincare Cockburn Gateway Pty Ltd	50.2%	50.2%	(iv)	Clearskincare South Australia Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Parramatta Pty Ltd	50.2%	50.2%	(iv)	Clearskincare West End Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Clinics Australia Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Claremont Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Bondi Beach Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Northland Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Robina Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Southland Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Warringah Mall Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Chirnside Park Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Clarence St Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Mt Lawley Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Miranda Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Newmarket Ltd	51.0%	50.2%	(ii) & (iv)
Clearskincare Cremorne Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Tokapuna Ltd	51.0%	50.2%	(ii) & (iv)
Clearskincare Leichhardt Pty Ltd	50.2%	50.2%	(iv)	CSC Ventures Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Rockdale Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Canberra City Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Toowong Pty Ltd	50.2%	50.2%	(iv)				

(i) These controlled entities have entered into a Deed of Cross Guarantee with the parent entity, refer Note 18, in respect of relief granted from accounting and financial reporting requirements in accordance with the ASIC Corporations (Wholly- owned Companies) Instrument 2016/785.

(ii) Entities incorporated in New Zealand. All other entities are incorporated in Australia.

(iii) Entities were incorporated during the year ended 31 August 2020.

(iv) Entities form part of Non-controlling interest.

(v) This entity changed its name from KMS Stevens Equities to CSC Holdings New Zealand Ltd in the prior financial year.

(vi) This entity changed its name from API Ownership Pty Ltd to API Owned CSC Pty Ltd during the current financial year.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GROUP STRUCTURE (CONTINUED)

18. Deed of Cross Guarantee

Entities which are party to the Deed of Cross Guarantee (Closed Group), entered into in accordance with ASIC Corporations (Wholly owned Companies) Instrument 2016/785, are disclosed in Note 17.

The summarised statement of comprehensive income, retained profits and reserves and the Statement of Financial Position of the Closed Group, after eliminating all transactions between members of the Closed Group, at 31 August 2020 is set out as follows:

a) Summarised statement of comprehensive income, retained profits and reserves

In thousands of AUD	Year ended 31 August 2020	2019 (restated)[(ii)]
Profit / (loss) before tax	(12,281)	69,068
Income tax (expense) / benefit	6,509	(16,131)
Profit / (loss) after tax	**(5,772)**	**52,937**
Other comprehensive income / (loss)	(5,623)	786
Total comprehensive income / (loss) for the year	**(11,395)**	**53,723**
Movement in accumulated losses		
Accumulated losses at the beginning of the year	(143,699)	(138,174)
Adjustment on adoption of AASB 16	(11,125)	-
Adjustment on adoption of AASB 9 and AASB 15	-	(5,525)
Profit /(loss) after tax for the year[(i)]	(5,772)	-
Accumulated losses at the end of the year	**(160,596)**	**(143,699)**
Movement in Reserves		
Reserves at the beginning of the year	184,073	169,075
Profit /(loss) after tax for the year[(i)]	-	52,937
Dividends paid from profits reserve	(19,706)	(38,171)
Other comprehensive income	(5,623)	786
Share based payments expense, recorded in equity reserve	243	(554)
Reserves at the end of the year	**158,987**	**184,073**

(i) Profit after tax is recognised in the profits reserve which represents current year profits transferred to a reserve to preserve the characteristic as a profit and not appropriate those profits against prior year accumulated losses.

(ii) The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Notes 5, 11 and 27 for further details.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GROUP STRUCTURE (CONTINUED)

18. Deed of Cross Guarantee *(Continued)*

b) Statement of financial position

In thousands of AUD	2020	As at 31 August 2019 (restated)[i]
Current assets		
Cash and cash equivalents	48,815	23,860
Trade and other receivables	597,834	701,958
Inventories	346,172	395,853
Lease receivables	6,530	-
Total current assets	**999,351**	**1,121,671**
Non-current assets		
Trade and other receivables	21,237	55,655
Lease receivables	23,002	-
Investments	206,824	201,933
Financial assets at fair value through other comprehensive income	1,200	87,849
Deferred tax assets	20,880	29,378
Right-of-use assets	106,699	-
Property, plant and equipment	72,723	85,801
Intangible assets	141,779	158,269
Total non-current assets	**594,344**	**618,885**
Total assets	**1,593,695**	**1,740,556**
Current liabilities		
Trade and other payables	716,084	774,806
Loans and borrowings	3,637	57,652
Lease liabilities	36,330	-
Provisions	31,575	33,289
Income tax payable	11,500	1,957
Total current liabilities	**799,126**	**867,704**
Non-current liabilities		
Trade and other payables	33,382	80,045
Loans and borrowings	64,945	163,877
Lease liabilities	126,071	-
Provisions	5,319	4,437
Total non-current liabilities	**229,717**	**248,359**
Total liabilities	**1,028,843**	**1,116,063**
Net assets	**564,852**	**624,493**
Equity		
Share capital	566,461	566,461
Reserves	158,987	184,073
Accumulated losses	(160,596)	(126,041)
Total equity	**564,852**	**624,493**

(i) The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Notes 5, 11 and 27 for further details.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GROUP STRUCTURE (CONTINUED)

19. Parent entity disclosures

(a) Summarised statement of comprehensive income

	Year ended 31 August	
In thousands of AUD	**2020**	**2019**
Profit / (loss) after tax	**(14,691)**	**34,539**
Other comprehensive income / (loss)	(5,088)	1,271
Total comprehensive income / (loss) for the year	**(19,779)**	**35,810**

(b) Summarised balance sheet

	As at 31 August	
In thousands of AUD	**2020**	**2019 (restated)[(i)]**
Current assets	58,926	222,096
Non-current assets	723,506	717,033
Total assets	**782,432**	**939,129**
Current liabilities	333,888	400,063
Non-current liabilities	59,744	112,072
Total liabilities	**393,632**	**512,135**
Net assets	**388,800**	**426,994**
Equity		
Share capital	566,461	566,461
Reserves	34,826	74,099
Accumulated losses	(212,487)	(213,566)
Total equity	**388,800**	**426,994**
Capital commitments of the parent entity	**111**	**179**

(i) The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Notes 5, 11 and 27 for further details.

Details of guarantees and contingencies of the parent entity are included in Note 12.

20. Related party transactions

a) Parent entity

The parent entity of the Group is Australian Pharmaceutical Industries Limited.

b) Equity interests in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 17.

c) Key management personnel

Disclosures relating to KMP are set out in Note 21.

d) Transactions with related parties other than key management personnel or entities related to them

Sales to, and purchases from, related parties for goods and services are made on an arm's length basis at normal prices and on normal commercial terms.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OTHER DISCLOSURES

This section provides information on other disclosures that are required by the Australian Accounting Standards or the Corporations Act 2001.

21. Key management personnel disclosures

a) KMP compensation summary

In accordance with the requirements of AASB 124 *Related Party Disclosures*, the KMP included Non-Executive Directors and members of the Group Executive team who have authority and responsibility for planning, directing and controlling the activities of the Group. A summary of KMP compensation, included in personnel expenses, is set out below:

	Year ended 31 August	
In AUD	**2020**	**2019**
Short-term employee benefits	2,581,282	2,349,635
Other long-term employee benefits	147,075	115,954
Final payouts	170,040	-
Share based payments	57,143	(195,478)
Total KMP compensation	**2,955,540**	**2,270,111**

b) Individual Directors and Executives compensation disclosures

Information regarding individual Directors and Executives' compensation and equity instruments disclosures as required by Corporations Act S300A and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors' Report.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or its subsidiaries since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

c) Other Key Management Personnel transactions with the Company or its Controlled Entities

A former Director of the Company is a director of a company that has entered into transactions with the Group during the financial year. These transactions are on the same terms and conditions as those entered into by other entities, employees or customers.

No shares were granted during the period to Directors.

Mr R D Millner retired as Director on 9 July 2020 and, subsequent to year-end, received a retirement payment in respect of his directorship. During his period as a Director, Mr R D Millner was a Director of Washington H Soul Pattinson and Company Limited. Washington H Soul Pattinson and Company Limited holds 95,068,472 shares (31 August 2019: 95,068,472 shares) in the Company at year end. In addition, Mr Millner holds 1,755,620 shares in the Company.

During the year, further performance rights were issued by the Company to KMP and certain Executives. Share rights issued to forfeited by and KMP have been disclosed in the Remuneration Report contained within the Directors' Report.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OTHER DISCLOSURES (CONTINUED)

22. Share-based payments

	Year ended 31 August	
In thousands of AUD	**2020**	**2019**
Long term incentive plan (LTIP)[(i)]		
2015 grant	-	(10)
2016 grant	4	(352)
2017 grant	(238)	(315)
2018 grant	(122)	123
2019 grant	599	-
Total share based payments expense	**243**	**(554)**

(i) *In accordance with AASB 2 Share-based Payment, this amount represents the expense incurred, net of any write-backs, during the year in respect of current incentive allocations to employees. The amounts are not amounts actually received by the employees during the year. Whether the employees receive any equity instruments in the future will depend on the performance of the Company over the performance period.*

a) Long Term Incentive Plan (LTIP)

The Group has granted equity settled performance rights that entitle KMP and senior employees to receive shares in the Company if defined performance conditions are achieved (the LTIP). The LTIP has been established to incentivise employees to generate shareholder wealth and align the interests of the employees with those of the shareholders. Detailed remuneration disclosures, including the link between the LTIP and shareholder wealth, are provided in the Remuneration Report section of the Directors' Report.

Under the LTIP, the performance conditions are assessed by the Remuneration Committee at the next meeting immediately after the end of the performance period. If the performance conditions are met, the employees are granted shares in the Company proportionate to the level of performance achieved. If the minimum performance hurdles are not met, no shares are granted. The table below summarises the movement in the number of performance rights granted under the LTIP.

Tranche	Grant date	Number of performance rights granted	Balance at start of year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at end of year
Financial year 2020							
2016 LTIP	1 Feb 2017	924,512	916,680	-	(122,571)	(794,109)	-
2017 LTIP[(i)]	29 Jan 2018	1,241,012	1,130,237	-	-	-	1,130,237
2018 LTIP	10 Dec 2018	1,364,259	1,266,949	-	-	(50,119)	1,216,830
2019 LTIP	12 Nov 2019	1,685,711	-	1,685,711	-	(38,600)	1,647,111
Total		**5,215,494**	**3,313,866**	**1,685,711**	**(122,571)**	**(882,828)**	**3,994,178**
Financial year 2019							
2015 LTIP	13 Jan 2016	1,103,290	1,060,046	-	(275,252)	(784,794)	-
2016 LTIP	1 Feb 2017	924,512	924,512	-	-	(7,832)	916,680
2017 LTIP	29 Jan 2018	1,241,012	1,241,012	-	-	(110,775)	1,130,237
2018 LTIP	10 Dec 2018	1,364,259	-	1,364,259	-	(97,310)	1,266,949
Total		**4,633,073**	**3,225,570**	**1,364,259**	**(275,252)**	**(1,000,711)**	**3,313,866**

(i) *Since the end of the financial year, the Remuneration Committee has assessed the performance conditions of this grant which resulted in the vesting of 0% of this grant.*

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OTHER DISCLOSURES (CONTINUED)

22. Share-based payments (*Continued*)

(i) Fair value of performance rights granted

Fair value of the performance rights at grant date is independently determined using Black-Scholes option pricing model developed by external consultants. Share performance rights are granted under a service condition and market and non- market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

The fair value calculated through the model and inputs into the model are set out below. Note there were two grants under the 2019 LTIP:

	Tranche 1	Tranche 2
Grant date	19 Dec 2019	20 Feb 2020
Fair value at measurement date	$1.120	$1.080
Model inputs:		
Share price at grant date	$1.330	$1.275
Expected volatility (expressed as weighted average)	30%	30%
Performance rights vesting life	Three years	Three years
Expected dividend yield	6.00%	6.00%
Risk free interest (based on Government bond rates)	0.806%	0.697%

b) Short Term Incentive Plan (STIP)

The STIP for Executives of the Group is designed to drive key performance measures aligned to strategy and financial objectives. For STIP performance scorecard measures established after 1 September 2012, 50% of any resulting STIP payment is converted from cash to rights to acquire API shares and is deferred for 12 months to encourage employee retention. It is also designed to manage risk by ensuring that decisions taken in the previous reporting period have resulted in sustainable benefit for the Group. Further details of the STIP are set out in the Remuneration Report.

There was no STIP granted during the 2020 or 2019 financial year.

23. Auditor's remuneration

During the year, the Group's auditors provided the following services:

	Year ended 31 August	
In AUD	**2020**	**2019**
Audit services - audit and review of financial reports		
KPMG Australia	521,640	581,749
Overseas KPMG firms	38,886	36,000
Total audit services	**560,526**	**617,749**
Other services		
Due diligence services for business acquisitions - KPMG Australia	-	159,874
Clear Skincare acquisition related services - KPMG Australia	-	125,183
Other assurance services - KPMG Australia	34,673	31,920
Taxation services - Overseas KPMG firms	23,240	8,830
All other services - Overseas KPMG firms	5,764	5,636
Total non audit services	**63,677**	**331,443**

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OTHER DISCLOSURES (CONTINUED)

24. New accounting standards

a) New accounting standards and interpretations

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

- AASB 16 *Leases*
- 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 year ended 31 August 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 accumulated depreciation and impairment losses and is adjusted for remeasurement of the lease liability.

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.

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.

Details of the Group's extension options are as follows:

	As at 31 August 2020
Details of the Group's extension options at 31 August 2020	
Leases with extension options	8%
Leases without extension options	92%
Total leases	**100%**
Of the leases with extension options	
Leases with an extension option included in the lease liability	53%
Leases with an extension option excluded in the lease liability	47%
Total leases with extension options	**100%**

Key accounting estimate and judgement – lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Relevant factors the Group considers in determining the likelihood to exercise a lease renewal, to the point of reasonable certainty, include the property strategy, the importance of the leased asset to the Group, the existence of renewal options and their pricing, whether the market is a new market or an existing market, the costs of returning the leased asset in a contractually specified condition, the existence of alternate sites within the same location and the associated costs of a relocation and any broader trends generally shaping the industries in which the Group operates.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OTHER DISCLOSURES (CONTINUED)

24. New accounting standards *(Continued)*

a) New accounting standards and interpretations *(Continued)*

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

In thousands of AUD	As at 31 August 19	AASB 16 impact	Opening balance as at 1 September 19
Right-of-use asset	-	157,324	157,324
Lease receivable	-	34,927	34,927
Property Plant & Equipment	107,130	2,797	109,927
Total assets impact		**195,048**	
Trade and other payables – current	(790,270)	8,089	(782,181)
Deferred tax liabilities	(8,239)	4,848	(3,391)
Lease liabilities - current	-	(50,722)	(50,722)
Lease liabilities - non-current	-	(168,388)	(168,388)
Total liabilities impact		**(206,173)**	
Accumulated losses	(127,847)	(11,125)	(138,972)
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 2.96% at reporting date.

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 leases with a remaining lease term of less than 12 months at 1 September 2019 as short-term leases,
- Treatment of leases for which the underlying asset is of low value, as rental expense, and
- Application of hindsight in determining where the contract contains options to extend or terminate the lease.

The Group has also adopted the practical expedient for rent concessions negotiated as a consequence of COVID-19. This allows the Group to elect not to account for changes in lease payments as a lease modification where a change in lease payments to the revised consideration are substantially the same or less than the consideration for the lease preceding the change, the reductions only affects payments which fall due before 30 June 2021 and there has been no substantive change in terms and conditions. Where the practical expedient has been applied, rent concessions are accounted for in the consolidated income statement.

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)

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OTHER DISCLOSURES (CONTINUED)

24. New accounting standards *(Continued)*

a) New accounting standards and interpretations (*Continued)*

The movement in lease liabilities is presented below:

In thousands of AUD	Property	Vehicle	Equipment	*Total*
Lease liability at 1 September 2019	(213,492)	(747)	(4,871)	(219,110)
Additions	(32,514)	(226)	(1,396)	(34,136)
Modifications	6,767	(15)	110	6,862
Finance expense	(6,645)	(11)	(85)	(6,741)
Payments on lease liabilities	68,074	523	2,209	70,806
Foreign currency exchange differences	122	3	-	125
Total lease liability at 31 August 2020	**(177,688)**	**(473)**	**(4,033)**	**(182,194)**
Lease liability - current	(38,406)	(320)	(1,678)	(40,404)
Lease liability - non-current	(139,282)	(153)	(2,355)	(141,790)

The movement in right-of-use assets is presented below:

In thousands of AUD	Property	Vehicle	Equipment	*Total*
Opening right-of-use asset at 1 September 2019	151,706	747	4,871	157,324
Additions	28,504	226	1,396	30,126
Modifications	(5,423)	15	(110)	(5,518)
Depreciation	(53,783)	(514)	(2,207)	(56,504)
Impairment	(227)	-	-	(227)
Foreign currency exchange differences	(119)	(3)	-	(122)
Total right-of-use assets at 31 August 2020	**120,658**	**471**	**3,950**	**125,079**

The movement in lease receivables is presented below:

In thousands of AUD	Property
Opening lease receivable at 1 September 2019	34,927
Receipts from subleases	(8,772)
Finance expense	918
Additions	2,442
Modifications	382
Disposals	(365)
Total lease receivable at 31 August 2020	**29,532**

The following segments were affected by the change in policy during the year:

In thousands of AUD	Australia	New Zealand	Consolidated
Occupancy costs	(59,208)	(517)	(59,725)
Depreciation and amortisation	56,046	458	56,504
Finance expense	5,716	107	5,823
Income tax expense	(766)	(15)	(781)
Net profit after tax	**1,788**	**33**	**1,821**

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.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OTHER DISCLOSURES (CONTINUED)

25. Subsequent events

Details of the final dividend proposed since balance date is set out in Note 7.

On 1 September 2020, the Group paid $32.9m to the minority shareholders of the Clear Skincare business to increase the ownership interest in this business from 50.2% to 75.2%.

Subsequent to year-end, the Group entered into an arrangement for construction at a new Distribution Centre in Sydney, New South Wales, as part of the Group's plans to invest in the Distribution network.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 31 August 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.

26. Reconciliation of cash flows from operating activities

	Year ended 31 August	
In thousands of AUD	**2020**	**2019**
Profit / (loss) before tax for the year	(14,647)	73,740
Depreciation and amortisation	87,508	29,069
Impairment (reversal)/loss on property, plant and equipment	(463)	55
Impairment loss on brand names	37,500	-
Impairment loss on right-of-use assets	227	-
Net foreign exchange loss / (gain)	123	(206)
Net loss on sale of property, plant and equipment	5,168	2,704
Share based payments expense	243	(554)
Fair value movement of financial liabilities	(7,479)	(18,034)
Dividend income	(1,373)	(3,533)
Net finance costs	19,079	20,306
Operating profit before changes in working capital and provisions	**125,886**	**103,547**
Decrease/(increase) in trade and other receivables	155,042	(34,881)
Decrease/(increase) in inventories	45,078	(18,039)
(Decrease)/increase in trade and other payables	(87,211)	7,006
(Decrease)/increase in provisions and employee benefits	633	532
Cash generated from operations	**239,428**	**58,165**
Net interest paid	(12,978)	(19,106)
Income taxes paid	(10,935)	(27,450)
Net cash inflows from operating activities	**215,515**	**11,609**

a) Reconciliation of cash and cash equivalents to net debt

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the cash management for the Group. The reconciliation of cash and cash equivalents to net debt is included below.

	As at 31 August	
In thousands of AUD	**2020**	**2019**
Cash and cash equivalents	60,713	30,181
Loans and borrowings - current	(8,260)	(59,596)
Loans and borrowings - non current	(70,423)	(169,683)
Net debt	**(17,970)**	**(199,098)**

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OTHER DISCLOSURES (CONTINUED)

27. Comparative balances

In May 2020, the IFRS Interpretations Committee (IFRS IC) published its final agenda decision 'Multiple Tax Consequences of Recovering an Asset (IAS 12 *Income taxes*)' which considers how an entity accounts for deferred taxes on an asset that has two distinct tax consequences over its life that cannot be offset (taxable economic benefits from use and capital gains on disposal or expiry). The IFRS IC concluded that in these circumstances an entity identifies separate temporary differences (and deferred taxes) that reflect these distinct and separate tax consequences of recovering the assets carrying amount.

As a result, API has amended its accounting policy to align with the IFRS IC guidance and retrospectively adjusted the deferred tax accounting for impacted brand name intangible assets. The impact of this change in accounting policy for the comparative reporting period and the beginning of the earliest period presented is shown below. The change in accounting policy had no impact on the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 August 2019. All adjustments outlined below relate to the Australian segment.

Consolidated Balance Sheet **As at 31 August 2019** ***In thousands of AUD***	**Reported**	**Adjustments**	**Restated**
Assets			
Intangible assets	280,271	21,630	301,901
Deferred tax assets	31,049	(31,049)	-
Non-current assets	**563,843**	**(9,419)**	**554,424**
Total assets	**1,665,214**	**(9,419)**	**1,655,795**
Liabilities			
Deferred tax liabilities	-	8,239	8,239
Non-current liabilities	**255,425**	**8,239**	**263,664**
Total liabilities	**1,142,906**	**8,239**	**1,151,145**
Equity			
Accumulated losses	(110,189)	(17,658)	(127,847)
Total equity	**522,308**	**(17,658)**	**504,650**

Consolidated Balance Sheet **As at 1 September 2018** ***In thousands of AUD***	**Reported**	**Adjustments**	**Restated**
Assets			
Intangible assets	283,383	21,630	305,013
Deferred tax assets	22,838	(22,838)	-
Non-current assets	**435,515**	**(1,208)**	**434,307**
Total assets	**1,521,343**	**(1,208)**	**1,520,135**
Liabilities			
Deferred tax liabilities	292	16,450	16,742
Non-current liabilities	**192,969**	**16,450**	**209,419**
Total liabilities	**1,010,636**	**16,450**	**1,027,086**
Equity			
Accumulated losses	(104,664)	(17,658)	(122,322)
Total equity	**510,707**	**(17,658)**	**493,049**

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Australian Pharmaceutical Industries Limited (**API**):

    a. the consolidated financial statements and notes set out on pages 31 to 76, and the Remuneration Report set out on pages 17 to 29 in the Directors' Report, 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 31 August 2020 and of its performance, for the financial year ended on that date; and

        ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;

    b. the consolidated financial report also complies with International Financial Accounting Standards as disclosed in Note 1(a); and

    c. there are reasonable grounds to believe that API will be able to pay its debts as and when they become due and payable.

    There are reasonable grounds to believe that API and the controlled entities identified in Note 17 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between API and those controlled entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

2. The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 August 2020 pursuant to Section 295A of the *Corporations Act 2001*.

Dated 21 October 2020

Signed in accordance with a resolution of the Directors:

Ken Gunderson-Briggs

Kenneth W. Gunderson-Briggs
Interim Chair

Independent Auditor's Report

To the shareholders of Australian Pharmaceutical Industries Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Australian Pharmaceutical Industries Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 August 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated balance sheet as at 31 August 2020
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of Australian Pharmaceutical Industries Limited (the Company) and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code)* that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Valuation of receivables (including assessment of financial guarantees)
- Asset valuation (carrying value of goodwill and brand names for Australia and Clearskincare and carrying value of goodwill for New Zealand)

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of receivables of $537.9m (current) and $21.9m (non-current) (including assessment of financial guarantees of $9.2m)

Refer to Notes 8 and 12 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The Group is exposed to credit risk in relation to overdue trade receivables and long term loans provided as financial assistance to certain pharmacy customers. The recoverable value and classification of these receivables from customers was a key audit matter due to the audit effort to address multiple and varying credit conditions across a large pool of customers. We focused on: • Amendments to standard terms of trade with certain customers, such as long term funding arrangements; • The value of security held by the Group over the customers' assets and its impact to the Group's credit risk exposure. In particular, the value of the retention of title on inventory held by the customers, the value of the formal charges over customers' assets used as collateral, and the ranking of the Group's debt compared to other creditors; and • Assessing the Group's subjective judgements relating to the customers' ability to repay amounts and the timing of these repayments. The	Our procedures included: • Assessing the Group's valuation of receivables methodology against the requirements of relevant accounting standards. • Assessing the Group's classification of receivables with reference to expected timing of settlement. • Identifying customers with receivables balances which were at greater risk of non-recovery by reading the Group's credit committee reports and inspecting aged debtors ledgers. For those customers at greater risk of non-recovery, our audit procedures included: o Assessing the amendments to standard terms of trade with customers against signed long term funding arrangements. We also assessed patterns of customer's repayments since the amendments for consistency. We followed up unusual or inconsistent patterns; o Assessing the value of the security held by the Group over the customer's pharmacy assets by comparing the Group's analysis of value to conclusions of external valuation reports obtained by the Group in relation to similar pharmacy businesses; o Evaluating the objectivity, competence and scope of work undertaken by the external valuation expert appointed by the Group;

specific trading situations of these customers was critical to our assessment. Under AASB 9, credit losses are recognised on an Expected Credit Loss (ECL) basis. Given the subjective judgements by the Group applied in calculating the credit losses on an ECL basis, additional audit effort was applied in assessing the credit loss model and disclosures.	o Assessing the Group's analysis of the value for other security held by the Group such as retention of title of inventory, formal charges over customer's assets and the ranking of the Group's debt compared to other creditors. This involved comparing the Group's estimates to customer inventory records, property mortgage documents and other information; and o Challenging assumptions made about the ability of customers to repay amounts due and the associated timing of repayments. This included assessing the customer's current trading status, payment history, payments made subsequent to year end and its effect in reducing the balance outstanding at year end, and evaluating the actions taken by the Group to recover overdue amounts. • Assessing the ECL model developed by the Group against the criteria in AASB 9, in particular the forward looking assumptions relating to COVID-19, the outputs compared to the historical write off rates, and the Group's disclosures of the results of the ECL model at year end.

Asset valuation (carrying value of goodwill and brand names of $106.1m for Australia, $98.9m for Clearskincare and carrying value of goodwill of $16.4m for New Zealand)	
Refer to Note 11 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
Asset valuation of the Group's indefinite useful life assets is a key audit matter due to the significant forward-looking assumptions the Group applied in its fair value less costs of disposal models being inherently difficult to determine with precision. We focused on the following significant assumptions which impact forecast cash flows: • EBIT growth rates are impacted by non-market related factors such as new clinic growth in the Clearskincare clinics business (clinics business), personal care and healthcare sales growth in consumer brands, net franchise store growth, and like-for-like store sales growth in pharmacy and retail sales; • Discount rates which are inherently	Our procedures included: • Evaluating the appropriateness of the fair value less costs of disposal methods applied by the Group to perform impairment testing against the requirements of accounting standards. • Assessing the integrity of the fair value less costs of disposal models used, including the mathematical accuracy of the underlying calculation formulas. • Comparing the EBIT growth rates to the Group's Strategic Plan, published industry growth rates and market research reports. We also compared the carrying value EBITDA multiple and fair value less costs of disposal EBITDA multiple to comparable companies. • Comparing the forecast cash flows contained in the fair value less costs of disposal models to the Strategic Plan approved by the Board. • Working with our valuation specialists, we independently developed a discount rate range using publicly available

subjective and vary according to the conditions and environment the specific cash generating unit (CGU) is subject to from time to time and the valuation models approach to incorporating risks into the cash flows or discount rate; and • Terminal growth rates are impacted by market-related factors such as inflation targets which contribute to variability in clinics, pharmacy and retail, and consumer brands sales. The Group's model is sensitive to changes in EBIT growth rates. This drives additional audit effort specific to the feasibility of EBIT growth rates. Reasonably possible changes to key assumptions increases the possibility of non-current assets being impaired, plus the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider. The valuation model used to perform impairment assessments include a range of inputs. Valuation models contain forward-looking assumptions, which tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application. Given the inherent complexity of this key audit matter, we involved valuation specialists to supplement our senior audit team members.	market data for comparable entities, adjusted by risk factors specific to the CGUs, such as variability in pharmacy and retail sales and the uncertain outcome of government reforms to the Pharmaceutical Benefits Scheme. • Working with our valuation specialists, we compared the terminal growth rates to inflation targets published by the Reserve Bank of Australia and New Zealand Reserve Bank and external economic outlook reports. • Considering the sensitivity of the models by varying key assumptions, such as EBIT growth rates within a reasonably possible range, to identify those CGUs at higher risk of impairment to further focus our procedures. • Assessing the Group's prior accuracy in forecasting EBIT growth rates. EBIT growth rates are driven by new clinic growth in the clinics business, personal care and healthcare sales growth in consumer brands, net franchise store growth, and like-for-like store sales growth in pharmacy and retail sales. We compared historical forecasts detailed in Group Strategic Plans to actual results. We did this to inform our evaluation of forecasts incorporated in the models. We applied additional focus to forecasts in the areas where previous forecasts were not achieved. • Assessing the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Australian Pharmaceutical Industries Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Australian Pharmaceutical Industries Limited for the year ended 31 August 2020, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 18 to 29 of the Directors' report for the year ended 31 August 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Tony Romeo

Partner

Melbourne

21 October 2020

SHAREHOLDER INFORMATION

AS AT 20 OCTOBER 2020

ASX ADDITIONAL INFORMATION

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings as at 20 October 2020

Substantial shareholders

The number of shares held by substantial shareholders and their associates as notified to the ASX are set out below:

HSBC Custody Nominees (Australia) Limited	107,319,302	ordinary shares
Washington H Soul Pattinson and Company Limited	88,670,423	ordinary shares
Citicorp Nominees Pty Limited	60,036,831	ordinary shares
J P Morgan Nominees Australia Pty Limited	34,998,819	ordinary shares

Voting rights

The voting rights attaching to the ordinary shares, as set out in clause 16.2 of the Company's Constitution, are:

a) on a show of hands:
   (i) if a member has appointed two proxies, neither of those proxies may vote;
   (ii) a member who is present and entitled to vote and is also a proxy, attorney or representative of another member has one vote; and
   (iii) subject to paragraphs (a)(i) and (a)(ii), every individual present who is a member, or a proxy, attorney or representative of a member, entitled to vote has one vote;

b) on a poll every member entitled to vote who is present in person or by proxy, attorney or representative:
   (i) has one vote for every fully paid share held; and
   (ii) subject to paragraph (c), in respect of each partly paid share held has a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share; and

c) unless:
   (i) permitted under the Listing Rules; and
   (ii) otherwise provided in the terms on which shares are issued, in calculating the fraction of a vote which the holder of a partly paid share has, the Company must not count an amount:
   (iii) paid in advance of a call; or
   (iv) credited on a partly paid share without payment in money or money's worth being made to the Company.

On-market share buy-back

There is no current on-market share buy-back.

Distribution of Shareholders as at 20 October 2020

Category Ordinary Shares	Number of Shareholders
1 – 1,000	3,634
1,001 – 5,000	4,635
5,001 – 10,000	2,245
10,001 – 100,000	2,946
100,001 and over	210
	13,670

The number of shareholders holding less than a marketable parcel at 20 October 2020 was 1353 (22 October 2019: 1031).

SHAREHOLDER INFORMATION (Continued)

Stock Exchange

The Company is listed on the Australian Securities Exchange. The Home Exchange is Melbourne.

Other Information

Australian Pharmaceutical Industries Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Twenty largest Shareholders as at 20 October 2020*

Name	Number of Ordinary shares held	Percentage of Capital held
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	107,319,302	21.78
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	88,670,423	17.99
CITICORP NOMINEES PTY LIMITED	60,036,831	12.18
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	34,998,819	7.10
NATIONAL NOMINEES LIMITED	18,134,906	3.68
WASHINGTON H SOUL PATTINSON&CO LTD	6,398,049	1.29
PRUDENTIAL NOMINEES PTY LTD	6,000,000	1.21
BNP PARIBAS NOMS PTY LTD	3,032,161	0.61
BNP PARIBAS NOMINEES PTY LTD	2,895,968	0.58
J & P CHICK PTY LIMITED	1,600,000	0.32
JUM PTY LIMITED	1,567,286	0.31
MR FREDERICK BENJAMIN WARMBRAND	1,370,000	0.27
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	1,335,530	0.27
DR JEFFREY ERIC DALE CHICK & DR PAMELA HAZEL CHICK	1,000,000	0.20
INVESTMENT CUSTODIAL SERVICES LTD	1,000,000	0.20
MR RAYMOND FRANCIS FREW & MRS GILLIAN MARGARET FREW	820,000	0.16
NULIS NOMINEES (AUSTRALIA) LIMITED	809,979	0.16
SOPHIA PTY LTD	736,245	0.14
NAVIGATOR AUSTRALIA LTD	691,060	0.14
EST JOHN JOSEPH MURPHY	681,879	0.13
	339,098,438	**68.83**

*As shown on the register, beneficial holdings may differ.

Shareholder Communications

Enquiries or notifications by shareholders regarding their shareholdings or dividend should be directed to API's share registry:

Boardroom Pty Limited

Grosvenor Place Level 12

225 George Street

Sydney NSW 2000

GPO Box 3993

Sydney NSW 2001

Telephone 1300 737 760

International +61 2 9290 9600

Facsimile 1300 653 459

Shareholders can also send queries to the share registry via email: enquiries@boardroomlimited.com.au.

You can access information about your API shareholding and download forms via the internet by visiting: www.boardroomlimited.com.au.

SHAREHOLDER INFORMATION (Continued)

Dividends

If you wish your dividends to be paid directly to a bank, building society or credit union account in Australia contact the share registry or visit the website of Boardroom at www.boardroomlimited.com.au for an application form. The payments are electronically credited on the dividend payment date and confirmed by payment advices sent through the mail to the shareholder's registered address. All instructions received remain in force until amended or cancelled in writing.

Tax File Number (TFN), Australia Business Number (ABN or exemption)

You are strongly advised to lodge your TFN, ABN or exemption with the share registry. If you choose not to lodge these details, then API is obliged to deduct tax at the highest marginal rate (plus the Medicare levy) from the unfranked portion of any dividend. Certain pensioners are exempt from supplying their TFN's. You can confirm whether you have lodged your TFN, ABN or exemption via the Boardroom website.

Uncertificated Forms of Shareholdings

Two forms of uncertificated holdings are available to API shareholders:

- **Issuer Sponsored Holdings:**

  This type of holding is sponsored by API and provides shareholders with the advantages of uncertificated holdings without the need to be sponsored by any particular stockbroker.

- **Broker Sponsored Holdings ('CHESS'):**

  Shareholders may arrange to be sponsored by a stockbroker (or certain other financial institutions) and are required to sign a sponsorship agreement appointing the sponsor as their 'controlling participant' for the purposes of CHESS. This type of holding is likely to attract regular stock market traders or those shareholders who have their share portfolio managed by a stockbroker.

Shareholders communicating with the share registry should have their Security Holder Reference Number (SRN) at hand or Holder Identification Number (HIN) as it appears on the Issuer Sponsored/ CHESS statements or dividend advices. For security reasons, shareholders should keep their Security Holder Reference Numbers confidential.

Annual Report Mailing List

Shareholders are encouraged to elect to receive the Annual Report by email or by accessing the Company website. Shareholders (whether Issuer or Broker Sponsored) wishing to receive the Annual Report by email should advise Boardroom in writing so that their holding details can be added to the distribution list. Shareholders are encouraged to update their communication preferences via the Boardroom website. Shareholders can also elect to receive the Annual Report by e-mail or by accessing the Company website https:/www.investorserve.com.au

Change of Address

Shareholders who are Issuer Sponsored should notify any change of address to the share registry promptly in writing quoting their Security Holder Reference Number, previous address and new address. Application forms for Change of Address are also available for download via the Boardroom website. Broker Sponsored (CHESS) holders must advise their sponsoring broker of the change.

Share Trading and Price

API shares are traded on the Australian Securities Exchange. The stock code under which they are traded is 'API' and the details of trading activity are published in most daily newspapers under that abbreviation.

Off-Market Share Transfers

Stamp duty on transfer of listed shares was abolished on 1 July 2001.

SHAREHOLDER INFORMATION (Continued)

Information about API

API has an internet site featuring news items, announcements, corporate information and a wide range of product and service information. API's internet address is www.api.net.au.

The Annual Report is a source of information for shareholders. Other sources of information include:

- interim results;
- annual results;
- the Annual General Meeting (at which the Chair and the Managing Director address shareholders);
- ASX announcements; and
- Sustainability Report.

Financial Calendar*

Half year end	28 February 2021
Half year profit announcement	22 April 2021
Year end	31 August 2021
Full year profit announcement	21 October 2021
Annual General Meeting	20 January 2022

*Timing of events is subject to change.

Requests for publications and other enquiries about API's affairs should be communicated to:

Company Secretary

Australian Pharmaceutical Industries Limited

Level 5

250 Camberwell Road

Camberwell, Vic 3124

CORPORATE DIRECTORY

Corporate Directory

Offices and Officer

Company Secretary:

Ms Anne Mustow, B.Com., LLB., GAICD, Grad. Dip. Applied Finance & Investment

Registered Office:

Australian Pharmaceutical Industries Limited

Level 5

250 Camberwell Road

Camberwell VIC 3124

Locked Bag 3002 Hawthorn BC

VIC 3122

Telephone: (03) 8855 3000

International: +61 3 8855 3000

Facsimile: +61 3 8855 3406

Email: legal@api.net.au

Location of Share Registry

Boardroom Pty Limited Grosvenor Place

Level 12

225 George Street

Sydney NSW 2000

GPO Box 3993

Sydney NSW 2001

Telephone: 1300 737 760

International: +61 2 9290 9600

Facsimile: 1300 653 459

E-mail: enquiries@boardroomlimited.com.au