APPENDIX 4E

Australian Pharmaceutical Industries Limited

ABN 57 000 004 320

Final report for the year ended 31 August 2021

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 2021.

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

Current period	Year ended 31 August 2021
Previous corresponding period	Year ended 31 August 2020

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

For the year ended 31 August	2021 $'000	2020 (restated)[(i)] $'000	Change $'000	Change %
Revenue from ordinary activities	**4,004,863**	4,019,525	(14,662)	(0.4%)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**116,179**	91,940	24,239	26.4%
Earnings before interest and tax (EBIT)	**27,841**	5,619	22,222	395.5%
Profit / (loss) before tax	**12,463**	(13,460)	25,923	(192.6%)
Net profit / (loss) after tax for the year (NPAT)	**1,146**	(7,106)	8,252	(116.1%)
Underlying net profit after tax for the year[(i),(ii)]	**39,342**	31,478	7,864	25.0%
Earnings per share (in cents)				
Basic earnings per share	**0.3**	(1.5)	1.8	(119.5%)
Diluted earnings per share	**0.3**	(1.5)	1.8	(119.7%)
Underlying basic earnings per share - consolidated group [(ii)]	**8.0**	6.4	1.6	25.0%

(i) *The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to Software as a Service. Refer to Notes 12 and 29 for further details*

(ii) *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 28 October 2021.

3. DIVIDEND INFORMATION

	Amount per share (cents)	Franking percentage	Total Amount A$	Date of payment
Year ended 31 August 2021				
Final ordinary dividend - proposed	2.00	100%	9,853,120	15 December 2021
Record date: 12 November 2021				
Interim ordinary dividend	1.50	100%	7,389,841	4 June 2021
Year ended 31 August 2020				
Final ordinary dividend - proposed	2.00	100%	9,853,120	15 December 2020
Interim ordinary dividend	-	-	-	-

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 2021

4. NET TANGIBLE ASSET BACKING (CENTS PER SHARE)

As at 31 August	2021	2020
Net tangible asset backing - cents per share	13.0	13.3

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

Apart from the additional ownership of Clear Skincare Clinics noted in Note 8 and the additional ownership in SiSU Wellness Pty Ltd noted in Note 15 there were no acquisitions or loss of control over any entities during the year ended 31 August 2021. Subsequent to year end, the Group paid $32.9m to the minority shareholders of the Clear Skincare business to increase the ownership interest in this business from 75.2% to 100%.

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 2021, which contains the Directors' Report (including the audited Remuneration Report), the Directors' Declaration and the 31 August 2021 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	28 October 2021
Record date	12 November 2021
Final dividend payment	15 December 2021
2021 Annual General Meeting	
Date	20 January 2022
Time	2:00 pm
Location	Virtual
Approximate date that Annual Report will be available	15 December 2021

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

ATTACHMENT 1 – RECONCILIATION OF REPORTED INFORMATION TO UNDERLYING INFORMATION

Reconciliation of reported to underlying PBT and NPAT	**Year ended 31 August**	
In thousands of AUD	**2021**	**2020 (restated)[i]**
Reported net profit / (loss) before tax	12,463	(13,460)
Add:		
Costs incurred for business restructuring and reorganisation[ii]	40,414	17,622
Costs incurred for strategic business initiatives[ii]	1,796	-
Impairment of brand name	-	37,500
Underlying PBT	**54,673**	41,662
Reported net profit / (loss) after tax	1,146	(7,106)
Add:		
Costs incurred for business restructuring and reorganisation[ii]	36,939	12,334
Costs incurred for strategic business initiatives[ii]	1,257	-
Impairment of brand name	-	26,250
Underlying NPAT	**39,342**	31,478
Underlying basic earnings per share - consolidated group (in cents)	**8.0**	6.4

(i) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to Software as a Service. Refer to Notes 12 and 29 for further details

(ii) Costs associated with business restructuring and reorganisation and strategic business initiatives are included in Administration and general expenses, Cost of sales, Warehousing and distribution expenses and Marketing and sales expenses within the Consolidated Income Statement.

Underlying NPAT and underlying basic earnings per share – consolidated group are non-statutory measures used by the Chief Operating Decision Maker to measure the financial performance of the Group.

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

DIRECTORS' REPORT AND FINANCIAL REPORT

FOR THE YEAR ENDED 31 AUGUST 2021

TABLE OF CONTENTS

Glossary

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

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

Abbreviation	Definition	Abbreviation	Definition
AASB	Australian Accounting Standards Board	KMP	Key Management Personnel
CAGR	Compound Annual Growth Rate	LTIFR	Lost Time Injury Frequency Rate
CEO	Chief Executive Officer	LTIP	Long Term Incentive Plan
CODB	Underlying Cost of Doing Business includes total operating expenses excluding cost of sales, depreciation, amortisation and excluding one-off charges as a percentage of total revenues for the year	MTI	Medical Treatment Injury
		MTIFR	Medical treatment Injury Frequency Rate
		NPAT	Net Profit / (Loss) After Tax
CSC	Clear Skincare Clinics business	PBS	Pharmaceutical Benefits Scheme
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation	ROCE	Return on Capital Employed
EBIT	Earnings Before Interest and Tax	ROE	Return on Equity
EPS	Earnings Per Share	ROIC	Return on Invested Capital
FBT	Fringe Benefits Tax	STIP	Short Term Incentive Plan
FY18	Financial Year ended 31 August 2018	TRIFR	Total Recordable Injury Frequency Rate
FY19	Financial Year ended 31 August 2019	TSR	Total Shareholder Return
FY20	Financial Year ended 31 August 2020	VWAP	Volume Weighted Average Closing Price
FY21	Financial Year ended 31 August 2021		

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 2021 and the auditor's report.

This Report is made on 27 October 2021.

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 2 September 2015 – 29January 2019 Member – Audit and Risk Committee 6 May 2014 until 4 December 2020 including as Chair from 25 January 2017 – 4 December 2020 Member – People and Remuneration Committee 8 April 2015 – 4 December 2020 Member – Nomination Committee appointed on 3 August 2020 Interim Chair of the Board – 4 September 2020 – 4 December 2020 Chair of the Board – appointed on 4 December 2020	Mr Gunderson-Briggs is a chartered accountant in public practice, registered company auditor and 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 Chair – People and Remuneration Committee appointed on 4 December 2020 and member since 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 and appointed its Chair on 4 December 2020 Member – People and Remuneration Committee from 22 January 2020 and its Chair from 22 January 2020 – 4 December 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 Chartered Accountants Australia & New Zealand and has a Masters of Entrepreneurship and Innovation from Swinburne University. Other listed company directorships at any time during the last 3 years: – Healius Limited (November 2020 – current) – 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 acquisition. 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 Directors in FY21		
Ms Janine Allis	Independent Non-executive Director appointed on 23 October 2020 Member – People and Remuneration Committee appointed on 1 January 2021	Ms Allis is a successful businesswoman with extensive experience in retail and franchising. Ms Allis 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 the 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: – Kogan.com Limited (April 2021 – current) – Michael Hill International Limited (June 2016 – October 2020)

DIRECTORS' REPORT

BOARD OF DIRECTORS (CONTINUED)

New Directors in FY21		
Mr Clive Stiff M Sc (Management), FAICD	Independent Non-executive Director appointed on 4 December 2020 Member – Audit and Risk Committee appointed on 1 January 2021	Mr Stiff has over 35 years' experience in fast moving consumer goods. He is the former CEO of Unilever Australia & New Zealand and prior to that held a range of senior management roles locally with Goodman Fielder and internationally with Procter & Gamble. Mr Stiff was previously the Chair of the Australian Food & Grocery Council, the Chair of T2 Tea and a non-executive director of Foodbank NSW & ACT. He is currently the non-executive Chair of All G Foods Pty Ltd, a member of the Quantium Advisory Board and a member of the Genpact Australian Advisory Council. He is an external advisor to Bain & Company and a member of the University of New South Wales Business School Advisory Council. Other listed company directorships at any time during the last 3 years: – GrainCorp Limited (October 2021 – current)
Mr George Tambassis B Pharm, MAICD	Independent Non-executive Director appointed on 7 June 2021	Mr Tambassis is a pharmacist with over 35 years' operational experience in community pharmacies. He has served as a director of the Australian College of Pharmacy, as a director of an aged care facility and as a member of the Australian Community Pharmacy Authority. He was the inaugural President of the World Pharmacy Council and a member of the OECD's Associate Expert Group advising on pharmacy and health. Mr Tambassis served as a director on the Pharmacy Guild of Australia for 15 years including 7 ½ as its National President, during which he was instrumental in concluding the 6th and 7th Community Pharmacy Agreements with the Commonwealth Government.

Retired Directors in FY21		
Mr Mark Smith Dip Business (Marketing), FAICD, FIML, FAMI, CPM	Independent Non-executive Director 6 September 2017 – 4 September 2020 Chair of the Board 24 January 2018 – 4 September 2020 Member (interim) Audit and Risk Committee from 6 September to 9 November 2017	Mr Smith resigned as Director and Chair on 4 September 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' REPORT

BOARD OF DIRECTORS (CONTINUED)

DIRECTORS' MEETINGS

The number of Board and Board Committee meetings held and attended by the members 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.

	Board		Audit and Risk		People and Remuneration		Nomination	
Director	Held(i)(ii)	Attended	Held(i)	Attended	Held(i)	Attended	Held(i)	Attended
Mr Kenneth W Gunderson-Briggs	25	25	3	3	5	5	2	2
Ms Lee Ausburn	25	25	6	6	6	6	2	2
Ms Jennifer Macdonald	25	25	6	6	6	6	-	-
Mr Richard C Vincent	25	25	-	-	-	-	-	-
New Directors								
Ms Janine Allis(iii)	20	17	-	-	1	1	-	-
Mr Clive Stiff(iv)	13	13	3	3	-	-	-	-
Mr George Tambassis(v)	8	8	-	-	-	-	-	-
Retired Directors								
Mr Mark Smith(vi)	-	-	-	-	-	-	-	-

(i) Number of meetings held during the time the Director was a member of the Board or Committee

(ii) 14 of the total 25 Board meetings held were out of schedule Board meetings convened to address specific issues

(iii) Appointed Director on 23 October 2020 and appointed People and Remuneration Committee member on 1 January 2021. Attended all scheduled Board meetings

(iv) Appointed Director on 4 December 2020 and appointed Audit and Risk Committee member on 1 January 2021

(v) Appointed Director on 7 June 2021

(vi) Ceased to be a Director and Chair on 4 September 2020

DIRECTORS' REPORT (CONTINUED)

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 EBIT
- Underlying EBITDA
- Cash Conversion Days
- Underlying Cost of Doing Business (CODB); and
- Total network sales (including dispensary)

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, 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 although the Group announced the pending closure of manufacturing in the Consumer Brands business.

FINANCIAL PERFORMANCE

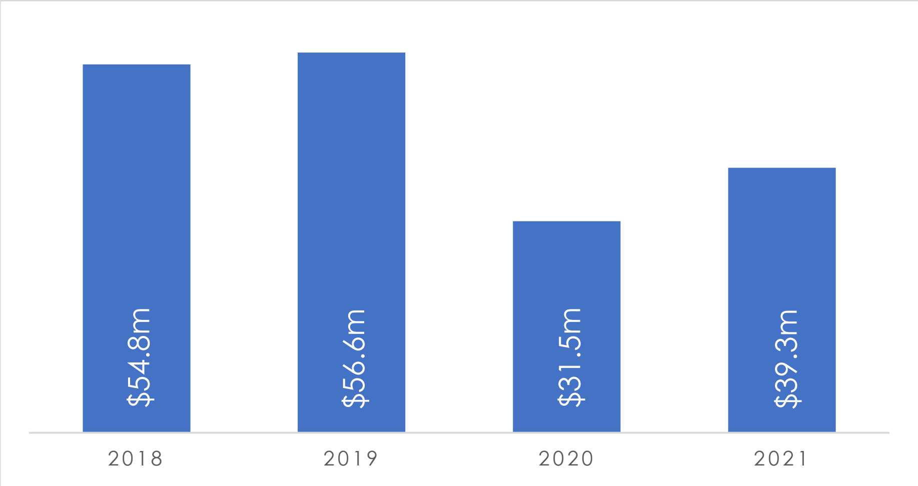
Financial highlights versus prior year

4.0B	0.5B	116.2M	158.4M	70.1M	2.0C
REVENUE	**GROSS PROFIT**	**REPORTED EBITDA**	**Underlying EBITDA**	**Underlying EBIT**	**Final Dividend**
-0.4% vs pcp	4.2% vs pcp	26.4% vs pcp	7.7% vs pcp	15.3% vs pcp	Dividend payout ratio 44% of Underlying NPAT

DIRECTORS' REPORT (CONTINUED)

Company Growth

Underlying NPAT*($'m)



*The FY20 amount has been restated due to the *IFRS Interpretations Committee* decision in relation to accounting for Software as a Service.

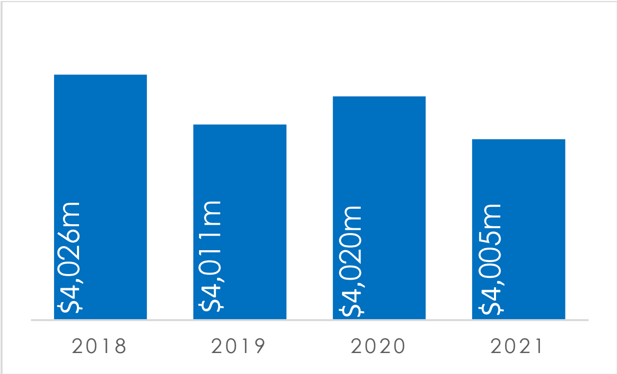
Consolidated $'000	FY2021	FY2020*	Change
Revenue	4,004,863	4,019,525	(0.4%)
Gross Profit	494,521	474,494	4.2%
Operating Expenses	472,673	483,345	(2.2%)
Reported EBITDA	116,179	91,940	26.4%
Underlying EBITDA	158,388	147,059	7.7%
Reported NPAT	1,146	(7,106)	116.1%
Underlying NPAT	39,342	31,477	25.0%

* The FY20 amounts have been restated due to the *IFRS Interpretations Committee* decision in relation to accounting for Software as a Service.

Our Financial Performance has been impacted by the COVID-19 pandemic and particularly the lockdown measures. These measures have resulted in part of the Priceline company-owned store network closed for 149 trading days, 41% of total trading days during the year compared to 80 days closed in FY20, and some of the Clear Skincare Clinic network closed for 211 trading days, which is 58% of total trading days, compared to 128 days in FY20. In addition, COVID-19 related lockdowns resulted in changes in demand which were experienced by all businesses, and it particularly impacted negatively upon our retail facing businesses Priceline and Priceline Pharmacy, and Clear Skincare.

DIRECTORS' REPORT (CONTINUED)

Revenue ($m)

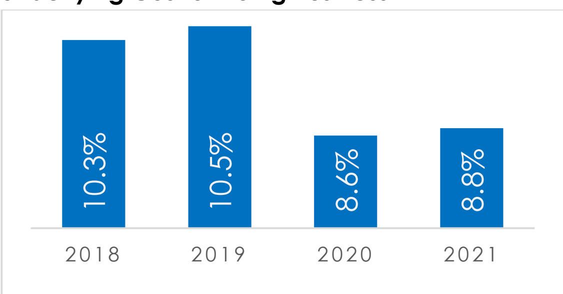


(i) Total network sales include sales by franchise partners that do not form part of total revenue of the Group.

The Group's revenue was $4.0 billion, down 0.4% on prior year. These results were achieved in a year where all Priceline company-owned retail stores and 84 Clear Skincare Clinics were temporarily closed as a result of COVID-19 lockdown provisions, proving the resilience of our business. The impact of the closures was particularly significant in our major trading States of NSW and Victoria. Despite the impact of lockdowns on the industry, Pharmacy Distribution revenue was $3.0 billion, up 1.1% on prior year which reflects a 3.6% increase in prescription medicine volume. Priceline and Priceline Pharmacy recorded a decline in total network sales(i) of 3.3% on the prior year and Clear Skincare revenue was $55.0 million, up 36.4% on prior year reflecting the increased size of the clinic network, the success of new services offered in clinic, and strong product sales. The Priceline and Priceline Pharmacy store network reduced by a net 10 stores to 464 as a result of the closure of predominantly company retail owned stores due to underperformance as a result of a range of factors including high lease costs, with some of the closed stores located in central business district locations in cities that had been adversely impacted by the COVID-19 pandemic giving rise to a move to working from home. The closure of these stores has resulted in an optimised network that is well positioned to grow. Clear Skincare increased by 19 clinics to 86 at year end, which is an increase of 96% in clinic numbers since we acquired the business, and its growth pipeline remains strong.

The Group's Underlying CODB(ii) remains low at 8.8% reflecting the result of significant work on restructuring API over the past two years. In FY21, restructuring initiatives included closing Priceline company-owned retail stores that were no longer profitable, commencing the exit of manufacturing in Consumer Brands New Zealand, and developing a new highly automated distribution centre in Marsden Park, NSW that will significantly reduce supply chain costs when it opens early in FY23. This was achieved along with a significant investment in new clinic staff for Clear Skincare Clinics, in total, giving rise to the slight increase.

Underlying Cost of Doing Business(ii)(iii)



(ii) CODB includes warehousing, distribution, marketing, sales, administration, and general and is a percent of Revenue

(iii) The FY20 amount has been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service

DIRECTORS' REPORT (CONTINUED)

OPERATING PERFORMANCE

Priceline and Priceline Pharmacy

Priceline and Priceline Pharmacy recorded a reduction in total network sales (including dispensary) of 3.3% to $2.0 billion. This measure includes sales made by franchise partners and these do not form part of the financial results of API Ltd. During the past 12 months, COVID-19 had a significant impact upon revenue in this business. Despite these setbacks the Priceline and Priceline Pharmacy teams have remained focused, with the following achievements:

- We have grown our overall customer basket size by 3.9% on the prior year and the basket size of our SisterClub members by 6.0% despite COVID-19 related lockdowns impacting the entire company owned store network. This result reflects our focus on customer analytics and tailoring our in store and online offering to suit our customers. This has been enabled by our previous investment in the SisterClub platform as well as partnerships with global leading analytics companies. The Priceline SisterClub loyalty program remains the leading health and beauty membership program, and one of the largest programs by membership, in Australia.
- Priceline Pharmacy launched 59 new and exclusive brands during the year and rationalised our product range in response to our customer insights. In particular, the launch of Boots No7 skincare range late in the second half was well received by our customers.
- The Priceline online store continues to be successful with sales comparable to FY20 levels and exceeding pre-COVID-19 sales in FY19 by 62%.
- The Priceline store network was recalibrated by closing company owned retail stores in CBD locations in response to structural changes resulting from customers working from home. We had 464 stores at year end, a net reduction of 10 stores over the year and the network is well positioned for growth with a strong pipeline of pharmacists wanting to join the brand.
- A number of initiatives undertaken during FY21 will drive growth in FY22 and beyond including a change of generic pharmaceutical supplier, a change to the MedAdvisor app to drive eScript volumes and SisterClub members personalisation, and the efficient rollout of COVID-19 vaccines across the network.

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

Pharmacy Distribution

Pharmacy Distribution revenue was $3.0 billion, a 1.1% increase on prior year, reflecting growth in prescription medicine volume of 3.6%. This result was due to a further improvement in our in-stock position flowing on from the inventory optimisation program in which we have invested over the past two years. It also reflects the success of both our experienced sales network and the retail programs offered by API that are tailored to suit the individual business needs of our customers.

DIRECTORS' REPORT (CONTINUED)

Clear Skincare

Clear Skincare revenue was $55.0 million, an increase of 36.4% on the prior year. This result was achieved despite the mandated COVID-19 closures in Australia and New Zealand that occurred across the year resulting in the temporary closure of the majority of the Clear Skincare Clinics for extended periods.

Clear Skincare continued its rapid growth phase with an increase of 19 clinics for the year reaching a total of 86. This represents an increase of 42 clinics since the business was purchased in 2018. New services and products were launched in clinics during the year, including Micro Polish with Glycolic exfoliator cream and a larger size copper peptide serum, which resonated well with our customers. The growth of the network and broadening of the service and product ranges is reflected in the increase in the average value per customer by 57% since we acquired the business.

API Consumer Brands

New Zealand manufacturing segment revenue was $63.3 million, unchanged compared to prior year. This is a solid result given ongoing COVID-19 challenges for the business that continue to interrupt demand for cold and flu remedies and challenge the supply of raw material. In July this year we announced plans to exit manufacturing in New Zealand. We will cease the manufacture of the personal care and over-the-counter medicines and instead outsource their supply.

Underlying adjustments

Underlying adjustments on a pre-tax basis total $42.2 million and on an after-tax basis total $38.2 million. Included in the pre-tax total are $40.4 million relating to costs incurred for business restructuring and reorganization including costs and asset write downs associated with exiting of manufacturing in New Zealand, the closure of Priceline retail stores, and other restructuring costs. In addition, $1.8 million was incurred relating to strategic business growth including potential acquisition activity throughout the year.

FINANCIAL POSITION

The Company reported net debt of $99.9 million compared to $18.0 million in prior year. FY21 was a year of investment in our future with $23.3 million invested during the year in the new Marsden Park distribution centre development, which will drive further cost savings through our supply chain, and $42.9 million representing the last instalment paid to the original owners of the Clear Skincare business plus new clinics.

Cash Conversion Days were 17.3 which is reflective of very efficient working capital management and a strong balance sheet. We continue to focus on working capital efficiency. During the year we achieved further ongoing improvements in our inventory levels as a result of the inventory optimisation program which introduced world leading artificial intelligence machine learning to optimise inventory ordering based on current customer behaviour and buyer data.

The Company continues to operate comfortably within the Group's debt finance facility limits and associated banking covenants.

DIRECTORS' REPORT (CONTINUED)

The capital expenditure for the year, excluding the Clear Skincare instalment payment of $32.9 million, was $45.9 million, a $5.9 million increase on prior year reflecting the expenditure on the new distribution centre in Marsden Park NSW, an increase of 19 Clear Skincare Clinics compared to an increase of 15 clinics in the prior year, digital initiatives, and spend on business growth projects including ongoing 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 2.00 cents per share.

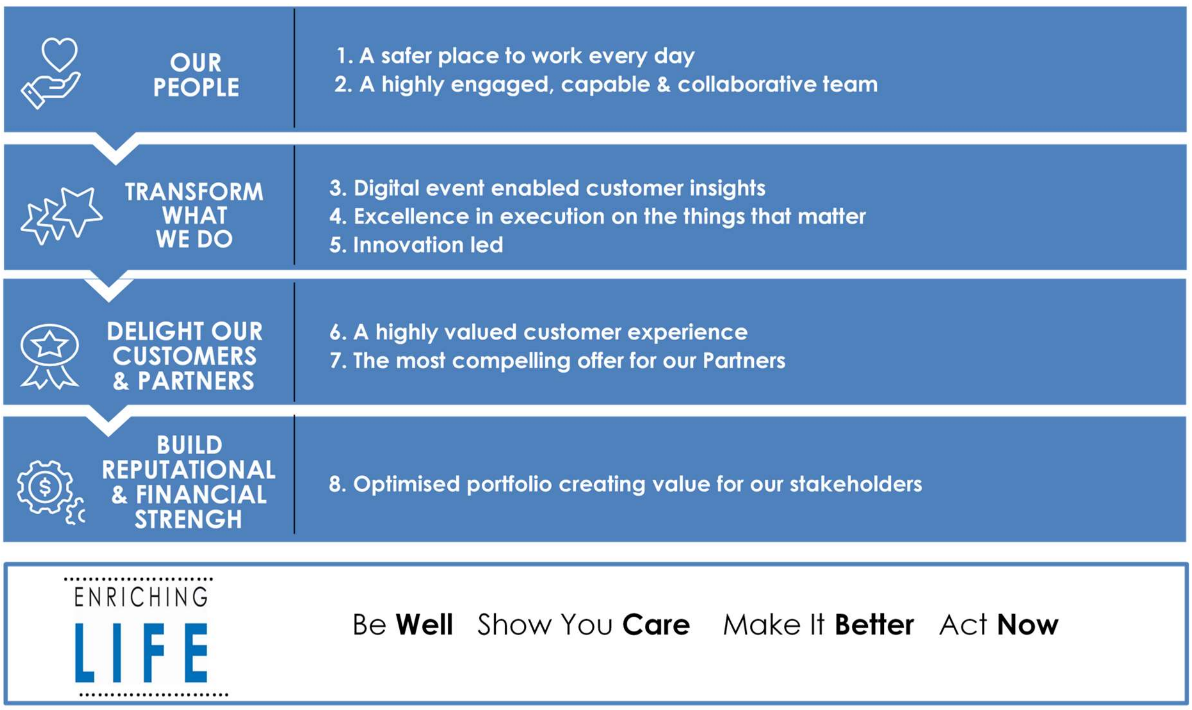
BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

API remains focused on leveraging its organisational, strategic and physical assets 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 term 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 in light of the social and economic changes that have and will arise as a result of COVID-19.

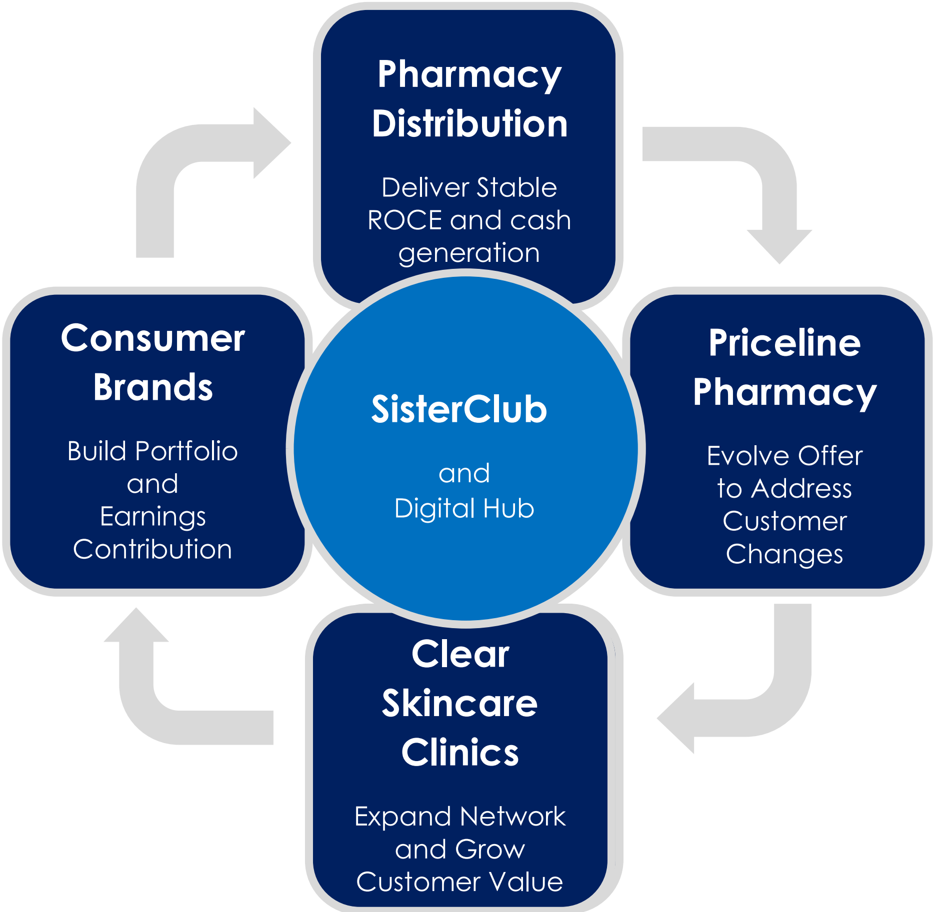
Our Vision is 'Enriching Life' and our ways of working are: *be well, show you care, make it better, act now*. The overall business strategies relating to this Vision, which are relevant to the Company's future financial position and performance are set out below.

Strategy Map



DIRECTORS' REPORT (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.



We are focusing on a number of key strategic initiatives including, but not limited to:

- reviewing the positioning of the Consumer Brands business including the exit from manufacturing in New Zealand;
- reviewing our key suppliers and terms of engagement;
- a digital transformation that will result in a data driven focus on our customers and an elevation of our loyalty program;
- an acceleration of our retail customer facing businesses with a focus on supporting and developing new franchise partners, and on securing optimal locations for new Clear Skincare clinics;
- expansion of our Healthcare Products and Services that are offered across our Pharmacy Brands and independent pharmacies;
- a continued focus on cost reduction and efficiency across supply chain and the entire business; and
- a focus on wellbeing, engagement, performance excellence and sustainability.

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 (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 an update at half year. This update 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 2021.

The COVID-19 pandemic has continued to impact all areas of the business over the full financial year. The recently completed risk assessment process considered all material risks for the Group arising from the pandemic with robust strategies and action plans developed to appropriately 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 operational changes. The Group also closely monitors compliance with its Community Service Obligation.
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 SisterClub members, offering new and exclusive products and continuing 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	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. Robust processes are in place to minimise the extent and impact of any outbreaks of COVID-19 at the Group's distribution facilities.
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 are in place for regular monitoring and reporting.

DIRECTORS' REPORT (CONTINUED)

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 compliance management structures and standards in place. The supporting compliance frameworks and processes are subject to regular management, risk assessment and internal audit review with oversight provided by the Audit and Risk Committee

OTHER MATTERS

SUSTAINABILITY

In line with previous years, the Group will prepare a comprehensive Sustainability Report which will be made publicly available on the API website: https://www.api.net.au/investor/annual-reports/.

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 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.

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 an officer of the Company.

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the year, other than the changes resulting from the ongoing COVID-19 pandemic. These changes included many employees continuing to work from home and extended temporary closures of Priceline and Clear Skincare stores during the pandemic, most particularly in Victoria and New South Wales.

As has been publicly announced, the Board has received two proposals for acquisition of the Group by scheme of arrangement. The Board will continue to keep shareholders informed of developments in respect of these proposals.

SUBSEQUENT EVENTS

On 1 September 2021, the Group completed its acquisition of the Clear Skincare business and paid the final amount due to the selling shareholders. As a result, Clear Skincare is now wholly owned subsidiary within the API Group. This final stage of the acquisition was agreed as part of the original acquisition of Clear Skincare in 2018 and further details are included in Note 8 to the Financial Report.

On 10 September 2021 the Group entered a conditional sale and leaseback of its pharmaceutical manufacturing plant in Auckland, New Zealand. The contract became unconditional on 21 October 2021 and settlement is expected to occur on 3 December 2021.

As disclosed to the ASX on 11 October 2021, API and certain subsidiaries have been named as defendants in class action proceedings filed in the Supreme Court of Victoria. The Group denies the plaintiffs' allegations and will vigorously defend the action. The number of members of the class, and their identities, have not been disclosed and the claim is not quantified. It is not currently possible to determine the ultimate impact of these proceedings, if any, on the Group.

On 16 September 2021, API received a non-binding, indicative, conditional control proposal from Wesfarmers Limited to acquire 100% of the shares in API for cash consideration of $1.55 per share. On 27 September 2021, API received an unsolicited, non-binding, indicative, conditional merger proposal from Sigma Healthcare Limited to acquire 100% of the shares in API for a combination of cash and scrip ($0.35 in cash and 2.05 in Sigma shares for each API share) which had an implied value of $1.57 at date of receipt of the non-binding offer.

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 2021 in respect of the year ended 31 August 2020. This payment was made on 15 December 2020. The dividend was at the rate of 2.0 cents per share, fully franked and totalled $9.9 million.

An interim dividend was also paid by the Company during the year ended 31 August 2021 in respect of the half year ended 28 February 2021. This payment was made on 4 June 2021. The interim dividend was at the rate of 1.5 cents per share, fully franked and totalled $7.4 million.

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.

DIRECTORS' REPORT (CONTINUED)

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
- 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 25 to the Financial Report.

The Board, through the Audit and Risk Committee, reviews and approves any non-audit services provided by the auditor, having regard to market benchmarks and ensuring 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 39 and forms part of the Directors' Report.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Director's 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 27 October 2021

Signed in accordance with a resolution of the Directors:

Ken Gunderson-Briggs

Kenneth W Gunderson-Briggs
Chair

DIRECTORS' REPORT

REMUNERATION REPORT

On behalf of the Board, I am pleased to present the Remuneration Report for the year ended 31 August 2021 (FY21).

Once again, the COVID-19 pandemic has had a significant impact on our business and employees, closing a number of our Priceline and Clear Skincare stores while requiring our supply chain and pharmacy distribution employees to ensure an uninterrupted supply of essential medicines to pharmacies.

SUMMARY OF REMUNERATION MATTERS FOR FY21

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

- In response to the COVID-19 pandemic and its ongoing impact on the Group's financial performance, the Company decided not to undertake the annual review of fixed remuneration in November 2020 for employees who are not covered by an Award or Enterprise Agreement. This includes all executives and those Executive Key Management Personnel (KMP) covered by this Report. As such there was no review or increase to Executive KMP fixed remuneration in FY21, except to account for the Company's increased Superannuation Guarantee (SG) obligations which came into effect from 1 July 2021.

- On 12 July 2021, API received an unsolicited, non-binding, conditional indicative proposal to acquire 100% of API shares on issue ("Wesfarmers Proposal"). For the purpose of determining the award of Performance Rights, the Board has determined to use the 10 Day Volume Weighted Average Price (VWAP) prior to API receiving this proposal, to ensure that the share price used was undisturbed by the Wesfarmers Proposal.

- During FY21, the Board undertook a review of the executive remuneration structure to assess and ensure that it continues to: align with current industry practice around reward and remuneration; support our business objectives; be market competitive and sustainable; and align with shareholders' interests.

  As a result of this review, changes were made to the Short Term Incentive Plan (STIP) to introduce a broader mix of financial and non-financial performance targets. These changes are outlined in more detail in Section 2.3 of this Report.

  Changes have also been made to the Long Term Incentive Plan (LTIP), including adjustments to the maximum incentive opportunity and the setting of annual targets for performance conditions under the 2020 LTIP. These changes are outlined in more detail in Section 2.4 of this Report.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

- The NPAT of the Group for FY21 did not meet the minimum gateway requirement for the financial component of the FY21 STIP, however the minimum gateway for the non-financial component of the FY21 STIP was met and therefore performance against specific non-financial objectives was assessed. Assistance payments totalling $703,666 were received during FY21 by the Clear Skincare business from JobKeeper (Australia) and Wage Subsidy (New Zealand), as detailed in Note 4 to the Consolidated Financial Statements. The Clear Skincare business was the only part of API's business that was eligible for the Australian and New Zealand wage subsidies, and these subsidies enabled the retention of Clear Skincare employees during the mandated clinic closures. However, these payments were not taken into account in the assessment of performance against the NPAT gateways for the FY21 STIP. The FY21 STIP outcomes for Executive KMP are detailed in Section 2.3 of this Report;

- The three-year performance period for the 2018 LTIP ended on 31 August 2021. Vesting of the 2018 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 2018 LTIP offer; and

- No change was made to Non-Executive Director fees (including Committee fees) in FY21.

EXECUTIVE REWARDS FOR FY22 AND BEYOND

Following the review of the Group's executive remuneration and reward structure in FY21, no structural changes are planned for FY22. Nevertheless, the Board will continue to monitor and make appropriate adjustments to the Group's remuneration and reward structure to ensure it supports the Group's business objectives and reflects current business and economic conditions.

The Board thanks the Group's employees for their considerable efforts during the year and also thanks shareholders for their continued support.

Yours sincerely
Lee Ausburn
Chair, People and Remuneration Committee

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

REMUNERATION REPORT - AUDITED

This Report explains the processes used in remuneration decisions and the outcomes of remuneration decisions for KMP for FY21 and is prepared in accordance with Section 300A of the *Corporations Act 2001* for the Company and its subsidiaries.

The 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 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 (retired 4 September 2020)
Kenneth Gunderson-Briggs	Chair (Interim Chair from 4 September 2020; Chair from 4 December 2020)
Lee Ausburn	Director
Jennifer Macdonald	Director
Janine Allis	Director (appointed 23 October 2020)
Clive Stiff	Director (appointed 4 December 2020)
George Tambassis	Director (appointed 7 June 2021)

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 a People and Remuneration Committee to review issues and practices relating to remuneration and reward and to make recommendations to the Board. The Committee Charter (available on www.api.net.au), has been prepared taking into account the ASX Corporate Governance Principles and Recommendations. The Charter specifies the purpose, authority, membership and activities of the People and Remuneration Committee and is annually reviewed to ensure it remains consistent with regulatory requirements.

Membership of the People and Remuneration Committee consists of three Non-Executive Directors. During the year members of the Committee were Ms Lee Ausburn, Ms Jennifer Macdonald and Ms Janine Allis. Mr Kenneth Gunderson-Briggs served as a member of the People and Remuneration Committee until 4 December 2020. Ms Macdonald was Chair of the People and Remuneration Committee until Ms Ausburn was appointed as Chair on 4 December 2020.

Engagement of Remuneration Consultants

While the Committee sought external information 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 2021.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

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

2.1 POLICY AND PRINCIPLES

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

- offer a remuneration structure that will attract, focus, retain and reward highly capable people;
- ensure that remuneration takes into account 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.

Executive remuneration is determined having regard to the nature of the Executive'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 People and Remuneration Committee includes reviewing and making recommendations to the Board regarding Executive remuneration. The People and 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, the value of 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 takes into account individual business unit 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.

There was no review or increase to Executive KMP fixed remuneration during FY21, except to account for the Company's increased Superannuation Guarantee (SG) obligations which came into effect from 1 July 2021. The impact of this was to increase the fixed annual remuneration of the CEO & Managing Director by 0.17% and of the CFO by 0.35%.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

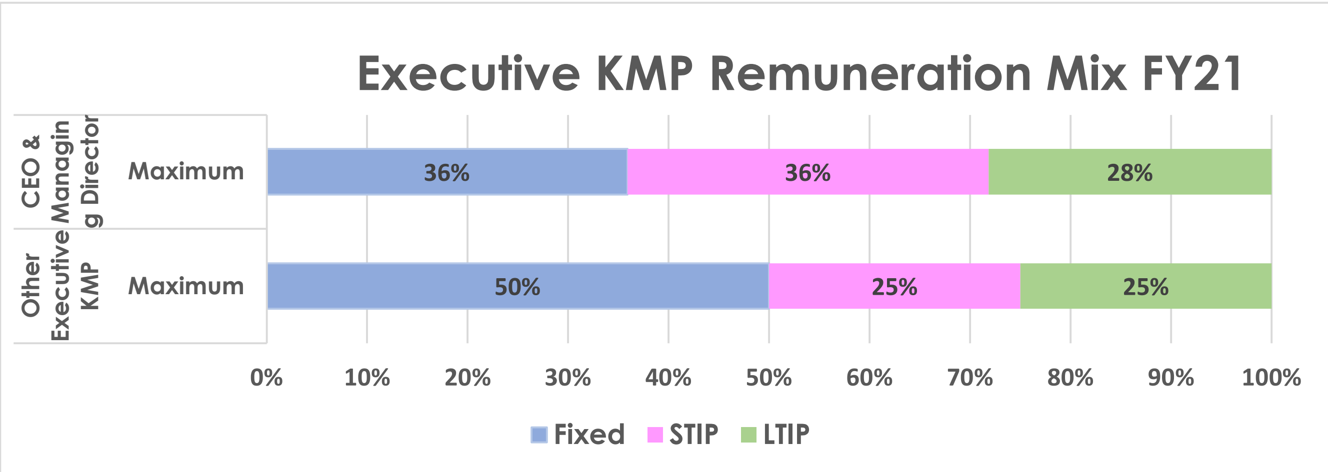
Performance linked remuneration

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").

The Board has discretion in relation to making awards under the STIP and the LTIP, including discretion to adjust STIP awards downwards for any serious safety lapses or 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).

Remuneration mix

Following a review of the Group's executive remuneration and reward structure, changes were made in FY21 to both the STIP and LTIP performance conditions. These changes have resulted in the performance linked components making up a greater proportion of the overall remuneration package for Executive KMP. The graph below shows the fixed and maximum face value of the performance linked components as a percentage of the total maximum remuneration opportunity in FY21 for the Executive KMP.



DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

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 and business unit performance;
- Group and business unit non-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.

FY21 changes to the STIP

In FY21 the Board reviewed executive remuneration and reward structures to:

- assess and ensure these arrangements continued to reflect contemporary thinking around reward and remuneration;
- support our business objectives;
- be market competitive and sustainable; and
- align with shareholders' interests.

As a result of this review, changes were made to the STIP, primarily to introduce a broader mix of financial and non-financial performance targets.

No changes were made to the maximum amount of the STIP opportunity for Executive KMP.

Financial and Non-Financial Performance Measures

For FY21, the STIP comprised a mix of financial and non-financial measures, weighed 60% and 40% respectively in determining the total STIP pool.

Rewards under both the financial and non-financial component of the STIP pool are subject to achieving set Group financial performance gateways. For the financial component, at least 90% of the Group's budgeted Net Profit After Tax (NPAT) must be achieved, and for the non-financial component, at least 80% of the budgeted NPAT must be achieved. The lower NPAT gateway for non-financial performance measures recognises that achievement of these objectives is important to long term strategy and sustainability, which may require current year expenditure that otherwise could be curtailed if there were a higher NPAT gateway.

STIP Performance Measures	Weighting (STIP Pool)	Group Financial Performance Gateway (% of budgeted NPAT)
Financial Measures	60%	90%
Non-Financial Measures	40%	80%

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

The non-financial component which forms the total STIP pool is independent of the financial component and comprises measures based on non-financial drivers of the business set out in the API Strategy Map.

Within each STIP performance component there are a number of specific performance measures. Each of these measures are weighted and have a gateway or minimum performance level that must be achieved, a target performance objective and a maximum performance level.

Financial and non-financial individual performance, as assessed in accordance with the Group's annual review process that considers achievements relative to individual goals and desired values and behaviours, to determine the participant's ultimate STIP award.

No STIP award is made for the achievement of individual performance measures if the Group Financial Performance Gateway for the non-financial component of the performance conditions is not met.

The specific performance measures applied for FY21 STIP and results achieved are detailed below.

STIP Payment and STIP Performance Rights

Fifty percent of any STIP awarded to an 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; however for 2021 the 10 day VWAP prior to the Wesfarmers Proposal to acquire API was used to ensure that the price reflected the API share price undisturbed by the Wesfarmers Proposal.

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 are taken with a balanced view of the current financial year and future financial years.

FY21 STIP Performance Measures and Outcomes

Reward Opportunity

Roles	STIP Opportunity (% of fixed remuneration)	
	Target	Maximum
CEO & MD	65%	100%
Other Executive KMP	20%	40%

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

FY21 STIP Outcome

Performance against Group Financial Performance Gateways:

- The Group Financial Performance Gateway for the financial component of the FY21 STIP was assessed and it was determined that the Gateway was not achieved and accordingly no award was made for performance against specific financial objectives.
- The Group Financial Performance Gateway for the non-financial component was assessed, taking onto account operating conditions. After adjustment of the statutory NPAT for $33 million one-off costs related to the NZ plant closure and other non-recurring costs, it was determined that this Gateway was met and assessment was then made of performance against the non-financial objectives which had been established at the beginning of FY21.
- The JobKeeper and Wage Subsidy assistance payments received by the Clear Skincare business during FY21 were not taken into account in the assessment of performance against the NPAT gateways for the FY21 STIP.

STIP Performance Component	Weighting (STIP Pool)	Group Financial Performance Gateway (% of budgeted NPAT)	FY21 Result
Financial Measures	60%	90%	×
Non-financial Measures	40%	80%	✓

FY21 STIP Outcomes for Executive KMP

The following outlines the performance measures, weightings and outcomes for the Executive KMP STIP opportunity in FY21:

	Strategy Map Element	Measures	Weighting	FY21 Outcomes		
				Gateway	Target	Maximum
Non-Financial	**The Way We Work** *A safer place to work every day* *Ways of Working*	• Employee engagement • Total Recordable Injury Frequency Rate (TRIFR)	10% 5% (i)			✓ ✓
Non-Financial	**What we do** *Uncompromising execution excellence* *Insight & innovation*	Specific objectives related to strategic projects & business transformation activities	15%		✓(ii)	
Non-Financial	**Delighting Customers & Partners** *The most compelling offer for our partners* *Our highly valued customer experience*	• Share price VWAP • ESG Rating	5% 5%		✓	✓
Financial	**Building Financial Strength** *Building Value for our shareholders*	• NPAT • ROCE	40% 20%	× ×		

(i) The Board would exercise discretion to adjust overall STIP outcomes downwards in the event of a serious safety lapse.
(ii) Weighted outcome of project objectives.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

After review of weighted outcomes for each of the non-financial objectives the Board considered that they validly reflected performance and that no further adjustment was necessary. As a result, the following payment outcomes were determined for Executive KMP:

Role	STIP Opportunity (% of fixed remuneration)		FY21 STIP Award		
	Target	Maximum	$ Value	% of Fixed Remuneration	No. of FY21 STIP Rights to Issue
CEO & MD	65%	100%	$404,575	36%	160,900
Chief Financial Officer	20%	40%	$56,904	11%	22,630

As noted earlier in this Section, 50% of this STIP award is to be paid in cash and 50% is to be provided in the form of STIP Performance Rights. The number of STIP Performance Rights awarded has been determined by dividing the value of that 50% of the STIP award by the Volume Weighted Average Closing Price (VWAP) of API shares on the ASX in the 10-day period prior to the receipt of the Wesfarmers Proposal. 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.

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 no 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 LTIP is designed to:

- focus senior management on medium to long-term performance outcomes and shareholder returns;
- align the interests of senior management with shareholders;
- attract and retain experienced and capable key personnel; and
- reward senior managers for improvements in the Company's performance on factors underlying shareholder value.

FY21 changes to the LTIP - LTIP Maximum Award and Vesting Scale

In FY21 the Board reviewed executive remuneration and reward structures and determined that the awards available for Executive KMP were below market. Accordingly, upon the recommendation of the People and Remuneration Committee, the Board has reviewed the LTIP and determined that the maximum award available to the Chief Executive Officer and Managing Director will increase from 60% to 80% of his/her annual fixed remuneration and for other Executive KMP it will increase from 30% to 50% of their annual fixed remuneration.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

These increases will provide Executive KMP with a greater reward for the delivery of improved shareholder outcomes. They also reflect reward opportunities which align more closely with current market practice.

To further improve the market competitiveness of the LTIP, the Board determined to increase the proportion of Performance Rights available under the LTIP which will vest when the minimum target level for each of the Performance Conditions is met, increasing the proportion from 10% to 25% of total Performance Rights available. The number of Performance Rights that vest will be calculated on a straight-line basis between the minimum and maximum targets, in accordance with the vesting scale set out in the table below.

Performance Condition	Weighting	Vesting at Minimum Performance (% of Rights)	Vesting at Maximum Performance (% of Rights)
ROE	50%	25%	50%
EPS	50%	25%	50%

In making these changes, the Board took into account that the LTIP's Performance Condition targets would be set based on the Group's budgeted growth targets, which are considered to be challenging. The Board considers these maximum award levels to be appropriate in the context of Executive KMP's fixed remuneration and taking into account the aims of the LTIP.

2020 LTIP Performance Conditions (ROE and EPS)

Having regard to current market trends, the Group's specific circumstances and its business operations, and the aim of aligning these with the delivery of appropriate shareholder outcomes, the Board decided to continue setting LTIP Performance Conditions using the Group's Return on Equity (ROE) and Earnings Per Share (EPS) measures.

However, due to uncertain business conditions arising from the COVID-19 pandemic and the resulting difficulty in setting an appropriate three-year performance target in respect of the 2020 LTIP, at the time of issuing offers under the 2020 LTIP, the Board resolved to either:

- set three annual component targets for each Performance Condition (ROE and EPS) at the commencement of each year during the Performance Period, to be aggregated and tested at the end of the three-year Performance Period; or
- in the event that the Board determines that the economic environment is sufficiently certain at the end of the first year, establish a two-year component target for the second and third years of the 2020 LTIP and aggregate this with the annual component target for the first year of the plan.

The Board has now decided on the second of these two options.

In adopting this approach, the Board does not intend to provide earnings guidance to the market and therefore has determined that it is not appropriate to publish the ROE and EPS targets which constitute the Performance Conditions of the 2020 LTIP offer at this time. However, the Board will disclose the minimum and maximum targets set for the ROE and EPS Performance Conditions after the end of the Performance Period, once the participants' performance under the LTIP has been calculated and finalised.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

The 2018 and 2019 LTIP offers incorporate the previously set three-year performance conditions and the Board will resume three-year cumulative targets for ROE and CAGR targets for EPS in future LTIP offers as soon as conditions allow.

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 maximum amount by the 10-day VWAP of API shares immediately after announcement of full year results – that is, the 'face value' methodology. For the LTIP offer in 2021 it has been decided to use the VWAP of API shares on the ASX in the 10-day period prior to the receipt of the Wesfarmers Proposal;
- the maximum value of the LTIP awarded to Executive KMP is respectively:
  - CEO and Managing Director: prior to FY21, 60% of Fixed Remuneration and from FY21, 80% of Fixed Remuneration; and
  - other Executive KMP: prior to FY21, 30% of Fixed Remuneration and from FY21, 50% 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 under the LTIP prior to September 2019 Performance Rights automatically convert to shares upon vesting;
  - for offers made under the LTIP 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; and
  - upon vesting and upon conversion into shares, 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;
- if the Performance Conditions are not fully met, the LTIP Performance Rights lapse proportionately to the extent to which they did not vest in accordance with the weightings established at the time of grant;
- to enable shares to be delivered in accordance with the LTIP, API shares are to be purchased on market on behalf of the participant or new shares 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; and
- the LTIP provides for the clawback (and forfeiture) 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 2018 and 2019 LTIPs include (i) a measure of earnings per share (EPS) compound annual growth rate (CAGR) over the three-year performance period; and (ii) a measure of the cumulative return on equity (ROE) achieved by the Group during the three-year performance period.
- For the 2020 LTIP, the EPS and ROE performance conditions are based on ROE and EPS as outlined in this section. Each of the two performance conditions (EPS and ROE) contribute equally to an LTIP award.
  - A minimum and maximum target is set for each performance measure.
  - For each measure, performance at the minimum target delivers 25% of the total maximum vesting; performance at the maximum delivering 50% of the total maximum vesting; and performance for each measure between the minimum and maximum delivering between 25% and 50% vesting on a straight-line basis.
  - ROE is expressed as a percentage created by dividing NPAT by total shareholder equity at the end of the relevant period.
    - For the 2018 and 2019 LTIPs, the ROE targets is cumulative and derived from the API Group corporate plan for the three years commencing at the beginning of the performance period.
    - For the 2020 LTIP, the ROE performance condition comprises a one-year component target (which was set at the commencement of the plan in respect of the first year of the plan) and a two year component target (in respect of the second and third years of the plan), which are aggregated to give the three-year ROE performance condition.
  - EPS is the basic earnings per share disclosed in the Consolidated Income Statement of the Financial Report of API for each financial year during the Performance Period.
    - For the 2018 and 2019 LTIPs, the EPS performance condition is the EPS CAGR achieved during the three-year performance period.
    - For the 2020 LTIP, the EPS performance condition comprises a one-year component target (which was set at the commencement of the plan in respect of the first year of the plan) and a two year component target (in respect of the second and third years of the plan), which are aggregated to give the three-year EPS performance condition.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

- The LTIP structure, measures and outcomes may be varied by the Board in its absolute discretion, to adjust for unforeseen circumstances having regard to shareholders' best interests, relevant circumstances at the time and appropriate independent advice.

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

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

The following are the performance results declared for the 2018 LTIP offer:

Performance Condition	Weighting	Targets		Result Achieved	% Vesting
		Min.	Max.		
ROE (cumulative)	50%	32.96%	53.56%	9.75%	0.0
EPS CAGR (i)	50%	7.5%	10.0%	(71.26%)	0.0
Vesting Calibration		20%	100%		0.0

(i) EPS starting point – 9.8 cents per share

In light of the COVID-19 pandemic and its ongoing impact on the Group's FY21 financial results, the Board reviewed the outcomes of the 2018 LTIP offer, which was subject to ROE and EPS CAGR performance conditions for the period 1 September 2018 to 31 August 2021. The cumulative ROE result for FY21 was 9.75% and the EPS CAGR result was -71.26%. Accordingly, the minimum target of both performance conditions was not met and none of the performance rights issued in the 2018 offer will vest.

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%

(ii) EPS starting point – 11.5 cents per share

The 2019 LTIP offer remains on foot and will be tested at the end of the Performance Period and reported in next year's Remuneration Report.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

2020 LTIP offer

Performance Period:	1 September 2020 to 31 August 2023
Shareholder approval for offer to the CEO and Managing Director:	Annual General Meeting 20 January 2021

Performance Condition	Weighting	Targets	
		Min.	Max.
ROE (aggregate of year 1 target plus combined year 2 & 3 target)	50%	To be reported after the performance period[i]	
EPS (aggregate of year 1 target plus combined year 2 & 3 target)	50%		
Vesting Calibration		50%	100%

[i] The Board will disclose the minimum and maximum targets set for the ROE and EPS Performance Conditions after the end of the Performance Period, once the participants' performance under the Plan have been calculated and finalised.

As noted earlier in this Section 2.4 of the Remuneration Report, due to uncertain business conditions arising from the COVID-19 pandemic and the resulting difficulty in setting appropriate three-year performance targets in respect of the 2020 LTIP, the Board determined that for the 2020 LTIP it would either set three annual targets for each Performance Condition (ROE and EPS) at the commencement of each year during the Performance Period, or if appropriate to do so following setting the first such annual target at the commencement of the plan, set a two-year target for the second and third years of the 2020 LTIP (being the FY22 and FY23 financial years).

The Board has since determined that it will set a target for the remaining two years of the Performance Period, with the target for each Performance Condition based on the aggregate of the target set for the first year (FY21) and the target set for the remaining two years (FY22 and FY23).

For each Performance Condition, a minimum and maximum target will be set for the three-year Performance Period. These will then be tested at the end of the three-year Performance Period, with any resulting vesting of Performance Rights under the 2020 LTIP occurring after that testing.

The Board does not intend to provide earnings guidance to the market and therefore has determined that it is not appropriate to publish the actual ROE and EPS targets which constitute the Performance Conditions of the 2020 LTIP offer at this time.

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.

The employment conditions and remuneration of Executive 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

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

- 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 twelve 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

Remuneration of Executive KMP (i)

Details of the nature and amount of each major element of remuneration of each of the Executive KMP 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	Termination 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 2021	**1,103,736 (iii)**	**202,288**	**-**	**-**	**1,306,024**	**22,007 (iii)**	**21,568**	**-**	**101,144**	**132,766**	**1,583,509**
31 August 2020	1,099,737	-	108,268(iv)	-	1,208,005	21,118	28,164	-	-	45,373	1,302,660
Mr P Mendo – Chief Financial Officer											
31 August 2021	**492,324 (iii)**	**28,452**	**-**	**-**	**521,228**	**22,007 (iii)**	**16,519**	**-**	**14,226**	**42,496**	**616,024**
31 August 2020	488,963	-	52,597(v)	-	541,560	21,118	18,014	-	-	11,770	592,462

(i) Salary & Fees is inclusive of annual leave entitlements. Some values may reflect amounts earned in respect of FY21 and paid or awarded in FY22.

(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) The increase in fixed annual remuneration and superannuation contributions are as a result of the increase in Superannuation Guarantee percentage and concessional contributions cap effective 1 July 2021.

(iv) 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).

(v) 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 2021	27.5%	14.8%
31 August 2020	11.8%	3.5%
Mr P Mendo – Chief Financial Officer		
31 August 2021	13.8%	9.2%
31 August 2020	10.9%	2.0%

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

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.

					As at 31 August 2021	
Executive Tranche	Number	Fair value per right $	Total value $	Included in FY21 remuneration $	Vested %	Forfeited(i) %
Richard C. Vincent						
2018 LTIP	416,954	1.17	487,836	0	0.0%	0.0%(iii)
2019 LTIP(ii)	495,711	1.08	535,368	(175,383)	0.0%	0.0%
2020 LTIP(ii)	825,400	1.12	924,448	308,149	0.0%	0.0%
Peter Mendo						
2018 LTIP	95,218	1.26	119,975	0	0.0%	0.0%(iii)
2019 LTIP(ii)	113,300	1.12	126,896	(41,570)	0.0%	0.0%
2020 LTIP(ii)	235,700	1.07	252,199	84,066	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 and the 2020 LTIP offers permit the recipient of Performance Rights which vest to elect the time of conversion of the Performance Rights into shares within a 5-year window.

(iii) 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.

STIP Summary for FY21

No STIP award was approved for FY20 and therefore no STIP Performance Rights were issued for that financial year. As detailed in Section 2.3 of this report a STIP outcome was determined for FY21 and 50% of this award to Executive KMP is to be paid in cash and 50% is to be provided in the form of STIP Performance Rights. For the FY21 STIP, the number of STIP Performance Rights awarded has been determined by dividing the value of that 50% of the STIP award by the Volume Weighted Average Closing Price (VWAP) of API shares on the ASX in the 10-day period prior to the Wesfarmers Proposal.

LTIP Summary for FY21

The Performance Conditions for the current LTIP Performance Rights offers on foot are outlined in section 2.4 of this Report.

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

The fair value of LTIP Performance Rights varies between the CEO and Managing Director, and the other Executive KMP 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.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

Summary of the valuations of current LTIP Performance Rights:

Grant Date	Valuation of LTIP Performance Rights	
	CEO and Managing Director	Other Executive KMP
2018	1.17	1.26
2019	1.08	1.12
2020	1.12	1.07

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 2021							
Richard C. Vincent	1,314,929	-	-	825,400	-	(402,264)	1,738,065
Peter Mendo	300,829	-	-	235,700	-	(92,311)	444,218

(i) *Total Executive KMP grants of 1,061,100 rights during the period over new issue shares were equal to 0.21% of 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 vested without also converting to shares.

As noted in section 2.3 of this Report, the number of FY21 STIP Performance Rights to issue to the Executive KMP subsequent to balance date will be as follows:

Executive KMP	No. of FY21 STIP Rights to Issue
Richard C Vincent	160,900
Peter Mendo	22,630

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 2021 was $888,954. This amount is in line with the FY20 total of $890,337, excluding the $170,040 retirement benefit paid to Mr Robert Millner under the Directors' Retirement Scheme, which is no longer in operation.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

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 every two years), the need to attract and retain appropriately qualified Directors, fee levels paid in companies of similar financial size (total and net assets, revenue, EBITDA and market capitalisation), business operations and Board judgement as to whether any adjustments are appropriate.

The Board considers that market competitive fees are necessary in order to attract and retain high calibre Non-Executive Directors, who will provide high levels of governance and oversight.

Annual Non-Executive Director fee rates (including superannuation) are as follows:

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
People and Remuneration Committee Chair	$17,398
People and Remuneration Committee Member	$8,700
Nomination Committee Chair	(no fee)
Nomination Committee Member	(no fee)

The Board Chair does not ordinarily receive Committee fees. However while he held the role of Interim Chair, Mr. Gunderson-Briggs did receive both Chair and relevant Committee fees since he continued as an active member of his Committees, in conjunction with the additional duties as Interim Chair, from his appointment as Interim Chair on 4 September 2020 until his appointment as Chair on 4 December 2020.

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	Termination benefits	
Ken Gunderson-Briggs[(i)]	**2021**	**298,202**	**-**	**21,903**		**320,105**
	2020	150,420	-	14,290		164,710
Lee Ausburn	**2021**	**138,389**	**-**	**13,264**		**151,653**
	2020	119,608	-	11,363		130,971
Jennifer Macdonald	**2021**	**152,301**	**-**	**14,599**		**166,900**
	2020	128,185	-	12,008		140,193
Janine Allis[(ii)]	**2021**	**105,158**	**-**	**10,093**		**115,251**
	2020	-	-	-		**-**

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

Clive Stiff[iii]	**2021**	**91,505**	**-**	**8,796**		**100,301**
	2020	**-**	**-**	**-**		**-**
George Tambassis[iv]	**2021**	**27,333**	**-**	**2,694**		**30,027**
	2020	**-**	**-**	**-**		**-**
Mark Smith[v]	**2021**	**4,717**	**-**	**-**		**4,717**
	2020	**286,146**	**-**	**7,001**		**293,147**
Robert D Millner[vi]	**2021**	**-**	**-**	**-**		**-**
	2020	**101,286**	**-**	**9,622**	**170,040[vii]**	**280,949**
Gerard J Masters[viii]	**2021**	**-**	**-**	**-**		**-**
	2020	**46,072**	**-**	**4,377**		**50,449**
TOTAL	**2021**					**888,954**
	2020					**1,060,419[ix]**

(i) Appointed as Interim Chair on 4 September 2020, then as Chair on 4 December 2020.
(ii) Appointed 23 October 2020
(iii) Appointed 4 December 2020
(iv) Appointed 7 June 2021
(v) Ceased 4 September 2020
(vi) For the period 1 September 2019 until 9 July 2020
(vii) Entitlement under the Directors' Retirement Scheme. This amount is reported due to the Director's departure during FY20; however, payment was made after 31 August 2020
(viii) For the period 1 September 2019 until 22 January 2020
(ix) 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 related parties is as follows:

	Number of shares			
KMP	**Opening balance held at the beginning of the year**	**Purchases or issues**	**Sale of shares**	**Closing balance held at the end of the year**
Financial year 2021				
Kenneth Gunderson-Briggs	30,000			30,000
Lee Ausburn	83,334			83,334
Jennifer Macdonald	50,000	25,000		75,000
Janine Allis	-			-
Clive Stiff	-			-
George Tambassis	-			-
Mark Smith[(i)(ii)]	415,000	-	-	415,000[(ii)]
Richard C Vincent	481,833			481,833
Peter Mendo	58,436			58,436

(i) Ceased to be a Director and KMP on 4 September 2020.
(ii) Closing balance is based on holdings as at the date ceased to be a Director and KMP.

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 term and long term incentives.

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

Year ended	31 August 2021	31 August 2020[(i)]	31 August 2019	31 August 2018	31 August 2017
Earnings (EBIT)	27,841	5,619	94,046	82,397	89,276
Net profit/(loss) ($'000)	1,146	(7,106)	56,577	48,202	52,371
Dividends declared (cents per share)	2.00	2.00	7.75	7.50	7.00
Share price as at end of year ($)	1.35	1.08	1.32	1.85	1.47

(i) *The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to Software as a Service. Refer to Notes 12 and 29 of the Financial Report for further details.*

4.3 Related party transactions

Transactions with Related Parties are set out in Note 22. 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 2021 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

Tony Romeo

Partner

Melbourne

27 October 2021

FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2021

In thousands of AUD	Note	Year ended 31 August 2021	2020 (restated)[(i)]
Revenue	3	4,004,863	4,019,525
Cost of sales		(3,510,342)	(3,545,031)
Gross profit		**494,521**	**474,494**
Other income	3	5,993	14,470
Warehousing and distribution expenses		(143,071)	(145,553)
Marketing and sales expenses		(192,291)	(190,035)
Administration and general expenses		(137,311)	(110,257)
Impairment of brand name	12	-	(37,500)
Profit from operating activities (EBIT)		**27,841**	**5,619**
Finance income		4	67
Finance expenses	4	(15,382)	(19,146)
Net finance costs		**(15,378)**	**(19,079)**
Profit / (loss) before tax		**12,463**	**(13,460)**
Income tax (expense) / benefit	5	(11,317)	6,354
Profit / (loss) for the year		**1,146**	**(7,106)**
Attributable to:			
Ordinary shareholders of the Company		1,377	(7,564)
Non-controlling interest		(231)	458
Profit / (loss) for the year		**1,146**	**(7,106)**
Earnings per share for profit attributable to the ordinary shareholders of the Company:		**cents**	**cents**
Basic earnings per share	6	0.3	(1.5)
Diluted earnings per share	6	0.3	(1.5)

(i) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to Software as a Service. Refer to Notes 12 and 29 for further details.

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

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST 2021

In thousands of AUD	Note	Year ended 31 August 2021	2020 (restated)[(i)]
Profit / (loss) for the year		**1,146**	**(7,106)**
Other comprehensive income / (loss)			
Items that will not be reclassified subsequently to the consolidated income statement			
Remeasurement of the defined benefit asset (post tax)		174	(1)
Changes in the fair value of financial assets at fair value through other comprehensive income (post tax)	15	-	(5,087)
Total items that will not be reclassified		**174**	**(5,088)**
Items that may be reclassified subsequently to the consolidated income statement			
Exchange fluctuations on translation of foreign operations (post tax)		1,709	(900)
Effective portion of changes in fair value of cash flow hedges (post tax)		765	(81)
Total items that may be reclassified		**2,474**	**(981)**
Total other comprehensive income / (loss) for the year		**2,648**	**(6,069)**
Total comprehensive income / (loss) for the year		**3,794**	**(13,175)**
Attributable to:			
Ordinary shareholders of the Company		4,025	(13,633)
Non-controlling interest		(231)	458
Total comprehensive income / (loss) for the year		**3,794**	**(13,175)**

(i) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 for further details.

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

FINANCIAL REPORT

CONSOLIDATED BALANCE SHEET

AS AT 31 AUGUST 2021

In thousands of AUD	Note	2021	As at 31 August 2020 (restated)[i]
Current assets			
Cash and cash equivalents	28	38,794	60,713
Trade and other receivables	8	589,093	537,899
Inventories	8	352,949	368,180
Lease receivables	13	5,054	6,530
Assets held for sale	10	3,868	-
Total current assets		**989,758**	**973,322**
Non-current assets			
Trade and other receivables	8	10,947	22,534
Lease receivables	13	18,692	23,002
Financial assets at fair value through other comprehensive income	15	2,400	1,200
Net deferred tax assets	5	22,051	20,641
Right-of-use assets	13	121,039	125,079
Property, plant and equipment	9	109,785	109,817
Intangible assets	12	255,270	264,401
Total non-current assets		**540,184**	**566,674**
Total assets		**1,529,942**	**1,539,996**
Current liabilities			
Trade and other payables	8	719,581	741,945
Loans and borrowings	16	20,866	8,260
Lease liabilities	13	46,457	40,404
Provisions	14	37,360	34,632
Income tax payable	5	1,211	7,441
Total current liabilities		**825,475**	**832,682**
Non-current liabilities			
Trade and other payables	8	-	33,431
Loans and borrowings	16	117,874	70,423
Lease liabilities	13	128,976	141,790
Provisions	14	17,113	6,899
Total non-current liabilities		**263,963**	**252,543**
Total liabilities		**1,089,438**	**1,085,225**
Net assets		**440,504**	**454,771**
Equity			
Share capital		566,461	566,461
Reserves		26,414	38,526
Accumulated losses		(154,065)	(154,065)
Total equity attributable to shareholders of the Company		**438,810**	**450,922**
Non-controlling interest in controlled entities		**1,694**	**3,849**
Total equity		**440,504**	**454,771**

(i) The 31 August 2020 balances have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 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

FOR THE YEAR ENDED 31 AUGUST 2021

	Attributable to ordinary shareholders of Australian Pharmaceutical Industries Limited										
In thousands of AUD	Share Capital	Accumulated Losses[ii]	Profits Reserve[i]	Translation Reserve	Hedging Reserve	Equity Reserve	Control Reserve	Fair Value Reserve	Total	Non-controlling interest	Total Equity[ii]
Balance at 31 August 2020	**566,461**	**(154,065)**	**96,949**	**458**	**(220)**	**5,960**	**(64,621)**	**-**	**450,922**	**3,849**	**454,771**
Profit / (loss) after tax	-	-	1,377	-	-	-	-	-	1,377	(231)	1,146
Total other comprehensive income / (loss)	-	-	174	1,709	765	-	-	-	2,648	-	2,648
Total comprehensive income /(loss) for the year	-	-	1,551	1,709	765	-	-	-	4,025	(231)	3,794
Transactions with owners, recorded directly in equity											
Dividends to equity holders	-	-	(17,243)	-	-	-	-	-	(17,243)	-	(17,243)
Unwinding of discount on put and call option	-	-	-	-	-	-	(1,175)	-	(1,175)	-	(1,175)
Share based payments	-	-	-	-	-	357	-	-	357	-	357
Transactions with owners, in their capacity as owners											
Transactions with non-controlling interests	-	-	-	-	-	-	1,924	-	1,924	(1,924)	-
Total contributions by and distributions to owners	-	-	(17,243)	-	-	357	749	-	(16,137)	(1,924)	(18,061)
Balance at 31 August 2021	**566,461**	**(154,065)**	**81,257**	**2,167**	**545**	**6,317**	**(63,872)**	**-**	**438,810**	**1,694**	**440,504**
Balance at 31 August 2019[ii]	**566,461**	**(131,653)**	**116,656**	**1,358**	**(139)**	**5,717**	**(62,311)**	**1,364**	**497,453**	**3,391**	**500,844**
Adjustment on Adoption of AASB 16	-	(11,125)	-	-	-	-	-	-	(11,125)	-	(11,125)
Balance at 1 September 2019	**566,461**	**(142,778)**	**116,656**	**1,358**	**(139)**	**5,717**	**(62,311)**	**1,364**	**486,328**	**3,391**	**489,719**
Profit / (loss) after tax	-	(7,564)	-	-	-	-	-	-	(7,564)	458	(7,106)
Total other comprehensive income / (loss)	-	-	(1)	(900)	(81)	-	-	(5,087)	(6,069)	-	(6,069)
Total comprehensive income /(loss) for the year	-	(7,564)	(1)	(900)	(81)	-	-	(5,087)	(13,633)	458	(13,175)
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**	**(154,065)**	**96,949**	**458**	**(220)**	**5,960**	**(64,621)**	**-**	**450,922**	**3,849**	**454,771**

(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 2019 and 31 August 2020 balances have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 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

FOR THE YEAR ENDED 31 AUGUST 2021

In thousands of AUD	Note	Year ended 31 August 2021	2020
Cash flows from operating activities			
Cash receipts from customers (inclusive of GST)		4,361,243	4,575,669
Cash payments to suppliers and employees (inclusive of GST)		(4,260,368)	(4,336,241)
Cash inflow from operations		**100,875**	**239,428**
Interest received		4	67
Finance costs paid		(10,121)	(13,045)
Income taxes paid		(18,958)	(10,935)
Net cash inflows from operating activities	28	**71,800**	**215,515**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		3,678	-
Payments for property, plant and equipment and intangibles		(45,854)	(39,992)
(Payments for) / Proceeds from financial assets at fair value through other comprehensive income		(1,200)	80,978
Payments for minority interest acquired		(32,900)	-
Receipts from subleases	13	7,357	8,771
Dividends received		-	1,373
Net cash (outflows) / inflows from investing activities		**(68,919)**	**51,130**
Cash flows from financing activities			
Proceeds from borrowings		6,631,539	4,034,050
Repayment of borrowings		(6,583,458)	(4,182,794)
Lease payments during the period		(67,615)	(70,400)
Dividends paid	7	(17,243)	(19,706)
Net cash (outflows) / inflows from financing activities		**(36,777)**	**(238,850)**
Net (decrease) / increase in cash and cash equivalents		(33,896)	27,795
Cash and cash equivalents at the beginning of the year		56,061	28,237
Effect of exchange rate fluctuations on cash held		(117)	29
Cash and cash equivalents at the end of the year[(ii)]		**22,048**	**56,061**

(i) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 for further details.
(ii) Cash and cash equivalents include bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

In thousands of AUD	Note	As at 31 August 2021	2020
Cash and cash equivalents in the Consolidated balance sheet		**38,794**	**60,713**
Bank overdrafts repayable on demand and used for cash management purposes	16	(16,746)	(4,652)
Cash and cash equivalents in the Consolidated statement of cash flows		**22,048**	**56,061**

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

CONTINUED

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 27 October 2021.

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.

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 19.

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

(i) Foreign currency transactions

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.

(ii) Foreign operations

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

CONTINUED

1. About This Report (continued)

d) Impact of COVID-19

The responses of governments, businesses and consumers to the COVID-19 pandemic across the world and nationally continue to impact on the Group's operations. During the current period, the Group experienced impacts on its operations including the temporary closure of Clear Skincare Clinics in Australia and New Zealand, the temporary closure of Priceline retail stores and changes to consumer demand impacting on the supply chain.

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 2021. The ongoing COVID-19 pandemic has continued to result in 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.

As at 31 August 2021, 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 Australian Accounting Standards Board (AASB).

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 12 Intangible assets	Impairment assessment for cash generating units with indefinite life intangible assets
Note 13 Leases	Determination of lease term for leases with extension options
Note 14 Provisions and Contingencies	Determination of exposure under financial guarantee contingent liabilities

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

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

CONTINUED

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 and Managing Director (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, beauty services 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. Sourced and distributed products are sold in New Zealand and exported. During the financial year, the Group formalised a decision to close the manufacturing operations in New Zealand.

	Australia		New Zealand		Eliminations		Year ended 31 August Consolidated	
In thousands of AUD	2021	2020 (restated)(ii)	2021	2020	2021	2020	2021	2020 (restated)(ii)
Revenue								
External sales	3,803,141	3,822,290	42,932	47,808	-	-	3,846,073	3,870,098
External services	158,790	149,427	-	-	-	-	158,790	149,427
Inter-segment revenue(i)	-	-	20,341	15,479	(20,341)	(15,479)	-	-
Total segment revenue	3,961,931	3,971,717	63,273	63,287	(20,341)	(15,479)	4,004,863	4,019,525
Reportable segment gross profit	475,766	448,700	13,452	25,325	5,303	469	494,521	474,494
Reportable segment profit	**57,426**	**4,752**	**(34,888)**	**398**	**5,303**	**469**	**27,841**	**5,619**
Unallocated amounts								
Net financing costs							(15,378)	(19,079)
Profit / (loss) before tax (ii)							**12,463**	**(13,460)**
Income tax (expense) / benefit							(11,317)	6,354
Profit / (loss) for the year (ii)							**1,146**	**(7,106)**
Attributable to:								
Ordinary shareholders of the Company							1,377	(7,564)
Non-controlling interest							(231)	458
Other segment information:								
Depreciation and amortisation	86,070	84,462	2,268	1,859	-	-	88,338	86,321
Additions of property, plant and equipment and intangible assets	40,817	34,072	5,032	5,920	-	-	45,849	39,992

(i) All inter-segment sales are made on an arm's length basis.
(ii) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 for further details.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FINANCIAL PERFORMANCE (CONTINUED)

3. Revenue and other income

In thousands of AUD	Year ended 31 August 2021	2020
Revenue		
Sales revenue	3,846,073	3,870,098
Service revenue	158,790	149,427
Total revenue	**4,004,863**	**4,019,525**
Other income		
Gain on disposal of property, plant and equipment	2,706	64
Interest fee income	2,051	5,444
Net foreign exchange (loss)/gain	(89)	110
Dividend income	-	1,373
Changes in the fair value of financial liabilities	1,325	7,479
Total other income	**5,993**	**14,470**

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 and expired.	Redemption or expiry 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
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

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FINANCIAL PERFORMANCE (CONTINUED)

3. Revenue and other income (continued)

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 Fair Value through Other Comprehensive Income (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

In thousands of AUD	Year ended 31 August 2021	2020 (restated)(i)
Wages and salaries expense	194,167	192,541
Superannuation expense	15,422	15,097
Share based payments expense	357	243
Other employee expenses	16,926	18,047
Employee benefits expense	**226,872**	**225,928**
Interest expense	5,025	7,230
Borrowing costs	2,134	2,188
API rewards	2,962	3,905
Finance expense on leased assets	5,261	5,823
Finance expenses	**15,382**	**19,146**
Expenses associated with New Zealand restructure		
Impairment of property, plant and equipment and intangible assets	13,391	-
Impairment of right of use assets	613	-
Impairment of inventory	7,376	-
Redundancy expense	6,531	-
Other restructuring expenses	4,124	-
Total expenses associated with New Zealand restructure	**32,035**	**-**
Depreciation and amortisation	**88,338**	**86,321**

(i) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 for further details.

During the financial year, only Clear Skincare Clinics received or were entitled to receive COVID-19 support and assistance amounting to $666,000 (2020, amount relating to Clear Skincare Clinics: $3,484,500) (pre-tax) under the JobKeeper program (Australia) and $37,666 (2020: $265,905) (pre-tax) under the first round of the Wage Subsidy and Resurgence Support Payment programs (New Zealand). This amount is included within employee benefits expense above. The Group accessed payroll tax relief programs offered within certain jurisdictions amounting to $163,130 (2020: $174,732).

During the financial year, the Group announced the decision to cease the manufacturing operations in New Zealand to allow an increased focus on the Distribution and Retail businesses. The costs incurred in the restructure of the manufacturing operations are outlined above. Key estimates and judgements applied in the determination of the restructuring costs relate to property, plant and equipment, inventory and provision for restructuring and are disclosed in Note 9, Note 8 and Note 14 respectively.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FINANCIAL PERFORMANCE (CONTINUED)

4. Expenses (continued)

The Group incurred business restructuring and reorganisation expenses of $40,414,000 (2020: $17,622,000) (pre-tax) and costs incurred in relation to strategic business initiatives of $1,796,000 (2020: $nil) (pre-tax). The business restructuring and reorganisation expenses include the cost of restructuring the New Zealand manufacturing business, the cost of Priceline retail store closures, and other restructuring costs. These expenses have been recognised within the Consolidated Income Statement under Administration and general expenses $25,990,000 (2020: $11,642,000) (pre-tax), Cost of sales $8,448,000 (2020: $5,980,000) (pre-tax), Warehousing and distribution expenses $5,770,000 (2020: $nil) (pre-tax) and Marketing and sales expenses $206,000 (2020: $nil) (pre-tax).

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 14 for details on calculation of employee benefits provisions. Refer to Note 24 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

In thousands of AUD	Year ended 31 August 2021	2020 (restated)[(i)]
(a) Income tax expense recognised in the income statement		
Current tax expense	13,611	15,379
Deferred tax expense	(2,031)	(21,777)
Adjustments in current year tax relating to prior year	(263)	44
Total income tax expense / (benefit)	**11,317**	**(6,354)**
Reconciliation of prima facie tax expense/(benefit) to income tax expense/(benefit)		
Profit/(loss) before income tax	12,463	(13,460)
Prima facie income tax at 30%	3,739	(4,038)
Tax effect of items which increase/(decrease) tax expense:		
Share based payments expense	107	73
Entertainment and other sundry expense	43	122
Fair value movement of financial liabilities	(398)	(2,160)
Derecognition of deductible temporary differences and tax losses	7,486	-
Other	603	(395)
Adjustment for prior years	(263)	44
Income tax expense / (benefit)	**11,317**	**(6,354)**

(i) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 for further details.

FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FINANCIAL PERFORMANCE (CONTINUED)

5. Taxation (continued)

In thousands of AUD	2021	As at 31 August 2020 (restated)[(i)]
(b) Current tax liability	**1,211**	**7,441**
(c) Deferred tax assets/(liabilities)		
Employee benefits	8,671	7,779
Provision for impairment losses	15,724	14,047
Other provisions	5,844	10,251
Property, plant and equipment	612	(1,921)
Brand names	(28,038)	(28,038)
Other	19,238	18,523
Net deferred tax asset/(liability)	**22,051**	**20,641**
Comprised of:		
Entities incorporated in Australia - net deferred tax asset	21,108	20,291
Entities incorporated in New Zealand - net deferred tax asset	943	350
Net deferred tax asset / (liability)	**22,051**	**20,641**
Movements in deferred tax		
Balance at 1 September	20,641	(7,142)
Expense recognised in the income statement	2,031	21,777
New Zealand tax losses recognised	514	152
Deferred tax recognised directly in equity	(1,135)	1,006
Deferred tax recognised on adoption of new accounting standards	-	4,848
Balance at 31 August	**22,051**	**20,641**

(i) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 for further details.

In thousands of AUD	Year ended 31 August 2021	2020
(d) Deferred tax recognised directly in equity		
Remeasurements of the defined benefit asset	74	(1)
Changes in the fair value of financial assets at fair value through other comprehensive income	-	(584)
Exchange fluctuations on translation of foreign operations	733	(386)
Effective portion of changes in fair value of cash flow hedges	328	(35)
Total deferred tax recognised directly in equity	**1,135**	**(1,006)**

In thousands of AUD	2021 Gross amount	2021 Tax effect	Year ended 31 August 2020 Gross amount	2020 Tax effect
(e) Unrecognised deferred tax assets				
Deductible temporary differences	19,367	5,423	-	-
Tax losses	7,370	2,064	-	-
Total unrecognised deferred tax assets	**26,737**	**7,486**	**-**	**-**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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FINANCIAL PERFORMANCE (CONTINUED)

5. Taxation (continued)

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.
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 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. Subsequent to year end, the Group have acquired the remaining share of the Clear Skincare clinics existing on acquisition which resulted in the Australian clinics joining the Australian tax consolidated group.

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FINANCIAL PERFORMANCE (CONTINUED)

6. Earnings per share

In thousands of AUD	Year ended 31 August 2021	2020 (restated)[i]
Profit / (loss) attributable to shareholders of the Company	**1,377**	**(7,564)**
In thousands of shares		
Basic weighted average number of ordinary shares for the year	492,656	492,632
Effect of potential ordinary shares on issue through conversion of performance rights	5,409	3,994
Diluted weighted average number of shares for the year	**498,065**	**496,626**
In cents		
Basic earnings per share	0.3	(1.5)
Diluted earnings per share[ii]	0.3	(1.5)

(i) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 for further details.
(ii) The performance rights on issue throughout the year ended 31 August 2020 were not dilutive in effect, as the Group recorded a loss for the year.

7. Dividends

In thousands of AUD	Year ended 31 August 2021	2020
Dividends paid during the year		
Final dividend for 2020 financial year of 2.00 cents per share fully franked (2019: Final dividend of 4.0 cents per share fully franked)	9,853	19,706
Interim dividend for 2021 financial year of 1.50 cents per share fully franked (2020: Interim dividend for 2020 financial year)	7,390	-
Total dividends paid during the year	**17,243**	**19,706**
Dividend franking account		
Franking credits available to shareholders for subsequent financial years based on tax rate of 30%[i]	81,120	67,441

(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 2020: $4,222,766).

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 27 October 2021, the Directors resolved to propose to pay a final dividend of 2.00 cents per share amounting to $9,853,120 in respect of the 2021 financial year. The dividend will be payable out of the Profits Reserve and will be fully franked and paid on 15 December 2021. The financial effect of this dividend is not included in the financial statements for the year ended 31 August 2021 and will be recognised in the financial statements for the year ended 31 August 2022.

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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	**2021**	**2020**
Current		
Trade and other receivables	640,283	589,900
Provision for impairment losses (a)	(51,190)	(52,001)
Net trade and other receivables	**589,093**	**537,899**
Lease receivables	**5,054**	**6,530**
Inventories		
Raw materials and consumables	9,978	9,876
Finished goods	355,522	377,679
Provision for obsolescence and shrinkage	(12,551)	(19,375)
Net inventories	**352,949**	**368,180**
Trade and other payables	**(686,557)**	**(707,725)**
Net working capital - current	**260,539**	**204,884**
Financial liabilities payable to non-controlling shareholders	(33,024)	(34,220)
Total current	**227,515**	**170,664**
Non-current		
Non-current trade receivables	21,225	25,236
Provision for impairment losses (a)	(11,150)	(3,350)
Defined benefit plan asset	872	648
Net non-current trade and other receivables	**10,947**	**22,534**
Lease receivables	**18,692**	**23,002**
Trade and other payables	**-**	**(50)**
Net working capital - non-current	**29,639**	**45,486**
Financial liabilities payable to non-controlling shareholders	-	(33,381)
Total non-current	**29,639**	**12,105**
(a) Movement in provision for impairment losses		
Balance at beginning of the year	(55,351)	(48,882)
Amounts provided for during the year	(11,444)	(13,428)
Amounts written off during the year	4,455	6,959
Balance at end of the year	**(62,340)**	**(55,351)**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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OPERATING ASSETS AND LIABILITIES (CONTINUED)

8. Working capital (continued)

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, $9.6 million (2020: $18.2 million) 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 uncertainty surrounding the trading environment combined with the closure of the New Zealand manufacturing operations during the period has required an additional amount of judgement in determining the value of inventory.

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 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 2021 have been determined in a manner consistent with the methodology applied on adoption, with consideration of the impact of the current trading and economic environment.

Any provision for impairment of 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 REPORT
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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OPERATING ASSETS AND LIABILITIES (CONTINUED)

8. Working capital (continued)

Accounting Policies	
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 amount payable on each of 1 September 2020 and 1 September 2021 was entered into as part of the 2018 acquisition of Clear Skincare, for the Group to acquire the remaining 49.8% of Clear Skincare shares not initially acquired, in two equal tranches. On 1 September 2020, the Group exercised the Tranche 2 at $32,900,000 and acquired an additional 25% of shares in Clear Skincare. Subsequent to year end, on 1 September 2021, the Group has exercised Tranche 3 to acquire the remaining shares in Clear Skincare. In accordance with AASB 9 *Financial Instruments*, at reporting date 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. **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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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OPERATING ASSETS AND LIABILITIES (CONTINUED)

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 2021				
Cost	-	263,075	36,470	299,545
Accumulated depreciation and impairment	-	(184,481)	(5,279)	(189,760)
Net book value	**-**	**78,594**	**31,191**	**109,785**
Balance 1 September 2020	4,030	92,230	13,557	109,817
Additions	-	12,680	31,014	43,694
Disposals	(965)	(2,844)	-	(3,809)
Depreciation expense for the year	(221)	(17,159)	-	(17,380)
Impairment of assets	-	(5,714)	(5,279)	(10,993)
Transfer of assets to intangibles	-	-	(8,217)	(8,217)
Reclassification of assets to assets held for sale	(3,006)	(862)	-	(3,868)
Foreign currency exchange differences	162	263	116	541
Balance at 31 August 2021	**-**	**78,594**	**31,191**	**109,785**
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 REPORT
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

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.
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 beenrecognised.

10. Assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are valued at the lower of carrying amount and fair value less costs to sell and are presented separately from the other assets in the balance sheet.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

	As at 31 August	
In thousands of AUD	**2021**	**2020**
Plant held for sale	3,868	-
Total non-current assets held for sale	**3,868**	**-**

On 11 July 2021, the Group formalised its decision to close manufacturing operations in New Zealand.

As at 31 August 2021, the Group has appointed agents and is well progressed with plans for the sale of the pharmaceutical facility. The transaction is deemed to be highly probable.

It has been determined that the assets will be held at carrying value as the fair value less costs to sell is deemed to be higher.

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OPERATING ASSETS AND LIABILITIES (CONTINUED)

11. Commitments

	As at 31 August	
In thousands of AUD	**2021**	**2020**
Expenditure contracted but not provided for or payable	78,627	111
Total Commitments	**78,627**	**111**

During the financial period ended 31 August 2021, the Group entered into a contract for the purchase, delivery and installation of a logistics system and a commitment to lease in relation to a new distribution centre in Sydney, Australia. It is estimated that the distribution centre will be completed, and the lease will commence in Financial Year 2022.

12. Intangible assets

					As at 31 August
In thousands of AUD	**Goodwill**	**Brand names**	**Software(i)**	**Development costs**	**Total**
Financial year 2021					
Cost	202,834	133,601	138,534	3,639	478,608
Accumulated amortisation and impairment	(74,019)	(40,140)	(106,932)	(2,247)	(223,338)
Net book value	**128,815**	**93,461**	**31,602**	**1,392**	**255,270**
Balance 1 September 2020	127,912	93,461	42,359	669	264,401
Transfer from property, plant and equipment	-	-	6,004	2,213	8,217
Additions	-	-	2,155	-	2,155
Disposals	-	-	-	(1,017)	(1,017)
Amortisation expense for the year	-	-	(17,092)	(329)	(17,421)
Impairment of assets	-	-	(2,009)	(259)	(2,268)
Foreign currency exchange differences	903	-	185	115	1,203
Balance at 31 August 2021	**128,815**	**93,461**	**31,602**	**1,392**	**255,270**
Financial year 2020					
Cost	201,931	133,601	130,291	2,346	468,169
Accumulated amortisation and impairment	(74,019)	(40,140)	(87,932)	(1,677)	(203,768)
Net book value	**127,912**	**93,461**	**42,359**	**669**	**264,401**
Balance 1 September 2019	127,556	130,961	37,505	978	297,000
Transfer from property, plant and equipment	-	-	16,679	-	16,679
Additions	831	-	-	-	831
Disposals	-	-	(1)	-	(1)
Amortisation expense for the year	-	-	(11,770)	(303)	(12,073)
Impairment of assets	-	(37,500)	-	-	(37,500)
Foreign currency exchange differences	(475)	-	(54)	(6)	(535)
Balance at 31 August 2020	**127,912**	**93,461**	**42,359**	**669**	**264,401**

(i) The 31 August 2019 and 31 August 2020 balances have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Note 29 for further details.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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OPERATING ASSETS AND LIABILITIES (CONTINUED)

12. Intangible assets (continued)

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	2021	2020 (restated)(i)	2021	2020	2021	2020	2021	2020 (restated)(i)
Brand names								
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**	**58,860**	**-**	**-**	**34,601**	**34,601**	**93,461**	**93,461**
Goodwill	**47,232**	**47,232**	**17,290**	**16,387**	**64,293**	**64,293**	**128,815**	**127,912**
Other intangible assets	**31,637**	**39,703**	**1,317**	**3,262**	**40**	**63**	**32,994**	**43,028**
Total intangible assets	**137,729**	**149,511**	**18,607**	**19,649**	**98,934**	**98,957**	**255,270**	**264,401**

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.

During the year ended 31 August 2020 an impairment loss of $37.5m was recognised in respect of the Soul Pattinson Chemist brand name, within the Australian operating segment, due to changes in the operating environment and its performance, and the way management intended to use the asset.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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OPERATING ASSETS AND LIABILITIES (CONTINUED)

12. Intangible assets (continued)

b) Accounting policies *(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
Software-as-a-Service (SaaS) arrangements	SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. As such, the Group does not receive a software intangible asset at the contract commencement date. The following outlines the accounting treatment of costs incurred in relation to SaaS arrangements: • Costs recognised as an operating expense over the term of the service contract include fees for use of application software and customisation costs. • Costs recognised as an operating expense as the service is received include configuration costs, data conversion and migration costs, testing costs and training costs. • Costs incurred for the development of software code that enhances or modifies, or creates additional capability to an existing on premise system, and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets.	

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.

The estimate of the recoverable amount of each CGU is based on conditions existing and emerging as at 31 August 2021, 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 Board approved strategic plans and considers the impacts of COVID - 19. 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
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OPERATING ASSETS AND LIABILITIES (CONTINUED)

12. 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 board approved five-year strategic plan and uses estimates made from the perspective of a market participant including: Pharmaceutical distribution business growth reflects the Board approved strategic plan 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 and prospective franchisees after adjusting for the potential loss of current 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 recent history and on management estimates for the period from FY22 to FY26.	Based on a five-year strategic plan 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. EBITDA growth for the next five years represents the continued sourcing and distribution operations after the New Zealand manufacturing operations have ceased.	Based on a board approved five-year strategic plan. For newly established clinics further future forecasts are determined. It includes 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% (2020: 7.8%), 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% (2020: 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% (2020: 11.3%), 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.		

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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OPERATING ASSETS AND LIABILITIES (CONTINUED)

13. Leases

The Group, as a lessee, recognises right-of-use assets, representing its rights to use the underlying assets, and lease liabilities, representing its obligations to make lease payments, at the lease commencement date.

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 lease agreements are negotiated individually and do not impose any covenants.

Accounting policies	
Right-of-use Assets	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.
Lease Liabilities	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.
Incremental Borrowing Rate	The Group's incremental borrowing rate in its capacity as lessee was a weighted average of 2.91% at reporting date (31 August 2020: 2.96%).
Extension Options	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.
Practical Expedients	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, • Treatment of leases is assessed on an asset-by-asset basis with a remaining lease term of less than 12 months at 1 September 2020 as short-term leases, • Treatment of leases is assessed on an asset-by-asset basis for which the underlying asset is of low value, as rental expenses, • Adopted the rent concessions negotiated as a consequence of COVID-19. Where the practical expedient has been applied, rent concessions are accounted for in the consolidated income statement.

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

	As at 31 August	
In thousands of AUD	2021	2020
Details of the Group's extension options		
Leases with extension options	10%	8%
Leases without extension options	90%	92%
Total leases	**100%**	**100%**
Of the leases with extension options		
Leases with an extension option included in the lease liability	67%	53%
Leases with an extension option excluded in the lease liability	33%	47%
Total leases with extension options	**100%**	**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.

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OPERATING ASSETS AND LIABILITIES (CONTINUED)

13. Leases (continued)

a) Right-of-use Assets

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

In thousands of AUD	Property	Vehicle	Equipment	As at 31 August Total
Financial year 2021				
Right-of-use asset at 1 September 2020	120,658	471	3,950	125,079
Additions	48,032	261	78	48,371
Modifications	3,501	(19)	-	3,482
Impairment	(2,506)	(30)	(18)	(2,554)
Depreciation	(51,460)	(383)	(1,694)	(53,537)
Foreign currency exchange differences	194	3	1	198
Total right-of-use assets at 31 August 2021	**118,419**	**303**	**2,317**	**121,039**
Financial year 2020				
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)
Impairment	(227)	-	-	(227)
Depreciation	(53,783)	(514)	(2,207)	(56,504)
Foreign currency exchange differences	(119)	(3)	-	(122)
Total right-of-use assets at 31 August 2020	**120,658**	**471**	**3,950**	**125,079**

b) Lease Liabilities

The movement in lease liabilities is presented below:

In thousands of AUD	Property	Vehicle	Equipment	As at 31 August Total
Financial year 2021				
Lease liability at 1 September 2020	(177,688)	(473)	(4,033)	(182,194)
Additions	(49,748)	(261)	(78)	(50,087)
Modifications	(5,032)	19	-	(5,013)
Finance expense	(5,989)	(11)	(77)	(6,077)
Payments on lease liabilities	65,986	392	1,771	68,149
Foreign currency exchange differences	(207)	(3)	(1)	(211)
Total lease liability at 31 August 2021	**(172,678)**	**(337)**	**(2,418)**	**(175,433)**
Lease liability - current	(44,663)	(188)	(1,606)	(46,457)
Lease liability - non-current	(128,015)	(149)	(812)	(128,976)
Financial year 2020				
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)

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OPERATING ASSETS AND LIABILITIES (CONTINUED)

13. Leases (continued)

c) Lease Receivables

The Group hold a number of subleasing arrangements whereby leased property is subleased to Priceline Franchise partners.

The movement in lease receivables is presented below:

	Year ended 31 August
In thousands of AUD	Property
Financial year 2021	
Opening lease receivable at 1 September 2020	29,532
Receipts from subleases	(7,357)
Finance expense	815
Additions	-
Modifications	756
Total lease receivable at 31 August 2021	**23,746**
Financial year 2020	
Opening lease receivable at 1 September 2019	34,927
Receipts from subleases	(8,771)
Finance expense	918
Additions	2,442
Modifications	16
Total lease receivable at 31 August 2020	**29,532**

d) Amounts recognised in profit or loss

					Year ended 31 August	
	Australia		New Zealand		Total	
In thousands of AUD	2021	2020	2021	2020	2021	2020
Occupancy costs	(58,598)	(59,208)	(519)	(517)	(59,117)	(59,725)
Depreciation, amortisation and impairment expense	54,979	56,046	1,112	458	56,091	56,504
Finance expense	5,247	5,716	14	107	5,261	5,823
Income tax expense	(489)	(766)	(182)	(15)	(671)	(781)
Net profit after tax	**1,139**	**1,788**	**425**	**33**	**1,564**	**1,821**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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OPERATING ASSETS AND LIABILITIES (CONTINUED)

14. Provisions and contingencies

a) Provisions

In thousands of AUD	As at 31 August 2021	2020
Current provisions		
Employee benefits	27,195	22,919
Other provisions	10,165	11,713
Total current provisions	**37,360**	**34,632**
Non current provisions		
Employee benefits	3,418	3,442
Restructuring provision	9,761	-
Other provisions	3,934	3,457
Total non current provisions	**17,113**	**6,899**

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 2021					
Balance 1 September 2020	170	4,083	4,825	6,092	15,170
Provisions made during the year, net of write-back	-	1,463	993	9,611	12,067
Provisions used during the year	(170)	(1,976)	(918)	(10,105)	(13,169)
Unwinding of discount	-	-	31	-	31
Balance at 31 August 2021	**-**	**3,570**	**4,931**	**5,598**	**14,099**
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**

During the period the Group announced plans to cease manufacturing operations in New Zealand. The estimated restructuring costs provided for in the current period of $9,761,000 mainly include employee termination benefits, make good and other exit costs, refer to Note 4. Costs associated with remeasuring inventory to net realisable value are included within inventories, refer to Note 8.

b) Contingencies

In thousands of AUD	As at 31 August 2021	2020
Financial guarantees to pharmacists	8,158	9,175

Financial guarantees of $8,158,000 (2020: $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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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OPERATING ASSETS AND LIABILITIES (CONTINUED)

15. Financial assets at fair value through other comprehensive income

On 1 September 2020, the Group paid a further $1,200,006 to acquire an additional share in SiSU Wellness Pty Ltd, resulting in a total ownership interest of 11% at 31 August 2021 (31 August 2020: 5%).

In the prior period, the Group ceased to be a substantial holder in Sigma Healthcare on 16 December 2019, selling its shareholding of 137,264,592 shares.

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

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

c) 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	**2021**	**2020**
Non-current assets		
SiSU Wellness Pty Ltd - Unlisted securities	2,400	1,200
Total financial assets at fair value through other comprehensive income	**2,400**	**1,200**

At 31 August 2021 these financial assets were classified as non-current as the Group intends to hold the shares for long term investment.

d) 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	**2021**	**2020**
Changes in the fair value of financial assets at FVOCI recognised in other comprehensive income	-	(5,087)
Dividend from financial assets at FVOCI recognised in profit or loss	-	1,373

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

16. Loans and borrowings

In thousands of AUD	2021	As at 31 August 2020
Current liabilities		
Insurance premium funding	4,120	3,608
Bank overdraft	16,746	4,652
Total current liabilities	**20,866**	**8,260**
Non current liabilities		
Securitisation of trade receivables	19,959	-
Cash advance facilities - secured	-	5,423
Interest bearing loans	97,915	65,000
Total non current liabilities	**117,874**	**70,423**

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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CAPITAL AND RISK MANAGEMENT (CONTINUED)

16. 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 2021			
Bank overdraft	16,746	8,254	25,000
Securitisation of trade receivables	19,959	280,041	300,000
Interest bearing loans	97,915	72,085	170,000
Total at 31 August 2021	**134,620**	**360,380**	**495,000**
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**

(i) Average used facilities during the year, excluding interest bearing loans relating to the Clear Skincare acquisition, was $173,266,410 (2020: $214,087,490).
(ii) Average unused facilities during the year was $193,929,694 (2020: $103,343,290).

Financing facilities	
Bank overdraft	The Company is a guarantor to a bank facility agreement which provides a total overdraft facility of $25,000,000 (31 August 2020: $27,738,726) 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.
Interest bearing loans	In August 2021, the cash advance facilities and interest-bearing loans were closed out and replaced with a multi-currency revolving loan facility. The facility provides a limit of $170,000,000 AUD/NZD with an expiry of 30 September 2024. The facility is secured over the assets of the Group. Interest is based on the bank-bill reference rate plus a 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. In August 2021, the existing securitisation facility was extended from a maturity date of December 2022 to September 2024.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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CAPITAL AND RISK MANAGEMENT (CONTINUED)

17. 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 the 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 Group's assessment of credit risks associated with trade debtors give consideration to 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 2021. 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	**2021**	**2020**
Not past due	535,377	461,636
Past due 0 - 30 days	14,064	12,453
Past due 31+ days	112,067	141,047
Total trade receivables	**661,508**	**615,136**
Provision for impairment losses	(62,340)	(55,351)
Net trade receivables	**599,168**	**559,785**

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. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements.

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CAPITAL AND RISK MANAGEMENT (CONTINUED)

17. Financial risk management (continued)

In thousands of AUD	Carrying amount	Contractual cash flows	0 - 1 year	1 - 2 years	2 - 5 years	As at 31 August More than 5 years
Financial year 2021						
Insurance premium funding	4,120	4,120	4,120	-	-	-
Trade and other payables	686,557	686,557	684,213	2,344	-	-
Securitisation of trade receivables	19,959	19,959	-	-	19,959	-
Interest bearing loans	97,915	97,915	-	-	97,915	-
Lease liabilities	175,433	192,970	52,594	39,386	71,619	29,371
Payable to Non-controlling interest	34,022	34,022	34,022	-	-	-
Balance at 31 August 2021	**1,018,006**	**1,035,543**	**774,949**	**41,730**	**189,493**	**29,371**
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**

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 2021, the Group had interest rate swaps with a notional contract amount of $15,000,000 with a maturity date of 30 September 2021 and weighted rate of 0.153%.

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 2021 based on the forecast of used 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 2021		
Financial assets[i]	1.52%	60,019
Financial liabilities - fixed rate	1.98%	(15,000)
Financial liabilities - variable rate	1.89%	(123,740)
Balance at 31 August 2021		**(78,721)**
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**

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

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CAPITAL AND RISK MANAGEMENT (CONTINUED)

17. Financial risk management (continued)

c) Market risk

(III) Equity price risk
The Group had no material exposure to equity price risk at 31 August 2021.

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 2021						
Interest rate swap	(1)	(1)	(1)	-	-	-
Foreign exchange forward	781	781	781	-	-	-
Net asset/(liability)	**780**	**780**	**780**	**-**	**-**	**-**
Financial year 2020						
Interest rate swap	(52)	(52)	(52)	-	-	-
Foreign exchange forward	(261)	(261)	(261)	-	-	-
Net asset/(liability)	**(313)**	**(313)**	**(313)**	**-**	**-**	**-**

(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 2021			As at 31 August 2020		
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	-	11	11	-	52	52
Interest rate swap - 100bp decrease	-	(14)	(14)	-	(52)	(52)

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.

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CAPITAL AND RISK MANAGEMENT (CONTINUED)

17. 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.
	Put and call option liability (Other financial liabilities - amounts payable to non-controlling interests)	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	Cash flow hedges are Level 2 financial instruments because, unlike Level 1 financial instruments, the measurement is derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices). The fair value of cash flow hedges have been obtained from third party valuations derived from forward interest rates at the balance sheet date.
	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)	Other financial liabilities 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.

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CAPITAL AND RISK MANAGEMENT (CONTINUED)

17. 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 16.

18. Capital and reserves

a) Share capital

	As at 31 August	
In thousands of shares	**2021**	**2020**
Shares on issue at beginning of the period - fully paid	492,656	492,533
Ordinary shares issued during the period pursuant to the Company's Long Term Incentive Plan	-	123
Shares on issue at the end of the period - fully paid	**492,656**	**492,656**

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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GROUP STRUCTURE

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

19. 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	2021	2020	Notes	Entity name	2021	2020	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%	100.0%	(ii)
Pharma-Pack Pty Ltd	100.0%	100.0%	(i)	CSC Mt Ommaney Pty Ltd	100.0%	100.0%	
API (Canberra) Pty Ltd	100.0%	100.0%	(i)	CSC Forrest Chase Pty Ltd	100.0%	100.0%	
Making Life Easy - Mobility and Independent Living Superstores Pty Ltd	100.0%	100.0%	(i)	CSC Joondalup Pty Ltd	100.0%	100.0%	
API Healthcare Holdings (NZ) Ltd	100.0%	100.0%	(ii)	CSC Forest Hill	100.0%	100.0%	
Garrett Investments Ltd	100.0%	100.0%	(ii)	CSC Northbridge Pty Ltd	100.0%	100.0%	
New Price Retail Services Pty Ltd	100.0%	100.0%	(i)	CSC Manuka Pty Ltd	100.0%	100.0%	
Soul Pattinson (Manufacturing) Pty Ltd	100.0%	100.0%	(i)	CSC Riverton Pty Ltd	100.0%	100.0%	
API Financial Services Australia Pty Ltd	100.0%	100.0%	(i)	Clearskincare Chatswood Pty Ltd	75.2%	50.2%	(iii)
Priceline Unit Trust	100.0%	100.0%		Clearskincare Doncaster Pty Ltd	75.2%	50.2%	(iii)
Priceline Proprietary Ltd	100.0%	100.0%	(i)	Clearskincare Clinics Payroll Pty Ltd	75.2%	50.2%	(iii)
MLE Unit Trust	100.0%	100.0%		Clearskincare Adelaide Street Pty Ltd	75.2%	50.2%	(iii)
Priceline (NZ) Pty Ltd	100.0%	100.0%	(ii)	Clearskincare Collins St Pty Ltd	75.2%	50.2%	(iii)
Second Priceline Unit Trust	100.0%	100.0%		Clearskincare South Yarra Pty Ltd	75.2%	50.2%	(iii)
CSC Holdings Australia Pty Ltd	100.0%	100.0%	(i)	Clearskincare Macarthur Square Pty Ltd	75.2%	50.2%	(iii)
CSC Products Pty Ltd	100.0%	100.0%	(i)	Clearskincare Southport Pty Ltd	75.2%	50.2%	(iii)
Synapse Finance Pty Ltd	100.0%	100.0%	(i)	Clearskincare Cronulla Pty Ltd	75.2%	50.2%	(iii)
New Price Retail Finance Pty Ltd	100.0%	100.0%	(i)	Clearskincare Brighton Pty Ltd	75.2%	50.2%	(iii)
Australian Pharmaceutical Industries (Queensland) Pty Ltd	100.0%	100.0%	(i)	Clearskincare Quentin Ave Pty Ltd	75.2%	50.2%	(iii)
New Price Retail Pty Ltd	100.0%	100.0%	(i)	Clearskincare Moonee Ponds Pty Ltd	75.2%	50.2%	(iii)
PSM Healthcare Ltd	100.0%	100.0%	(ii)	Clearskincare Sunshine Plaza Pty Ltd	75.2%	50.2%	(iii)
API Leasing Pty Ltd	100.0%	100.0%	(i)	Clearskincare Fremantle Pty Ltd	75.2%	50.2%	(iii)
CSC Franchising Pty Ltd	100.0%	100.0%	(i)	Clearskincare QV Melbourne Pty Ltd	75.2%	50.2%	(iii)
API Owned CSC Pty Ltd	100.0%	100.0%	(i)	Clearskincare Bondi Junction Pty Ltd	75.2%	50.2%	(iii)
CSC Whitford Pty Ltd	100.0%	100.0%		Clearskincare Carousel Pty Ltd	75.2%	50.2%	(iii)
CSC West Lakes Pty Ltd	100.0%	100.0%		Clearskincare Hurstville Pty Ltd	75.2%	50.2%	(iii)
CSC Holdings New Zealand Ltd	100.0%	100.0%	(ii)	Clearskincare Clinics Pty Ltd	75.2%	50.2%	(iii)
CSC Ponsonby Limited	100.0%	100.0%	(ii)	Clearskincare Bendigo Pty Ltd	75.2%	50.2%	(iii)
CSC Shared Services Pty Ltd	100.0%	100.0%		Clearskincare Carindale Pty Ltd	75.2%	50.2%	(iii)
CSC Camberwell Pty Ltd	100.0%	100.0%		Clearskincare City Square Pty Ltd	75.2%	50.2%	(iii)
CSC Port Melbourne Pty Ltd	100.0%	100.0%		Clearskincare Chermside Pty Ltd	75.2%	50.2%	(iii)
CSC Mordialloc Pty Ltd	100.0%	100.0%		Clearskincare Macquarie Centre Pty Ltd	75.2%	50.2%	(iii)
CSC North Sydney Pty Ltd	100.0%	100.0%		Clearskincare Norwood Pty Ltd	75.2%	50.2%	(iii)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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GROUP STRUCTURE (CONTINUED)

19. Subsidiaries (continued)

Entity name	As at 31 August Ownership interest held by the group 2021	2020	Notes	Entity name	As at 31 August Ownership interest held by the group 2021	2020	Notes
Clearskincare Cockburn Gateway Pty Ltd	75.2%	50.2%	(iii)	Clearskincare South Australia Pty Ltd	75.2%	50.2%	(iii)
Clearskincare Parramatta Pty Ltd	75.2%	50.2%	(iii)	Clearskincare West End Pty Ltd	75.2%	50.2%	(iii)
Clearskincare Clinics Australia Pty Ltd	75.2%	50.2%	(iii)	Clearskincare Claremont Pty Ltd	75.2%	50.2%	(iii)
Clearskincare Bondi Beach Pty Ltd	75.2%	50.2%	(iii)	Clearskincare Northland Pty Ltd	75.2%	50.2%	(iii)
Clearskincare Robina Pty Ltd	75.2%	50.2%	(iii)	Clearskincare Southland Pty Ltd	75.2%	50.2%	(iii)
Clearskincare Warringah Mall Pty Ltd	75.2%	50.2%	(iii)	Clearskincare Chirnside Park Pty Ltd	75.2%	50.2%	(iii)
Clearskincare Clarence St Pty Ltd	75.2%	50.2%	(iii)	Clearskincare Mt Lawley Pty Ltd	75.2%	50.2%	(iii)
Clearskincare Miranda Pty Ltd	75.2%	50.2%	(iii)	Clearskincare Newmarket Ltd	75.1%	51.0%	(ii) & (iii)
Clearskincare Cremorne Pty Ltd	75.2%	50.2%	(iii)	Clearskincare Takapuna Ltd	75.1%	51.0%	(ii) & (iii)
Clearskincare Leichhardt Pty Ltd	75.2%	50.2%	(iii)	CSC Ventures Pty Ltd	75.2%	50.2%	(iii)
Clearskincare Rockdale Pty Ltd	75.2%	50.2%	(iii)	Clearskincare Canberra City Pty Ltd	75.2%	50.2%	(iii)
Clearskincare Toowong Pty Ltd	75.2%	50.2%	(iii)				

(i) These controlled entities have entered into a Deed of Cross Guarantee with the parent entity, refer Note 20, 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 form part of Non-controlling interest.

20. 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 19.

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 2021 is set out as follows:

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

In thousands of AUD	Year ended 31 August 2021	2020 (restated)(i)
Profit / (loss) before tax	46,016	(11,094)
Income tax (expense) / benefit	(19,467)	6,153
Profit / (loss) after tax	**26,549**	**(4,941)**
Other comprehensive income / (loss)	1,153	(5,623)
Total comprehensive income / (loss) for the year	**27,702**	**(10,564)**
Movement in accumulated losses		
Accumulated losses at the beginning of the year	(163,571)	(147,505)
Adjustment on adoption of AASB 16 *Leases*	-	(11,125)
Profit /(loss) after tax for the year(ii)	-	(4,941)
Accumulated losses at the end of the year	**(163,571)**	**(163,571)**
Movement in Reserves		
Reserves at the beginning of the year	158,987	184,073
Profit /(loss) after tax for the year(ii)	26,549	-
Dividends paid from profits reserve	(17,243)	(19,706)
Other comprehensive income	1,153	(5,623)
Share based payments expense, recorded in equity reserve	357	243
Reserves at the end of the year	**169,803**	**158,987**

(i) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 for further details.
(ii) 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.

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GROUP STRUCTURE (CONTINUED)

20. Deed of Cross Guarantee (continued)

b) Statement of financial position

In thousands of AUD	2021	As at 31 August 2020 (restated)[i]
Current assets		
Cash and cash equivalents	24,285	48,815
Trade and other receivables	648,882	597,834
Inventories	339,161	346,172
Lease receivables	5,054	6,530
Total current assets	**1,017,382**	**999,351**
Non-current assets		
Trade and other receivables	9,643	21,237
Lease receivables	18,692	23,002
Investments	208,363	206,824
Financial assets at fair value through other comprehensive income	2,400	1,200
Deferred tax assets	16,350	21,621
Right-of-use assets	97,698	106,699
Property, plant and equipment	76,671	72,723
Intangible assets	131,796	138,063
Total non-current assets	**561,613**	**591,369**
Total assets	**1,578,995**	**1,590,720**
Current liabilities		
Trade and other payables	686,311	716,084
Loans and borrowings	4,119	3,637
Lease liabilities	42,281	36,330
Provisions	33,817	31,575
Income tax payable	8,874	11,500
Total current liabilities	**775,402**	**799,126**
Non-current liabilities		
Trade and other payables	-	33,382
Loans and borrowings	117,874	64,945
Lease liabilities	107,533	126,071
Provisions	5,493	5,319
Total non-current liabilities	**230,900**	**229,717**
Total liabilities	**1,006,302**	**1,028,843**
Net assets	**572,693**	**561,877**
Equity		
Share capital	566,461	566,461
Reserves	169,803	158,987
Accumulated losses	(163,571)	(163,571)
Total equity	**572,693**	**561,877**

(i) The 31 August 2020 balances have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 for further details.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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GROUP STRUCTURE (CONTINUED)

21. Parent entity disclosures

(a) Summarised statement of comprehensive income

In thousands of AUD	Year ended 31 August 2021	2020 (restated)[i]
Profit / (loss) after tax	**20,637**	**(13,860)**
Other comprehensive income / (loss)	174	(5,088)
Total comprehensive income / (loss) for the year	**20,811**	**(18,948)**

(i) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 for further details.

(b) Summarised balance sheet

In thousands of AUD	As at 31 August 2021	2020 (restated)[i]
Current assets	162,978	58,926
Non-current assets	724,660	720,285
Total assets	**887,638**	**779,211**
Current liabilities	333,387	333,642
Non-current liabilities	163,094	59,744
Total liabilities	**496,481**	**393,386**
Net assets	**391,157**	**385,825**
Equity		
Share capital	566,461	566,461
Reserves	40,158	34,826
Accumulated losses	(215,462)	(215,462)
Total equity	**391,157**	**385,825**
Commitments of the parent entity	**78,627**	**111**

(i) The 31 August 2020 balances have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 for further details.

Details of guarantees and contingencies of the parent entity are included in Note 11.

22. 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 19.

c) Key management personnel

Disclosures relating to KMP are set out in Note 23.

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

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OTHER DISCLOSURES

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

23. 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	**2021**	**2020**
Short-term employee benefits	2,644,405	2,581,282
Other long-term employee benefits	153,450	147,075
Final payouts	-	170,040
Share based payments	290,632	57,143
Total KMP compensation	**3,088,487**	**2,955,540**

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

From time to time, Directors of the Group, or their related entities, may buy goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

A Director of the Company, Mr G Tambassis, is both a customer and franchisee of the Group. All transactions entered into with the Group are on an arm's length basis.

No shares were granted during the period to Directors.

During the year ended 31 August 2021, a former Director of the Company received a retirement payment in respect of his Directorship, refer to Note 14.

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

24. Share-based payments

	Year ended 31 August	
In thousands of AUD	**2021**	**2020**
Long term incentive plan (LTIP)(i)		
2016 grant	-	4
2017 grant	-	(238)
2018 grant	-	(122)
2019 grant	(599)	599
2020 grant	956	-
Total share based payments expense	**357**	**243**

(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. The receipt of any equity instruments in the future will depend on the performance of the Company over the performance period.

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OTHER DISCLOSURES (CONTINUED)

24. Share-based payments (continued)

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 2021							
2017 LTIP	29 Jan 2018	1,241,012	1,130,237	-	-	(1,130,237)	-
2018 LTIP[i]	10 Dec 2018	1,364,259	1,216,830	-	-	(28,228)	1,188,602
2019 LTIP	19 Dec 2019	1,685,711	1,647,111	-	-	(66,200)	1,580,911
2020 LTIP	5 Jan 2021	2,694,100	-	2,694,100	-	(55,100)	2,639,000
Total		**6,985,082**	**3,994,178**	**2,694,100**	**-**	**(1,279,765)**	**5,408,513**
Financial year 2020							
2016 LTIP	1 Feb 2017	924,512	916,680	-	(122,571)	(794,109)	-
2017 LTIP	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**

(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.

(i) Fair value of performance rights granted

Fair value of the performance rights at grant date is independently determined by external consultants using the Black-Scholes option pricing model. 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 measurement of fair value at grant date.

The fair value calculated through the model and inputs into the model are set out below. Note there were two grants under the 2020 LTIP:

	Tranche 1	Tranche 2
Grant date	5 Jan 2021	3 Feb 2021
Fair value at measurement date	$1.07	$1.12
Model inputs:		
Share price at grant date	$1.23	$1.28
Expected volatility (expressed as weighted average)	27.5%	27.5%
Performance rights vesting life	Three years	Three years
Expected dividend yield	5.00%	5.00%
Risk free interest (based on Government bond rates)	0.094%	0.102%

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OTHER DISCLOSURES (CONTINUED)

24. Share-based payments (continued)

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 grant of STIP performance rights awarded during the 2021 or 2020 financial years.

Subsequent to balance date, the grant of performance rights in relation to the FY21 STIP program was approved by the Board on 5 October 2021. The vesting of these rights is subject to a 12-month deferral period which commenced on 1 September 2021 and is subject to final Board approval. The approval value of the grant is $443,147 and the number of performance rights has been determined in accordance with the principles set out in the Remuneration Report.

25. Auditor's remuneration

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

	Year ended 31 August	
In AUD	**2021**	**2020**
Audit services - audit and review of financial reports		
KPMG Australia	542,340	521,640
Overseas KPMG firms	46,450	38,886
Total audit services	**588,790**	**560,526**
Other services		
Other assurance services - KPMG Australia	34,673	34,673
Taxation services - Overseas KPMG firms	7,124	23,240
All other services - Overseas KPMG firms	6,191	5,764
Total non audit services	**47,988**	**63,677**

26. 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:

Reference	Title	Adoption Date
AASB 2019-1	Amendments to Australian Accounting Standards – References to the Conceptual Framework	1 September 2020
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material	1 September 2020
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business	1 September 2020
AASB 2019-3	Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform - Phase 1	1 September 2020
AASB 2019-5	Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia	1 September 2020

The adoption of all amending standards above did not have any material impact on the disclosures or amounts recognised in the consolidated Financial Report for the year ended 31 August 2021.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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OTHER DISCLOSURES (CONTINUED)

26. New accounting standards (continued)

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. New accounting standards issued but not yet implemented are set out below:

Reference	Title	Adoption Date
AASB 2021-3	Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021	1 September 2021
AASB 2020-8	Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2	1 September 2021
AASB 2014-10, AASB 2015-10, AASB 2017-5	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128, Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 September 2022
AASB 2020-3	Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments	1 September 2022
AASB 2020-1, AASB 2020-6	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current; Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 September 2023
AASB 2021-2	Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 September 2023
AASB 2021-5	Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 September 2023
AASB 17	Insurance Contracts (Appendix D)	1 September 2023

27. Subsequent events

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

On 1 September 2021, the Group paid $32.9m to the minority shareholders of the Clear Skincare business to increase the ownership interest in this business from 75.2% to 100%.

On 10 September 2021 the Group entered a conditional sale and leaseback of its pharmaceutical manufacturing plant in Auckland, New Zealand. The contract became unconditional on 21 October 2021 and settlement is expected to occur on 3 December 2021.

On 16 September 2021, API received a non-binding, indicative, conditional control proposal from Wesfarmers Limited to acquire 100% of the shares in API for cash consideration of $1.55 per share.

On 27 September 2021, API received an unsolicited, non-binding, indicative, conditional merger proposal from Sigma Healthcare Limited to acquire 100% of the shares in API for a combination of cash and scrip ($0.35 in cash and 2.05 in Sigma shares for each API share) which had an implied value of $1.57 at date of receipt of the non-binding offer.

As announced on the ASX on 11 October 2021, API and certain subsidiaries have been named as defendants in class action proceedings filed in the Supreme Court of Victoria. The claims make various allegations about certain clauses in the Priceline Franchise Agreement. The Group denies the plaintiffs' allegations and will vigorously defend the action. The Group has notified its insurers of the claim. The number of members of the class, and their identities, have not been disclosed and the claim is not quantified. It is not currently possible to determine the ultimate impact of these proceedings, if any, on the Group. Given that the matters alleged by the plaintiffs are before the Court, API are unable to make any further comment.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 31 August 2021, 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.

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OTHER DISCLOSURES (CONTINUED)

28. Reconciliation of cash flows from operating activities

In thousands of AUD	Year ended 31 August 2021	2020 (restated)[(i)]
Profit / (loss) before tax for the year	12,463	(13,460)
Depreciation and amortisation	88,338	86,321
Impairment loss/(reversal) on property, plant and equipment	10,993	(463)
Impairment loss on brand names	-	37,500
Impairment loss on right-of-use assets	2,554	227
Impairment loss on intangible assets	2,268	-
Net foreign exchange loss / (gain)	(1,712)	123
Net loss on sale of property, plant and equipment	4,827	5,168
Share based payments expense	357	243
Fair value movement of financial liabilities	(1,325)	(7,479)
Dividend income	-	(1,373)
Net finance costs	15,378	19,079
Operating profit before changes in working capital and provisions	**134,141**	**125,886**
(Increase)/decrease in trade and other receivables	(39,606)	155,042
Decrease/(increase) in inventories	15,231	45,078
(Decrease)/increase in trade and other payables	(21,833)	(87,211)
Increase/(decrease) in provisions and employee benefits	12,942	633
Cash generated from operations	**100,875**	**239,428**
Net interest paid	(10,117)	(12,978)
Income taxes paid	(18,958)	(10,935)
Net cash inflows from operating activities	**71,800**	**215,515**

(i) The 31 August 2020 amounts have been restated due to the IFRS Interpretations Committee decision in relation to accounting for Software as a Service. Refer to Notes 12 and 29 for further details.

a) Reconciliation of cash and cash equivalents to net debt

Cash and cash equivalents comprise cash balances, call deposits and 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.

In thousands of AUD	As at 31 August 2021	2020
Cash and cash equivalents	38,794	60,713
Loans and borrowings - current	(20,866)	(8,260)
Loans and borrowings - non current	(117,874)	(70,423)
Net debt	**(99,946)**	**(17,970)**

FINANCIAL REPORT
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

OTHER DISCLOSURES (CONTINUED)

29. Comparative Balances

In April 2021, the International Financial Reporting Standards Interpretations Committee (IFRS IC) issued two final agenda decisions which impact Software-as-a-Service (SaaS) arrangements:

- Customer's right to receive access to the supplier's software hosted on the cloud (March 2019) – this decision considers whether a customer receives a software asset at the contract commencement date or a service over the contract term.
- Configuration or customisation costs in a cloud computing arrangement (April 2021) – this decision discusses whether configuration or customisation expenditure relating to SaaS arrangements can be recognised as an intangible asset and if not, over the period the expenditure is expensed.

The Group's accounting policy has historically been to capitalise certain costs related to SaaS arrangements as intangible assets in the Statement of Financial Position. The adoption of the above agenda decisions has resulted in a derecognition of these intangible assets in the Statement of Financial Position and recognition as an expense in the Income Statement impacting both the current and prior period presented.

As a result, API has amended its accounting policy to align with the IFRS IC agenda decision and retrospectively adjusted these intangible assets in the statement of financial position. The impact of this change in accounting policy for the comparative reporting period and the beginning of the earliest period presented is shown below. All adjustments outlined below relate to the Australian segment.

FINANCIAL REPORT
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

OTHER DISCLOSURES (CONTINUED)

29. Comparative Balances (continued)

Consolidated Balance Sheet **As at 31 August 2020** ***In thousands of AUD***	**Reported**	**Adjustments**	**Restated**
Assets			
Net deferred tax asset	19,900	741	20,641
Intangible assets	268,117	(3,716)	264,401
Total assets	**1,542,971**	**(2,975)**	**1,539,996**
Equity			
Accumulated losses	(151,090)	(2,975)	(154,065)
Total equity	**457,746**	**(2,975)**	**454,771**

Consolidated Balance Sheet **As at 1 September 2019** ***In thousands of AUD***	**Reported**	**Adjustments**	**Restated**
Equity			
Accumulated losses	(138,972)	(3,806)	(142,778)
Total equity	**493,525**	**(3,806)**	**489,719**

Consolidated Income Statement **Year ended 31 August 2020** ***In thousands of AUD***	**Reported**	**Adjustments**	**Restated**
Administration and general expenses	(111,444)	1,187	(110,257)
Profit/(loss) before tax	**(14,647)**	**1,187**	**(13,460)**
Income tax (expense) / benefit	6,710	(356)	6,354
Profit/(loss) for year	**(7,937)**	**831**	**(7,106)**
Total comprehensive income / (loss) for year	**(14,006)**	**831**	**(13,175)**
Earnings per share for profit attributable to the ordinary shareholders of the Company:			
Basic earnings per share	(1.7)		(1.5)
Diluted earnings per share	(1.7)		(1.5)

Consolidated Statement of Cash Flows **Year ended 31 August 2020** ***In thousands of AUD***	**Reported**	**Adjustments**	**Restated**
Cash payments to suppliers and employees (inclusive of GST)	(4,336,241)	(1,187)	(4,337,428)
Net cash inflows from operations	**239,428**	**(1,187)**	**238,241**
Payments for property, plant and equipment and intangibles	(39,992)	1,187	(38,805)
Net cash inflows/(outflows) from investing activities	**51,130**	**1,187**	**52,317**

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Australian Pharmaceutical Industries Limited ('the Company'):

    a. the consolidated financial statements and notes set out on pages 40 to 87, and the Remuneration Report set out on pages 18 to 38 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 2021 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 the Company will be able to pay its debts as and when they become due and payable.

    There are reasonable grounds to believe that the Company and the controlled entities identified in Note 19 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 the Company and those controlled entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

2. The Directors have been given declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 August 2021 pursuant to Section 295A of the Corporations Act 2001.

Dated 27 October 2021

Signed in accordance with a resolution of the Directors:

Ken Gunderson-Briggs

Kenneth W Gunderson-Briggs
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 2021 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 2021
- 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 $589.1m (current) and $10.1m (non-current) (including assessment of financial guarantees of $8.2m)

Refer to Notes 8 and 14 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 $17.3m for New Zealand)	
Refer to Note 12 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. • Comparing 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 Group's analysis of fair value less costs of disposal for the CGUs to the two non-binding, indicative, conditional proposals received post 31 August 2021 for the Group. • 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.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Australian Pharmaceutical Industries Limited for the year ended 31 August 2021, 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 20 to 38 of the Directors' report for the year ended 31 August 2021.

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

27 October 2021

SHAREHOLDER INFORMATION

AS AT 25 OCTOBER 2021

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 25 October 2021

Substantial shareholders

The following shareholders are substantial shareholders for the purposes of Part 6C.1 of the *Corporations Act 2001*:

Wesfarmers Limited	95,068,472 ordinary shares
First Sentier Investors Holdings Pty Limited	36,084,763 ordinary shares
Mitsubishi UFJ Financial Group, Inc.	30,730,456 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.

SHAREHOLDER INFORMATION (CONTINUED)

On-market share buy-back

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

Distribution of Shareholders as at 25 October 2021

Category Ordinary Shares	Number of Shareholders
1 – 1,000	3,844
1,001 – 5,000	4,356
5,001 – 10,000	2,035
10,001 – 100,000	2,609
100,001 and over	215
	13,059

The number of shareholders holding less than a marketable parcel as at 25 October 2021 was 742.

SHAREHOLDER INFORMATION (CONTINUED)

Twenty largest Shareholders as at 25 October 2021*

Name	Number of Ordinary shares held	Percentage of Capital held
WESFARMERS LIMITED	95,068,472	19.30
CITICORP NOMINEES PTY LIMITED	78,984,858	16.03
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	65,439,278	13.28
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	45,607,320	9.26
NATIONAL NOMINEES LIMITED	22,610,974	4.59
PRUDENTIAL NOMINEES PTY LTD	6,000,000	1.22
BNP PARIBAS NOMS PTY LTD <DRP>	5,416,500	1.10
CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	3,588,849	0.73
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	3,502,025	0.71
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	3,477,199	0.71
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	2,381,983	0.48
J & P CHICK PTY LIMITED <J & P CHICK PTY LTD S/F A/C>	2,000,000	0.41
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	1,568,436	0.32
JUM PTY LIMITED	1,567,286	0.32
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	1,553,261	0.32
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	1,503,689	0.31
NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	1,472,551	0.30
DR JEFFREY ERIC DALE CHICK & DR PAMELA HAZEL CHICK	1,260,000	0.26
MR FREDERICK BENJAMIN WARMBRAND <FB & LJ WARMBRAND SUPER A/C>	1,240,000	0.25
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <GSCO CUSTOMERS A/C>	1,104,125	0.22
	345,346,806	**70.10**

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

SHAREHOLDER INFORMATION (CONTINUED)

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.

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.

SHAREHOLDER INFORMATION (CONTINUED)

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 update their communication preferences via the Boardroom website.

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 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.

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 for the Financial Year ending 31 August 2022*

Half year end	28 February 2022
Half year profit announcement	21 April 2022
Year end	31 August 2022
Full year profit announcement	20 October 2022
Annual General Meeting	19 January 2023

*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

Offices and Officers

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
E-mail:	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