api annual report 2014

for the year ended 31 August 2014

Australian Pharmaceutical Industries Limited

Contents

The Directors present their report together with the financial report of Australian Pharmaceutical Industries Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the year ended 31 August 2014 and the Auditor's report thereon.

Chairman's & CEO's Report

We are pleased to present to shareholders the Company's annual report for the year ended 31 August 2014.

Results summary

2014 recorded a very pleasing operational performance for the Company's key assets in the Priceline/Priceline Pharmacy brand and Pharmacy Distribution. Both areas delivered results ahead of expectation and reinforced the benefits of the strategic direction of the Company with an underlying net profit of $31.7 million, up 32.5% on the prior year.

Regrettably the Company incurred one-off writedowns of $131 million that resulted in the Company reporting a statutory net loss after tax of $90.8 million. The writedowns occurred as part of the standard practice of assessing the carrying values of a number of our assets. The Board believed the actions taken were prudent given the prevailing conditions. The non-cash impairments related to:

- $15 million for New Zealand manufacturing due largely to foreign exchange movement and compounded by declines in Australian contract manufacturing volumes due to high stockweight carried over by the industry from the mild cough and cold season the prior year;
- $20 million for CH2 due to continued underperformance, the tightening of industry margins and impacts of public healthcare cost management;
- $52 million for certain pharmacy customers with long term loans that required bank refinancing where API was required to value the customer loans (for accounting purposes) as if they were immediately repayable and treat the associated guarantees by the Company of part of the customers' finance facilities as an actual liability rather than a contingent liability; and,
- $44 million for Retail as a result of impairment modelling on store network growth rates which is one of the factors required to maintain carrying values. As a result of the modelling and expected growth rates the Board determined it should record an impairment against the asset.

Chairman's & CEO's Report
Continued

The one-off writedowns did not affect the Company's operational performance, its ongoing banking support nor the ability to pay dividends. The strong underlying performance of the Company meant that the total dividend payment for the year, of 3.75 cents per share, was up 7.7% on the prior year. The Board is pleased that it has been able to maintain a payout ratio of approximately 50% of profits.

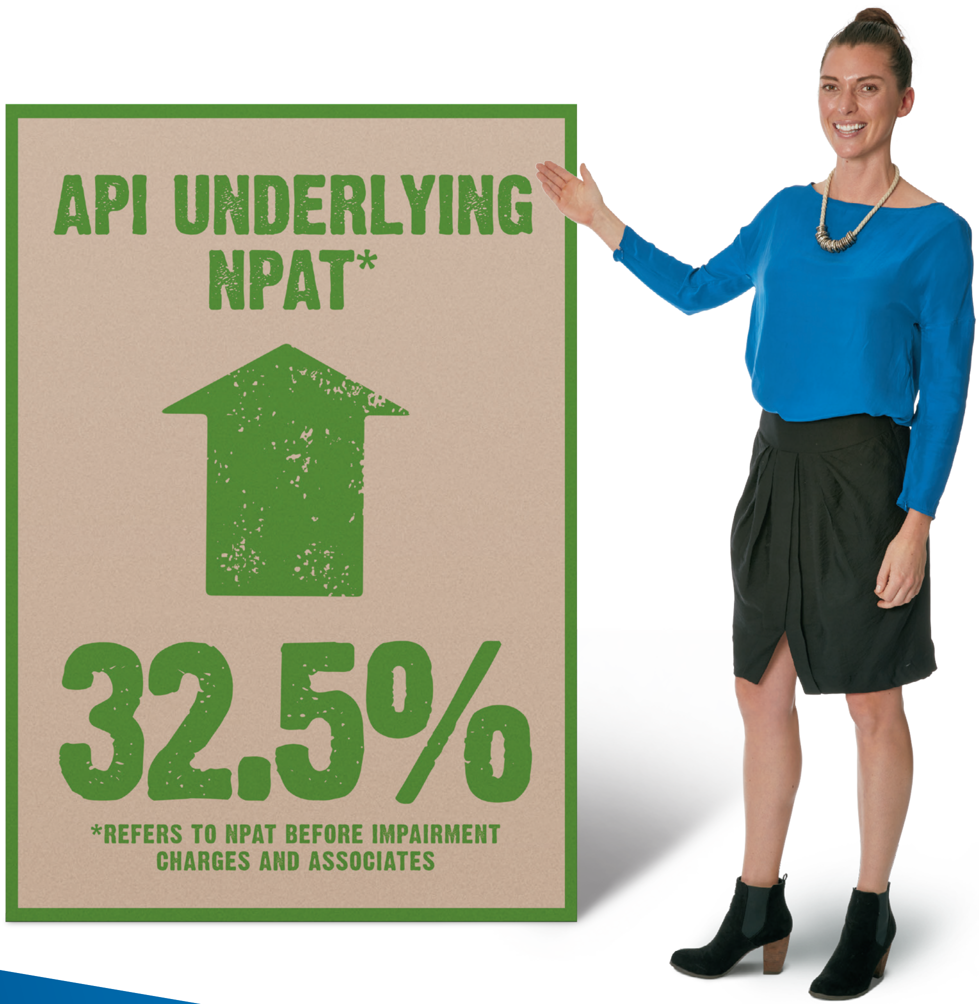
Environment

The operating environment has been challenging in both the pharmacy and broader retail sectors. Consumer demand continued to be subdued throughout the period, with an ever increasing focus on value by shoppers. This meant competition in the retail market was intense, with price competition heightened across the health and beauty market. Supermarkets, discount department stores, specialty stores and pharmacies all aggressively sought to increase market share through heavy price discounting during the year.

The Pharmaceutical Benefits Scheme (PBS) reforms that continued to lower the prices on pharmaceuticals began to erode the profitability of pharmacies and also lowered the prices to consumers in many instances. The reduction in PBS pricing will continue, thereby maintaining the price deflation throughout the pharmaceutical supply chain. In the past year it has appeared that pharmaceutical wholesalers have been able to offset the price reductions through changes in trading terms with pharmacy customers, primarily by reducing discounts offered.

Retail

Despite the broader economic conditions Priceline and Priceline Pharmacy had an excellent year. Comparable store sales were up 6% on the prior year, total sales were up 11.1%, transaction numbers were up by 6.2%, store numbers grew by 27 to 390 stores in total, and Sister Club members exceeded 4.7 million. The fledgling online store recorded sales growth of 182.6% on the prior year, complemented by social media fans increasing by 67% and engagement by 121%.



This performance led to the Company recording market share growth across its key health and beauty categories during the year. Categories such as colour cosmetics, medicinal health, skincare and fragrance grew sales by between 12% and 21% and all gained market share on the prior year. This is a very good result considering the already strong position in beauty, where the Company now holds a 27% market share.

The Company achieved this through ongoing focus on winning on range and choice in our major categories, including first-to-market opportunities and exclusive new products. This was amplified with regular marketing of tactical programs that offer consumers exceptional value and drive high traffic through stores. Throughout the year the Company was able to maintain register margin while driving higher sales.

The sales results are also due to the new marketing program launched during the year which increased advertising exposure on television, saw new sponsorships in the form of the Kooyong Classic and Adelaide Thunderbirds, and a boost to the catalogue pages. New initiatives in Australia's major magazine titles, such as Priceline Pharmacy's What's Your Health Age and You Beauty campaigns, with amabassadors that included Ita Buttrose, Ada Nicodemou, Dami Im, Samantha Harris and Renae Hallinan further reinforced the brand as the primary destination for health and beauty for women. These tactics were further complemented by multimedia screens installed in stores that delivered instant offers to consumers and increased basket size.

The Company conducts an annual survey with an independent consultant, Franchise Relationships Institute, that gauges the satisfaction of franchise partners on a range of measures across the brand. This is important to the ongoing recruitment and retention of franchise partners to grow store numbers. The survey again showed further increases in overall satisfaction with the brand, with notable increases in financial, leadership and marketing indicators, which was particularly pleasing.

The results across all facets of the business were a result of sustained excellence that also led to winning the 2014 Retailer of the Year, awarded by the industry's peak body the Australian Retailer's Association. This award is measured against many of Australia's leading retailers and demonstrated the strength of the brand.

Pharmacy

The Pharmacy Distribution sales growth exceeded expectations, recording growth of 3.9%, which represented an underlying growth rate of 11.9% when adjusted for PBS Reforms. This was managed well as the business changed trading terms with all pharmacy accounts but also maintained profitability.

The competition for wholesale accounts has remained intense, however the Company has provided a range of business services to independent pharmacy that saw it remain a strong and viable option for pharmacy accounts. The API-Alphapharm alliance, in its seventh year, provided a solid basis for sales through highly competitive pricing and a comprehensive range of generic pharmaceuticals. However, the Company was also able to work with a broad cross section of suppliers to ensure it grew market share and retained highly competitive product deals.

Pleasingly the Group Supply Chain function was able to provide a 7% improvement in the cost of deliveries per unit, which is a significant change in an industry with tight margins. The distribution centres also reduced the lost time injury frequency rate by 11.2% which was due to ongoing diligence when it came to sustained safety awareness and educational campaigns.

While the performance from the New Zealand manufacturing business was poor in the first half of the year due to restructuring and redundancy costs, its results improved in the second half. This unit improved results as a source of strong private label manufacturing for the Australian market as well as capitalising on its established position in New Zealand.

Group

The operational performance from the business led to the strong underlying net profit result. Revenue growth was double that of operating costs, demonstrating prudent ongoing management and increased profits. The Company has been diligent in paying down debt to reduce financing costs and saw further improvements in its cash conversion cycle and debt metrics.

The Board has also focussed on the returns on shareholder funds. The underlying return on funds employed went from 7.98% in the prior financial year to 11.22% this year, and in the same period underlying return on equity improved from 4.1% to 6.56%.

The implementation of an enterprise reporting system, known as One ERP, has progressed soundly and will be finalised in the first quarter of calendar 2015. This system is critical in extracting benefits across the Company and ensuring we have a competitive, sustainable system for future development.

Corporate Social Responsibility

In 2011 the business launched its Corporate Social Responsibility program, the Priceline Sisterhood. It was established to support our key consumers – women and their families – with six charity partners. The partners have been: Alzheimer's Australia, Australian Cervical Cancer Foundation, Look Good Feel Better, Moira Kelly's Children First Foundation, Post and Ante Natal Depression Association and Victor Chang Cardiac Research Foundation. These covered the primary health concerns of women, being: mental health, heart health, cancer and family health.

In 2014 we were delighted to witness two milestones for the program. The first was to make the Priceline Sisterhood into a registered Foundation with a majority independent board to oversee its governance. All donations of more than $2 to the Priceline Sisterhood Foundation are now tax deductible.

The second milestone was that this program passed the $1 million mark in donations. These donations have gone directly to the charities involved and helped them develop important programs and awareness of their services.

Summary

The Board was pleased to welcome Ken Gunderson-Briggs as an independent director from May this year when he also became a member of the Audit and Risk Committee. Mr Gunderson-Briggs is a chartered accountant and public company director with extensive retail experience. He replaced Miles Hampton who retired from the Board at the Annual General Meeting in January this year.

The Board is confident that the strategic direction of API is delivering sustainable results, while the financial position has continued to improve due to sound financial management and strong operational execution. The directors believe that the results achieved in 2014 have laid the foundations for stronger returns in future.

Finally on behalf of all directors we would like to thank all API's staff for their dedication to building an even stronger Company in difficult market conditions.

Peter R Robinson
Chairman

Stephen P Roche
Managing Director and Chief Executive Officer

Directors' Report

DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

Mr Peter R Robinson, B.Com, FAICD
Chairman.
Non-executive director.
Director since 5 May 2000.
Appointed Chairman 8 July 2003.

Mr Robinson joined Washington H Soul Pattinson and Company Limited in 1978 and was appointed a director of Washington H Soul Pattinson and Company Limited in 1984. Mr Robinson is also Chairman of Clover Corporation Limited and a non-executive director of New Hope Corporation Limited. Mr Robinson has held both executive and non-executive directorships for over 30 years. Mr Robinson also during this time has had extensive general management and chief executive officer experience in the pharmaceutical industry.

Mr Robinson is a former director of Northern Energy Corporation Limited (appointed 28 February 2011 and ceased acting 20 December 2011). This company was de-listed in 2011.

Appointed director of Exco Resources Limited on 28 November 2012 (de-listed January 2013).

Mr Robert D Millner, FAICD
Non-executive director.
Director since 5 May 2000.
Member of the Remuneration Committee since 2 October 2007.
Member of the Nomination Committee since 15 August 2012.

Mr Millner is the Chairman of Washington H Soul Pattinson and Company Limited and has been a non-executive director of Washington H Soul Pattinson and Company Limited since 1984.

Mr Millner is also Chairman of Brickworks Limited, BKI Investment Company Limited, New Hope Corporation Limited, Milton Corporation Limited and a non-executive director of TPG Telecom Limited. Mr Millner is a former director of Northern Energy Corporation Limited (appointed 28 February 2011 and ceased acting 20 December 2011). This company was de-listed in 2011.

Appointed director of Exco Resources Limited on 28 November 2012 (de-listed January 2013).

The Hon Dr Michael R Wooldridge, BSc, MBBS, MBA, LLD
Independent non-executive director.
Director since 1 February 2006.
Member of the Remuneration Committee since 2 October 2007.
Appointed Lead Independent Director 2 December 2008.
Appointed Chair of the Nomination Committee on 15 August 2012.

Dr Wooldridge was Australia's Federal Minister for Health from 1996 to 2001. Dr Wooldridge is an Honorary Fellow of the Australasian Faculty of Public Health Medicine.

Dr Wooldridge is director of Vision Eye Institute Limited and is a former director of Australian Property Custodian Holdings Limited (appointed 21 March 2006 and ceased acting 6 July 2011), and Cogstate Ltd (appointed 12 May 2004 and ceased acting 30 June 2011).

Ms E Carol Holley, B.A, FCA, FAICD

Independent non-executive director.
Director since 19 December 2006.
Appointed Chair of the Audit and Risk Committee on 19 December 2006.

Ms Holley is a non-executive director of Defence Housing Australia and Chair of its subsidiary Defence Housing Australia Investment Management Limited.

Ms Holley is also chair of the Audit and Risk Committees of Land and Housing Corporation, Service NSW, and National Health Funding Body and a member of the committees of the NSW Police Force and NSW Department of Family and Community Services.

Mr Stephen P Roche, B.Bus, GAICD
Executive director.
Managing Director and Chief Executive Officer since 14 August 2006.

Mr Roche joined API in March 2005. Previously he was Group General Manager, Health Services for Mayne Group Limited with responsibility for pharmacy distribution, pathology and other business units. Previous roles included Chief Operating Officer, Healthcare Services for FH Faulding & Co and a number of management roles at CSR.

Mr Miles L Hampton, BEc (Hons), FCIS, FCPA, FAICD
Independent non-executive director.
Director since 7 August 2007. Retired 30 January 2014.
Member of the Audit and Risk Committee since 7 August 2007. Retired 30 January 2014.
Appointed Chair of the Remuneration Committee on 2 September 2008. Retired 30 January 2014.

Mr Hampton is a director of MyState Limited, The Tasmanian Water and Sewerage Corporation and The Van Diemen's Land Company.

Mr Hampton was previously Managing Director of Roberts Limited for 20 years prior to his resignation in 2006, and is a former director of Hobart Water, Impact Fertilisers Pty Ltd, and Forestry Tasmania.

Ms Lee Ausburn, M.Pharm,B.Pharm, Dip.Hosp.Pharm, GAICD
Independent non-executive director.
Director since 7 October 2008.
Member of the Audit and Risk Committee since 7 October 2008.
Member of the Nomination Committee since 15 August 2012.

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 is also a non-executive director of SomnoMed Limited and NIB Holdings Limited, and Vice President, Pharmacy Faculty Foundation, University of Sydney. Ms Ausburn is a former board member of the Clinical Excellence Commission and Agency for Clinical Innovation, NSW Health.

Mr Gerard J Masters
Independent non-executive director.
Director since 7 September 2010.
Member of the Nomination Committee since 15 August 2012.
Member and Chairman of the Remuneration Committee since 30 January 2014.

Mr Masters has had extensive experience in retailing. Until his resignation in early 2006, he spent more than 33 years with the Coles Myer Group. This included a 10 year period as Managing Director of Bi Lo, Coles and then the total Supermarkets Group which was Coles Myer's largest and most profitable business. His most recent role, until his resignation in 2009, was as the Managing Director and CEO of The Reject Shop Limited.

Mr Kenneth W Gunderson-Briggs, B.Bus, FCA, MAICD
Independent non-executive director.
Director since 6 May 2014.
Member of the Audit and Risk Committee since 6 May 2014.

Mr Gunderson-Briggs is a chartered accountant, registered company auditor and public company director, with broad experience in the finance and retail franchise sectors.

Since 2003, Mr Gunderson Briggs has been an independent non-executive director of Harvey Norman Holdings Limited, and sits on the Audit, Remuneration and Nomination Committees of that company. Mr Gunderson-Briggs has been Chairman of Glenaeon Rudolf Steiner School Limited since 2013, having been a director on the Board since 2009.

COMPANY SECRETARY

Mr Peter Sanguinetti has been Company Secretary and General Counsel since November 2007. Mr Sanguinetti BJuris, LLB, has extensive experience and was previously Company Secretary and General Counsel of Kodak (Australasia) Pty Ltd for 9 years, responsible for legal and company secretarial activities for the Kodak group across Asia. Mr Sanguinetti was also a non-executive director of HPAL Limited from January 2005 to November 2007. On 2 June 2009, Ms Genevieve Ryan was appointed an Alternate Company Secretary. Ms Ryan BSc (Hons), LLB (Hons) is a qualified lawyer and supports the Company Secretary.

Directors' Report
Continued

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the period were:

	Board		Audit and Risk		Remuneration		Nomination	
Director**	Number Attended	Number Held*	Number Attended	Number Held*	Number Attended	Number Held*	Number Attended	Number Held*
Mr P R Robinson***	17	17	–	–	–	–	–	–
Mr R D Millner	16	17	–	–	1	2	–	–
Dr M R Wooldridge+	16	17	–	–	2	2	1	1
Ms E C Holley	16	17	8	8	–	–	–	–
Mr S P Roche***	17	17	–	–	–	–	–	–
Mr M L Hampton #	4	6	4	4	1	1	–	–
Ms L Ausburn	15	17	8	8	–	–	–	1
Mr G J Masters=	17	17	–	–	1	1	1	1
Mr K W Gunderson-Briggs^	4	4	1	1	–	–	–	–

* Number of meetings held during the time the director held office or was a member of the committee during the period.

** All Directors who are not members of Committees are invited to attend Committee Meetings.

*** Mr Robinson and Mr Roche attended all Committee meetings by invitation.

Mr Hampton retired as a Director and from all Committee positions on 30 January 2014.

^ Mr Gunderson-Briggs was appointed a Director and Member of the Audit and Risk Committee on 6 May 2014.

+ Dr Wooldridge was granted leave of absence for the February 2014 Board meeting.

= Mr Masters was appointed to the Remuneration Committee on 30 January 2014.

OPERATING AND FINANCIAL REVIEW

As required by Section 299A(1) of the Corporations Act, and in accordance with ASIC Regulatory Guide 247 Effective Disclosure in an Operating and Financial Review (RG247) issued in March 2013, the Board is required to include in the Directors' Report an Operating and Financial Review (OFR) which includes information that shareholders would reasonably require to make an informed assessment of the consolidated entity's operations, financial position and business strategies, and prospects for future years. The OFR complements and supports the financial report.

Operations

For the year ended 31 August 2014 the Company reported a net loss after tax of $90.8 million following impairment charges booked against the carrying values of Goodwill, Loans to Pharmacy Customers and the Company's associate investment.

The Company's underlying net profit after tax before impairments and associates increased by 32.5% to $31.7 million following strong contributions from its Retail and Pharmacy Segments along with continued corporate costs savings and productivity gains across the supply chain network. The Company's reported revenue increased to $3.3 billion against a backdrop of strong underlying Pharmacy sales growth, along with Priceline same store growth and store network growth of 27 stores.

The Retail segment recorded sales growth of 11.1% to $752 million in an environment where Priceline was delivering on customer expectations, with the latest new and exclusive brands to combine with a total health and beauty offer. The Priceline network expanded to 390 stores.

The Retail business reported segment earnings of $197 million being an increase of 6.8% on the prior year. The Sister Club program continues to be a key marketing differentiator with over 4.7 million members who spend on average 34% more than non-members.

The Pharmacy distribution segment reported sales of $2.4 billion, being a 3.9% increase on the prior year following another year of Pharmaceutical Benefits Scheme (PBS) reforms driven by the Federal Government. The underlying sales adjusting for PBS reforms throughout the year was an increase of 11.9%.

The Company's New Zealand business reported a decrease in earnings to $0.97 million following the strengthening of the NZ dollar and reductions in Australian contract sales following a mild 2013 winter.

The share of losses from the Company's associate investment (CH2 Holdings Pty Ltd) was $1.1m for the year.

Capital expenditure for the year was $30.2 million with the greater part of this investment being in the Company's new SAP ERP program along with the continued refurbishment of Priceline company stores.

The Company's operating cash flow was $64 million which reflected reductions in financing costs and tax payments following the write down of long term receivables during the year.

Financial Position

The Company's net debt reduced to $99.3 million which was $18 million lower than the previous year and was comfortably within the Group's facility limits and associated banking covenants.

During the year the Company refinanced its cash advance facilities to May 2016 and its securitisation facilities until May 2018. As part of this refinancing the company reduced its available facilities by $75 million in line with its strategy to reduce debt.

The Company's dividend policy was unchanged during the year. The company has declared a fully franked final dividend of 2.0 cents per share, bringing the full year dividend to 3.5 cents per share fully franked.

Business Strategies and prospects for future financial years

During the year the Board undertook a comprehensive review of its short and long term strategies. This baseline review was commissioned to ensure that its strategies remained relevant and adaptable to the dynamic regulatory and economic environment that the Company operates in, and which may affect the future financial performance and position of the Company.

The strategic review analysed a range of internal and external environmental elements which led to the creation of a range of identifiable strategic goals and a range of supporting initiatives across all business units and functions. The overall business strategies relevant to the Company's future financial position and performance include:

- Leverage our health and beauty competitive advantage;
- Market insights driving the customer preferred retail proposition;
- Providing a compelling business model for partners;
- An integrated business driving superior value;
- Optimised capital investment; and
- A safer place to work every day.

These strategic goals and supporting initiatives are all focussed on the Company achieving its vision of 'Enriching life, as the most inspirational choice for health, beauty and wellbeing'.

By applying the strategic goals to the Company's business plans, there will be a continued emphasis on capitalising on the Company's strengths in the health and beauty retail market and to optimise its strong national community pharmacy wholesale distribution business. This means the Company intends to:

- Continue to promote the Priceline Pharmacy Franchise proposition and grow the store network. Priceline Pharmacy is seen as a compelling proposition for pharmacists who wish to offset the impact of PBS reforms, leverage business, pharmacy and retail expertise, and drive further growth from integrated dispensary and retail programs;
- Transition from Company owned Priceline stores to Franchise owned Priceline Pharmacies;
- Build loyalty and increase engagement of the Priceline Sister Club loyalty program, and generally promote increased customer engagement through the Priceline website and social media channels;
- Grow and develop the Soul Pattinson and Pharmacist Advice Retail Pharmacy Brands;
- Grow the Club Premium independent pharmacy buying group program;
- Expand the Company's Health and Beauty Retail Brand portfolio and offers, supported by an integrated marketing communication strategy;
- Build on the Company's merchandising strategy by sourcing pharmaceutical and health and beauty products that focus on superior delivery performance, exclusive product offerings and private brand products, and ranging products that are relevant to everyday needs and deliver value for money enhanced health outcomes;
- Maintain earnings margins within Pharmacy Distribution during a period of ongoing government PBS reforms in the Pharmacy sector;
- Continue to invest in supply chain and information technology platforms to drive efficient and cost effective operating cost structures;
- Ensure benefit delivery and process improvements from the Company's OneERP implementation; and
- Drive safety leadership throughout the business.

The Company expects to sustain improvements in earnings performance through the implementation of its core strategies and supporting initiatives. This outlook is subject to no material change in consumer or customer demand, a stable economic climate and no unforseen adjustments to either the regulatory environment or the Pharmaceutical Benefits Scheme.

Specific details about the Company's business strategies and prospects that could give rise to likely material detriment to the Company, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage, has not been included in this Annual Report. Other than the information set out in this document, information about other likely developments in the Company's operations in future financial years has not been included.

MATERIAL BUSINESS RISKS

The Company continues to be influenced by a number of general economic and business conditions including levels of consumer spending, interest and exchange rates and government regulatory policies. The Company has a distinctive positioning in the Community Pharmacy wholesaling sector in Australia as well as being well positioned in the mass market Health and Beauty retail sector.

Despite its strengths in these sectors the Company faces challenges including:

- Ongoing government reforms to the PBS in the Pharmacy sector; and
- Macro-economic factors contributing to depressed retail sales and increasing cost pressures in key areas such as rent and labour.

As part of the Company's risk management process, the risk profile of the Company is reviewed by Management with the assistance of the Risk and Internal Audit team at least annually. The results of this review are provided to the Audit and Risk Committee for its consideration and recommendation to the API Board.

The Company's risk management process is integrated with its strategic planning process and involves identifying the risk universe and documenting those factors that contribute to the inherent risk environment. Inherent risk is determined by combining likelihood and consequences assessments determined in the absence of any controls within the business.

The effectiveness of current controls in place to manage the identified risks is then assessed to determine residual risk. Where residual risk is deemed to be greater than the business risk appetite, risk treatment plans are developed and specific personnel assigned responsibility for the management of those risks. The status of risk treatment plans is monitored and reported to the Audit and Risk Committee at regular intervals.

The most recent update was in July 2014 against a backdrop of continued PBS reforms, challenging Retail trading conditions and the Company's decision to update its Information Technology platforms as it continues to transition to a One Enterprise approach.

The following is a summary of the contemporary risks facing the Company as assessed by the recent update of the Company's risk profile:

- Structural reforms within the Australian Community Pharmacy sector

This relates to the risk of continued Government PBS reforms. The Company monitors the changes to PBS medicines and responds with a combination of reduced discounts to Pharmacy customers and operational adjustments. The company has made four trading term adjustments since 2010. The Company also closely monitors costs associated with the Community Service Obligation (CSO).

- Execution of Retail Pharmacy strategy with associated growth of Priceline Pharmacy stores

There is a risk that the expansion of the Company's Priceline Pharmacy franchise network is unsuccessful or the expected growth in the next five years is slower than expected. Existing key business processes and responses to mitigate this risk include dedicated Retail Pharmacy Business Development teams, the inclusion of landlords, banks and industry accountants in pharmacist familiarisation and recruitment forums. Tracking measures to monitor growth rates are reported to the Managing Director and the Board on a monthly basis.

- One Enterprise Restructure and Information systems upgrade

In 2011 the Company undertook a restructure of its Australian business and has transitioned from a multiple Business Unit structure to a One Enterprise functional structure. This transition includes an upgrade of the Company's enterprise reporting platforms expected to be operable in the 2015 financial year. To mitigate the risk of the upgrade not meeting timelines or expectations, the project governance measures include a Management Steering Committee, an independent consultant (appointed by the Audit and Risk Committee) to monitor and report on progress, and an experienced systems integrator contracted to implement the system.

- Financial Risk and Long Term Customer Loans

The Company's activities expose it to a number of financial risks including customer payment defaults, financial guarantees to banks supporting certain Pharmacy customers being called, and general retail trading conditions. The Company adopts a financial risk management program which seeks to minimise potential adverse impacts on the financial performance of the Company. The Company has undrawn funding lines throughout the year to manage any unforeseen financial risks.

CORPORATE GOVERNANCE STATEMENT

The Board recognises the importance of a strong governance framework and culture throughout the organisation. During the year ended 31 August 2014, the Board continued to build on and enhance the established corporate governance framework.

The roles and responsibilities of the Board are set out in the Board Charter. This is located on the Company's website (www.api.net.au). To assist with the execution of its responsibilities, the Board has established a Remuneration Committee, an Audit and Risk Committee and a Nomination Committee. All committees have documented charters, which are also available through the Company's website.

Under ASX Listing Rules and the ASX Corporate Governance Council's Principles and Recommendations Second Edition (the "Principles"), the consolidated entity is required to disclose in its annual report the extent of its compliance with the Principles. Details of compliance with the Principles by the consolidated entity are set out in a table included in this Corporate Governance Statement.

The Board has plans in place to ensure its corporate governance framework is updated (as necessary) to comply with the Third Edition of the Corporate Governance Principles and Recommendations for the financial year commencing 1 September 2014.

The Directors have also implemented internal control processes for identifying, evaluating and managing significant risks to the achievement of the Company's objectives. These internal control processes cover financial, operating and compliance risks.

The Directors have received and considered the annual control certification by the Chief Executive Officer and the Chief Financial Officer in accordance with the Principles relating to financial and operating risks. Material associates, which API does not control, are not dealt with for the purposes of this statement.

Throughout the reporting period, and at the date of signing of this Director's Report, the consolidated entity was in compliance with the Principles in all material respects, other than the Chairman being a director of the Company's major shareholder. Notwithstanding, the Board continues to be comprised of a majority of independent Directors. Board Committees have independent Chairpersons and a majority of independent Directors as members.

Also available on the Company's website are the following policies:

- Code of Conduct and Ethics;
- Continuous Disclosure;
- Securities Trading;
- Shareholder Communication Policy;
- Diversity; and
- Compliance.

The key initiatives completed, or in progress during the current year, include:

- Financial policies and procedures are continually reviewed and updated where appropriate by management, prior to review and approval by the Audit and Risk Committee;
- An employee Code of Conduct and Ethics policy is in place and is available on the Company's website. This is reviewed each year and re-communicated to all employees; and
- A broader review of all corporate governance policies has been undertaken to ensure alignment with current ASX Listing Rules and Corporate Governance Council's Principles and Recommendations.

The table below is provided to facilitate an understanding of API's compliance with the ASX Corporate Governance Council's Principles and Recommendations Second Edition.

Recommendation	Compliance	Please refer to the following sections of the Directors' Report
Principle 1 – Lay solid foundations for management and oversight		
Recommendation 1.1: The Company has established the functions reserved to the board and those delegated to senior executives.	Yes	See "Board of Directors – Role of the Board" and API Board Charter which is available on API's website under "Corporate Governance".
Recommendation 1.2: The Company has disclosed its process for evaluating the performance of senior executives.	Yes	See the Remuneration Report which forms part of the Directors' Report.
Principle 2 – Structure the Board to add value		
Recommendation 2.1: A majority of the board are independent directors.	Yes	See "Board of Directors – Independence of Directors".
Recommendation 2.2: The chair is an independent director.	No	See "Board of Directors – Independence of Directors" and in particular the Board's view of the Chairman being a Director of the Company's major shareholder. The Company has also appointed a Lead Independent Director.
Recommendation 2.3: The roles of chair and chief executive officer are not exercised by the same individual.	Yes	See "Board of Directors – Independence of Directors".
Recommendation 2.4: The board has established a nomination committee.	Yes	See "Nomination Committee" and the Nomination Committee Charter which is available on API's website under "Corporate Governance".
Recommendation 2.5: The Company has disclosed the process for evaluating the performance of the board, its committees and individual directors.	Yes	See "Nomination Committee" and the Nomination Committee Charter available on API's website under "Corporate Governance".
Principle 3 – Promote ethical and responsible decision making		
Recommendation 3.1: The Company has established a Code of Conduct and disclosed the code or a summary of the code.	Yes	See "Risk Management – Code of Conduct and Ethics" and the Code of Conduct and Ethics available on API's web site under "Corporate Governance".
Recommendation 3.2: The Company has established a policy concerning diversity and has disclosed the policy or a summary of that policy. The policy includes a requirement for the board to establish measureable objectives for achieving gender diversity and to assess annually both the objectives and progress in achieving them.	Yes	See "Achieving Diversity" and the Diversity Policy available on API's website under "Corporate Governance".
Recommendation 3.3: The Company has disclosed in its annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Yes	See "Achieving Diversity".

Recommendation 3.4: The Company has disclosed in its annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Yes	See "Achieving Diversity".
Principle 4 – Safeguard integrity in financial reporting		
Recommendation 4.1: The board has established an audit committee.	Yes	See "Audit and Risk Committee".
Recommendation 4.2: The audit committee has been structured so that it: • consists only of non-executive directors; • consists of a majority of independent directors; • is chaired by an independent chair, who is not chair of the board; and • has at least three members.	Yes	See "Audit and Risk Committee".
Recommendation 4.3: The audit committee has a formal charter.	Yes	See "Audit and Risk Committee" and the Audit Committee Charter which is available on API's website under "Corporate Governance".
Principle 5 – Make timely and balanced disclosure		
Recommendation 5.1: The Company has established written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	See " Communication with Shareholders" and the API Continuous Disclosure Policy available on API's website under "Corporate Governance".
Principle 6 – Respect the rights of shareholders		
Recommendation 6.1: The Company has a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and has disclosed their policy or a summary of that policy.	Yes	See "Communication with Shareholders" and the Shareholder Communication Policy available on API's website under "Corporate Governance".
Principle 7 – Recognise and manage risk		
Recommendation 7.1: The Company has established policies for the oversight and management of material business risks and has disclosed a summary of those policies.	Yes	See "Risk Management".
Recommendation 7.2: The board has required management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board has disclosed that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes	See "Risk Management".
Recommendation 7.3: The board has disclosed whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	See "Risk Management".

Principle 8 – Remunerate fairly and responsibly		
Recommendation 8.1: The board has established a remuneration committee.	Yes	See "Remuneration Committee" and the Remuneration Committee Charter which is available on API's website under "Corporate Governance".
Recommendation 8.2: The remuneration committee is structured so that it: • consists of a majority of independent directors; • is chaired by an independent chair; and • has at least three members.	Yes	See "Remuneration Committee" and the Remuneration Committee Charter which is available on API's website under "Corporate Governance".
Recommendation 8.3: The Company clearly distinguished the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	See the Remuneration Report which forms part of the Directors' Report .

BOARD OF DIRECTORS

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for Directors and senior executives, establishing and monitoring measurable objectives for achieving diversity, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The Board has delegated responsibility for operation and administration of the consolidated entity to the Managing Director and executive management. Responsibilities are delineated by formal authority delegations.

Board Processes, including Induction and Contact with the Business

To assist in the execution of its responsibilities, the Board has established a Remuneration Committee, an Audit and Risk Committee and a Nomination Committee. These committees have written charters. The Board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The Board currently holds eleven scheduled meetings each year, as well as other meetings to address any special matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, the Managing Director and the Company Secretary. Standing items include the Managing Director's report which includes updates on key projects, financial reports, strategic matters, governance and compliance. Papers are circulated in advance. Executives are regularly involved in Board discussions, by invitation.

The consolidated entity has a formal process to educate new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of Directors. Directors also have the opportunity to visit business operations and meet with management, employees and other stakeholders, to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent Professional Advice and Access to Company information

Each director has the right of access to all relevant Group information and to the consolidated entity's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. A copy of the advice received by the Director is to be made available to all other members of the Board.

Composition of the Board

The names of the Directors of the Company in office at the date of this report are set out at the beginning of the Directors' Report.

The composition of the Board is determined using the following principles:

- A minimum of three Directors, with a broad range of expertise in the industries in which the Company operates and government regulation of those industries, or in significant aspects of accounting and finance and risk management;
- A majority of non-executive Directors;
- A non-executive director as Chairman;
- Enough Directors to serve on various committees without compromising their ability to discharge their responsibilities; and
- Re-election of Directors every three years (except for the Managing Director).

Independence of Directors

The ASX Recommendations define an independent director as a director who is not a member of management (a non-executive director) and who:

- Is not a substantial shareholder of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder;
- Has not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
- Within the last three years has not been a principal or employee of a material[1] professional adviser or a material1 consultant to the Company or another group member;
- Is not a material[1] supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly, with a material[1] supplier or customer;
- Has no material[1] contractual relationship with the Company or another group member other than as a director of the Company; and
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially[1] interfere with the director's ability to act in the best interests of the consolidated entity.

[1] The Board considers, 'material', in this context, where any director-related business relationship has represented, or is likely in future to represent the lesser of at least 10% of the relevant segment's or the director-related business revenue. The Board considered the nature of the Company's competition, alternative available services or supplies and the size and nature of each director-related business relationship, in arriving at this threshold.

The Board confirms that all Directors meet the stated requirements for independence as set out in the ASX Recommendations, except that Mr Robinson and Mr Millner are Directors of the Company's major shareholder, Washington H Soul Pattinson and Company Limited. The Board does not consider that this relationship impacts their ability to bring an independent mind and judgement to the Board.

Nomination, Appointment and Retirement of Directors

The Nomination Committee and ultimately the Board is responsible for succession planning, identification and appointment of new Board members and regularly reviews Board membership. The Nomination Committee oversees the appointment and induction process for Directors and committee members, and the Board oversees the selection, appointment and succession planning process of the Company's Managing Director. The Nomination Committee considers the appropriate skill mix, personal qualities, expertise and diversity of Board and committee positions, based on the broad criteria outlined above (see "Composition of the Board"). The Nomination Committee identifies potential candidates with advice from an external consultant. Directors appointed by the Board must stand for election by shareholders at the Company's next annual general meeting.

The Board also conducts an annual review of the performance of the Managing Director and the results are discussed at a Board meeting.

The Nomination Committee will undertake an annual assessment of the Board and its Committee's performance. The assessment:

- Compares the performance of the Board and each Committee with the requirements of the Board and Committee's charter;
- Sets forth the goals and objectives of the Board and Committees for the upcoming year; and
- Effects any improvements to the Board or Committee's charter deemed necessary or desirable.

The Chairman, in conjunction with the Nomination Committee as required, annually assesses the performance of individual Directors and where necessary meets privately with each director to discuss this assessment. The Chairman's performance is reviewed by the Board.

The Managing Director does not participate in the review process for appointment of non-executive Directors, nor in the review of his own performance by the Board.

REMUNERATION COMMITTEE

The Remuneration Committee has a documented charter approved by the Board. The Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, senior executives and non-executive Directors. It is also responsible for share schemes, senior executive incentive programs and a range of employment related matters.

The members of the Remuneration Committee during the year ended 31 August 2014 were:

Mr G J Masters (Chair) – Independent non-executive – appointed 30 January 2014;

Mr M L Hampton (Chair) – Independent non-executive – appointed 2 September 2008, retired 30 January 2014;

Mr R D Millner – Non-executive – appointed 2 October 2007; and

Dr M R Wooldridge – Independent non-executive – appointed 2 October 2007.

The Managing Director is invited to Remuneration Committee meetings, as required, to discuss senior executives' performance and remuneration packages.

The Remuneration Committee formally meets twice a year and otherwise as required.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee has a documented charter, approved by the Board. The Committee's objective is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit and Risk Committee during the year ended 31 August 2014 were:

Ms E C Holley (Chair) – Independent non-executive – appointed 19 December 2006;

Mr M L Hampton – Independent non-executive – appointed 7 August 2007, retired 30 January 2014;

Ms L Ausburn – Independent non-executive – appointed 7 October 2008; and

Mr K Gunderson-Briggs – Independent non-executive - appointed 6 May 2014.

The external auditor, Managing Director and Chief Financial Officer, are invited to the Audit and Risk Committee meetings at the discretion of the Committee.

The Audit and Risk Committee's charter provides procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.

The responsibilities of the Audit and Risk Committee include reporting to the Board on:

- Reviewing the annual and half-year financial reports and other financial information distributed externally. This includes considering the appropriateness of new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Assessing corporate risk assessment processes;
- Monitoring non-audit services provided by the external auditor for consistency with maintaining the external auditor's independence. Each reporting period, the external auditor provides an independence declaration in relation to the year-end audit or half year review;
- Providing advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;
- Reviewing remuneration and effectiveness of performance of the external auditor;
- Assessing the adequacy of the internal control framework and the Company's Code of Conduct and Ethics Policy;
- Assessment of compliance with internal controls to ensure prompt and appropriate rectification of any deficiencies or breakdowns identified; and
- Monitoring the procedures to ensure compliance with the Corporations Act 2001, the ASX Listing Rules and all other regulatory requirements.

The Audit and Risk Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- Discuss the external audit plans, identifying any significant changes in structure, operations, and internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- Review the annual, half-year and preliminary final reports prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results; and
- As required, organise, review and report on any special reviews or investigations deemed necessary by the Board.

NOMINATION COMMITTEE

The Board has established a Nomination Committee and has a documented Charter approved by the Board.

The members of the Nomination Committee during the year ended 31 August 2014 were:

Dr M L Wooldridge (Chair)
– Lead Independent non-executive
– appointed 15 August 2012;

Ms L Ausburn – Independent non-executive
– appointed 15 August 2012;

Mr G J Masters – Independent non-executive
– appointed 15 August 2012; and

Mr R D Millner – Non-executive
– appointed 15 August 2012.

The Nomination Committee monitors and advises the Board on:

- Board composition, competencies and diversity;
- Board succession plans, director induction programs and continuing development;
- The process for evaluating the performance of the Board, the Committees of the Board and individual Directors;
- Board appointments, re-elections and terminations; and
- Other matters referred to the Committee by the Board.

RISK MANAGEMENT

Overview of the Risk Management System

The Board oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing all risks, including material business risks for the consolidated entity (including sustainability risk).

Managing Director and Chief Financial Officer Assurances

The Managing Director and Chief Financial Officer provide an assurance to the Board in respect of the annual and half yearly financial reports. The Managing Director and the Chief Financial Officer have given assurances with respect to this report that:

- The financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively in all material respects;
- The operational and other compliance risk management processes have also been assessed and found to be operating efficiently and effectively in all material respects;
- The consolidated entity's books and records have been adequately maintained; and
- The consolidated entity's financial statements and notes required by the accounting standards, for external reporting, give a true and fair view of the financial position and performance and comply with the accounting standards (and any further requirements in the Corporations Regulations), and applicable ASIC Class Orders.

Risk Profile

Material risks to the operations of the consolidated entity arise from matters including actions by existing and emerging competitors, government policy changes, compliance with government regulation, environment, occupational health and safety, property, pharmacy guarantee arrangements, pharmacists or pharmacy groups failing to honour contractual obligations including trading terms, and the purchase, development and use of information systems.

The Board has the overall responsibility for the consolidated entity's risk management and internal control framework, with delegation to the Audit and Risk Committee to oversee the process and then report back to the Board the status of material risks. The consolidated entity's internal compliance and control systems are designed to ensure effective and efficient operations, including financial reporting and compliance with laws and regulations, with a view to identifying, assessing and managing risk across the consolidated entity's business activities. The internal control systems which have been adopted by the consolidated entity aim to develop a culture which is able to identify, communicate and manage material risk.

The consolidated entity has a full time Risk and Internal Audit Manager to continuously review risk management and compliance with internal controls. This role will be supplemented with assistance from an external accounting firm specialising in risk management, as necessary.

KPMG assists the Board by providing the external audit service.

Quality and Integrity of Personnel

The consolidated entity recognises the importance of training and development, appropriate remuneration and incentives, and regular performance reviews. It also encourages an environment of co-operation and constructive dialogue with employees and senior management. A formal succession process is in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur. Succession planning is supported by a Leadership Development Program which identifies high calibre employees and prepares them for future leadership roles.

Financial reporting

Monthly results are reported against budgets approved by the Directors and revised forecasts for the year are prepared regularly.

Environmental regulation

The consolidated entity's operations are subject to environmental regulation under Commonwealth, State and New Zealand government legislation in relation to its manufacture of pharmaceutical products, retail stores and pharmaceutical distribution facilities.

Pharmaceutical and toiletries product manufacture – manufacturing plants operate under licence requirements relating to waste disposal, water and air pollution.

Wholesale distribution – distribution facilities operate under licence requirements relating to waste disposal, water and air pollution.

The Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any significant breach of these environmental requirements as they apply to the consolidated entity.

Conflict of Interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist Directors to disclose potential conflicts of interest.

Where the Board believes that a conflict exists for a Director on a Board matter, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and consolidated entity are set out in Note 28.

Code of Conduct and Ethics

The consolidated entity has advised each Director, manager and employee that they must comply with the Code of Conduct and Ethics. The Code, which is available on the Company's intranet and website, covers the following:

- Aligning the behaviour of the Board and management with the Code of Conduct and Ethics by maintaining appropriate core Company values and objectives;
- Usefulness of financial information by maintaining appropriate accounting policies, practices and disclosure;
- Fulfilling responsibilities to customers and consumers by maintaining high standards of product quality, service standards, commitments to fair value, and safety of goods produced;
- Employment practices such as occupational health and safety, employment opportunity, the level and structure of remuneration, and conflict resolution;
- Responsibilities to community, such as environmental protection policies, supporting the community activities and sponsorships and donations;
- Responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;
- Fair dealing; and
- Compliance with laws and reporting suspected breaches of laws.

TRADING IN COMPANY SECURITIES BY DIRECTORS AND EMPLOYEES

The key elements of the Company's Securities Trading Policy are:

- Identification of those restricted from trading – Directors, officers and employees may acquire shares in the Company:
  - during the period of fourteen days after the Annual General Meeting;
  - during the period of 60 days following the issue of the annual results and half yearly results;
  - during the period of 60 days following the release of a prospectus by API relating to the issue of shares in the Company; and
  - provided they are not in possession of price sensitive information not yet released to the market.
- Raising the awareness of legal prohibitions;
- Requiring details to be provided of intended trading in the Company's shares; and
- Identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

Directors, officers and employees are prohibited from using margin loans to finance the purchase of shares in the Company or from trading in any financial product issued or created over the Company's shares.

The policy also details the insider trading provisions of the Corporations Act. The Company's policy is promoted to all Directors, officers and employees through publication on the Company's intranet and website.

COMMUNICATION WITH SHAREHOLDERS

The Company has a Shareholder Communication Policy which is designed to:

- Promote effective communication with existing and potential shareholders;
- Ensure ready access to understandable information about the Company including the existence of this policy; and
- Encourage shareholders to participate at Annual General Meetings.

In addition, the Company has a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website and issuing media releases.

In summary, the Continuous Disclosure Policy operates as follows:

- The Company's management is responsible for monitoring and recognising events which may have a material effect on the price or value of the Company's securities and reporting these events to the Managing Director, Chief Financial Officer, or Company Secretary; and
- The Managing Director, Chief Financial Officer and Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX. These matters are advised to the ASX as they are discovered.

The Company's Shareholder Communication Policy and Continuous Disclosure Policy are promoted to all Directors, officers and employees through publication on the Company's intranet and website.

In addition:

- The full annual financial report is available on the Company's website and printed copies are made available to shareholders who elect to receive a copy. This information includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments;
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX;
- All announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX; and
- The external auditor is requested to attend the Annual General Meeting to answer any questions concerning the audit and the content of the auditor's report.

ACHIEVING DIVERSITY

The Company has a Diversity Policy which is designed to clarify the Company's commitment to an inclusive workforce that embraces and promotes diversity in all respects, including gender, age, race, ethnicity, disability and culture. Diversity will strengthen the Company's capacity to meet its objectives. The Company is committed to rewarding performance and providing opportunities that allow all individuals to reach their full potential irrespective of background, difference or gender, and the Company's strong commitment to gender diversity is demonstrated at all levels of the Company.

The Diversity Policy is promoted to all Directors, officers and employees through publication on the Company's intranet and website. It is to be read in conjunction with other relevant policies of the Company.

The Board has the responsibility of establishing and reviewing measurable objectives for achieving diversity. The measurable objectives are reviewed regularly and performance against those objectives will be measured at least annually.

The measurable objectives and progress of performance against achieving these objectives for the year ended 31 August 2014 are noted as follows:

Objectives	Progress Review
Continue to aim for female representation in all areas of API's workforce to be higher than that of the total Australian labour force and ASX 200 companies.	API continues to have higher female participation at the Board, Executive Team and workforce compared to ASX200 and the Australian Labour Force. API will need to focus on attracting and retaining female talent to maintain this objective as the ASX200 is increasing female participation at Board and Executive Team level.
Continue to ensure that API identifies, attracts and retains female talent for all Board and key management vacancies.	There was one Board vacancy in the period which has been filled by Mr Kenneth Gunderson-Briggs and of the four candidates shortlisted, 50% were female. The number of positions on the Executive Team has increased in the period by one with the creation of the General Manager Strategic Planning filled by Mr Robert Macmillan. The creation and appointment of this position was a promotion from an existing role. Promotion of key talent within API (including key female talent where merit and suitability permits) continues to be a priority, together with training and development of females in the workplace (including leadership training).
Continue to identify discrepancies between comparative male and female salaried positions and implement appropriate actions to ensure identified discrepancies are eliminated (with a focus on key talent).	API continues to use an objective process in the valuing of roles and setting of remuneration. The Hay Group Job Evaluation methodology is used to ensure gender neutral role valuation and remuneration is set in accordance with the evaluation and market data. Incumbent's skill and experience is also factored in when setting remuneration.
When recruiting via external advertising methods, include a reference signifying API's commitment to supporting the Workplace Gender Equality Agency requirements.	A reference to EOWW (now the Workplace Gender Equality Agency (WGEA)) is included in external advertising signifying API's commitment to supporting WGEA requirements. In accordance with the requirements of the Workforce Gender Equality Act 2012 (Cth), on 30 May 2014 the Company lodged its annual compliance report with the Workplace Gender Equality Agency. A copy of this report can be found on www.api.net.au under "Corporate Governance".
Continue to promote holistic working practices, including, but not limited to, continuing to offer employee assistance programs, childcare and eldercare kits and improving parental leave return to work arrangements.	Flexibility in work practices and a focus on employee well-being continue to be promoted, including the provision of an employee assistance program (EAP) to all employees and their families and access to detailed childcare and eldercare kits.

CORPORATE SOCIAL RESPONSIBILITY

The Company has continued its involvement with the Priceline Sisterhood and has supported the establishment of The Priceline Sisterhood Foundation as a public ancillary fund registered with the Australian Charities and Not-for Profits Commission and registered with the ATO as a deductible gift recipient. The Sisterhood Foundation Board has a majority of independent directors who are responsible for deciding the strategic direction of the Foundation as well as determining appropriate policies dealing with fund raising and distribution of funds to chosen diverse charities.

REMUNERATION REPORT – AUDITED

The API Board is committed to transparent disclosure of its remuneration strategy and this report details the processes used in remuneration decisions and their outcomes for Key Management Personnel for the 2014 financial year. This report is prepared in accordance with Section 300A of the Corporations Act 2001 (as amended) for the Company and its subsidiaries.

In the financial year, the Board engaged Guerdon Associates as its independent external remuneration consultant to undertake a review of Executive Remuneration and Executive Incentive Plans (excluding the Managing Director and Chief Executive Officer). The Guerdon Associates analysis was based on public disclosures, policy information provided by management, business strategies and value drivers, and supplemented with an assessment of market practices. The review was undertaken to ensure that the respective Executive Remuneration and Executive Incentive Plans are consistent with market practice, focus on results controllable and achievable by management, manage risk, balance short-term and long-term priorities, ensure reward varies with performance, and delivers added shareholder value.

As a result of this review, a number of changes were approved by the API Board to be implemented effective from the commencement of the 2014-2015 financial year.

With respect to Executive Remuneration, Guerdon Associates concluded the API executive incentive opportunity is lower than is the case for peer executives, resulting in lower positioning of total remuneration than for fixed remuneration for most positions, and less variability of remuneration with performance.

With respect to Executive Incentive Plans, the main changes suggested by Guerdon Associates and approved by the Board are summarised as follows:

1. Short Term Incentive Plan (STIP) – To maximise management focus and motivation, set threshold and maximum STIP performance requirements that are reasonably attainable;
2. Long Term Incentive Plan (LTIP) –
   a. To ensure a time focus appropriately balanced between short term and long term performance, increase the proportion of LTIP as a percentage of fixed remuneration;
   b. To ensure a more balanced view of performance, risk diversification, and a renewed focus on growth, include an additional performance measure of target 3 year compound annual earnings per share (EPS) growth along with the existing performance measure of return on equity (ROE); and
   c. Minimise the prospect of excessive risk taking by modifying the current vesting scale to reduce the extent of cliff vesting for reaching threshold performance levels.

More details regarding the changes to STIP and LTIP arrangements for the 2013-2014 financial year and changes to STIP and LTIP for the 2014-2015 financial year can be found in Section 2 of the Remuneration Report.

Key Management Personnel

Key Management Personnel (KMP) have the authority and responsibility for planning, directing and controlling the activities of the consolidated entity and comprise the following Non-executive Directors, Managing Director, Chief Financial Officer and Senior Executives:

KMP Non-executive Directors

Peter Robinson	Chairman
Lee Ausburn	Director
Miles Hampton	Director (retired 30 January 2014)
Carol Holley	Director
Gerard Masters	Director
Robert Millner	Director
Michael Wooldridge	Director
Kenneth Gunderson-Briggs	Director (appointed 6 May 2014)

KMP Senior Executives

Stephen Roche	Managing Director and Chief Executive Officer
Graeme Fallet	Chief Financial Officer
Peter Sanguinetti	Company Secretary and Chief Legal Counsel
Richard Vincent	Group General Manager, Business Development & Operations
Stephen Arthurson	General Manager, People

This report has been audited by the Company's Auditor, KPMG as required by Section 308(3C) of the Corporations Act 2001.

The Remuneration Committee is governed by its Charter (available on www.api.net.au) which was developed in line with ASX Corporate Governance Principles and Recommendations. The Charter specifies the purpose, authority, membership and activities of the Remuneration Committee, and the Charter is annually reviewed by the Committee to ensure it remains consistent with regulatory requirements.

Membership of the Committee consists of Non-executive Directors. During 2013-2014 members of the Committee were Miles Hampton (Chair), Michael Wooldridge and Robert Millner. Mr Hampton retired as Chairman of the Committee on 30 January 2014 and Mr Gerard Masters was appointed Chair of the Remuneration Committee effective 30 January 2014.

The Remuneration Report is in sections as follows:

Section 1 – Non-executive Director Remuneration

- **A.** Policy and Principles
- **B.** Remuneration Details (excluding the Chief Executive Officer)

Section 2 – Executive Remuneration

- **A.** Policy and Principles
- **B.** Remuneration Structure
- **C.** Short Term Incentive Plan (STIP)
- **D.** Long Term Incentive Plan (LTIP)
- **E.** Summary of Employment Contracts
- **F.** Remuneration Details (including the Chief Executive Officer)

Section 3 – Other matters

- **A.** Comments on Remuneration Report at the Company's most recent AGM
- **B.** Appointment of Remuneration Consultant

SECTION 1 NON-EXECUTIVE DIRECTOR REMUNERATION

A. Policy and Principles

Non-executive Directors' fees are determined within an aggregate Non-executive Directors' pool limit. An annual total fee pool of $850,000 was approved by shareholders at the 30 January 2014 Annual General Meeting. Total Non-executive Directors remuneration including Board Committee fees, non-monetary benefits and superannuation paid at the statutory prescribed rate for the year ended 31 August 2014 was $633,169 which is within the approved annual fee pool. This is a 10.8% increase on prior, and attributable to an increase in base board and committee fees. The increase was made to move fee levels more towards median market rates, so better position the Company for ongoing director attraction and retention. Further adjustments may need to be made in future to reach median levels.

Non-executive Directors' remuneration is based on the advice of independent remuneration consultants, the need to attract and retain appropriately qualified Non-executive Directors, fee levels applied in similarly sized companies, and board judgement as to whether any adjustments are appropriate. Non-executive Directors do not receive performance related remuneration.

Under the Board's Retirement Scheme, which was approved by Shareholders at the 1994 AGM, retiring Non-executive Directors are paid on a pro-rata basis up to ten (10) years' service to a maximum of three (3) times the average annual remuneration in the three (3) years preceding retirement. The retirement benefit is capped at $220,000 per Director and applies only to Directors appointed prior to 9 September 2003. The Directors have agreed to freeze this benefit as at 31 August 2009.

Annual Board fees (including superannuation) were structured as follows with effect from March 2014:

Role	Annual Fee Structure
Board chairman	$170,000
Board member	$80,000
Audit and Risk Committee chair	$35,000
Audit and Risk Committee member	$6,000
Remuneration Committee chair	$12,500
Remuneration Committee member	$6,000
Nomination Committee chair	(no fee)
Nomination Committee member	(no fee)
Lead Independent Director	$12,500

The Board Chairman does not receive Committee fees.

B. Remuneration of Directors (excluding the Chief Executive Officer)

	Short Term											
DIRECTORS	Salary & Fees $	Cash - Short-term incentives $	Non-monetary benefits $	Total $	Post-employment superannuation contributions $	Other long term $	Termination payments $	Equity Value of rights granted under STIP $	Equity Value of rights granted under LTIP $	Total $	Proportion of remuneration performance related %	Value of rights as proportion of remuneration %
Non-executive												
Mr P R Robinson												
31 August 2014	147,653	–	2,467	150,120	13,723	–	–	–	–	163,843	–	–
31 August 2013	139,700	–	1,567	141,267	12,631	–	–	–	–	153,898	–	–
Mr R D Milner												
31 August 2014	67,960	–	–	67,960	6,319	–	–	–	–	74,279	–	–
31 August 2013	57,200	–	–	57,200	5,172	–	–	–	–	62,372	–	–
Dr M R Wooldridge												
31 August 2014	79,180	–	–	79,180	7,362	–	–	–	–	86,542	–	–
31 August 2013	68,200	–	–	68,200	6,166	–	–	–	–	74,366	–	–
Ms E C Holley												
31 August 2014	92,232	–	–	92,232	8,575	–	–	–	–	100,807	–	–
31 August 2013	79,200	–	–	79,200	7,161	–	–	–	–	86,361	–	–
Mr M L Hampton (resigned 30 January 2014)												
31 August 2014	28,417	–	–	28,417	2,629	–	–	–	–	31,046	–	–
31 August 2013	68,200	–	–	68,200	6,166	–	–	–	–	74,366	–	–
Ms L Ausburn												
31 August 2014	67,960	–	–	67,960	6,319	–	–	–	–	74,279	–	–
31 August 2013	57,200	–	–	57,200	5,172	–	–	–	–	62,372	–	–
Mr G Masters												
31 August 2014	67,163	–	1,234	68,397	6,254	–	–	–	–	74,651	–	–
31 August 2013	52,000	–	783	52,783	4,702	–	–	–	–	57,485	–	–
Mr K Gunderson-Briggs (appointed 6 May 2014)												
31 August 2014	25,345	–	–	25,345	2,377	–	–	–	–	27,722	–	–
31 August 2013	–	–	–	–	–	–	–	–	–	–	–	–

Retirement benefits for Non-executive Directors are included on an accrual basis. They are paid on a pro rata basis up to 10 years' service to a maximum of three times the average annual remuneration in the three years preceding retirement. The retirement benefit is capped at $220,000 and does not apply to Directors first appointed after 9 September 2003. On 31 August 2009 the Directors agreed to freeze this benefit. Other long term benefits shown for the Executive Director and Executives are the amounts charged against profits for the year for accrued Long Service Leave Entitlements.

SECTION 2
EXECUTIVE REMUNERATION INCLUDING THE MANAGING DIRECTOR

A. Policy and Principles

API's remuneration strategy is to:

- Offer a remuneration structure that will attract, focus, retain and reward highly capable people;
- Ensure that remuneration decisions are based on a fair and transparent job evaluation process that is linked to comparative market data and the experience of the individual in the position;
- Have a clear and transparent link between performance and remuneration;
- Encourage and integrate risk management within the reward framework; and
- Build employee engagement and align management and shareholder interests through the ownership of Company shares.

Executive remuneration is set with regard to the size and nature of the position with reference to market median benchmarks and the performance of the individual.

Remuneration will incorporate at risk elements to:

- Link Executive reward with the achievement of API's business objectives and financial performance; and
- Ensure total remuneration is competitive by market standards.

The Committee has the role of reviewing and making recommendations to the Board on Executive remuneration at API. The Remuneration Committee obtains independent advice on the appropriateness of remuneration levels given trends in comparable companies. The Remuneration Committee, in general, obtains this independent advice every second year, however is authorised to seek advice if and when required.

B. Remuneration Structure

The Executive Remuneration Framework as it applies to the Managing Director and Senior Executives comprises:

- Fixed Remuneration; and
- Performance linked remuneration in the form of a Short Term Incentive Plan (STIP) and a Long Term Incentive Plan (LTIP).

During the year, the Company engaged Guerdon Associates to review its executive remuneration practices and incentive plans. Guerdon Associates' analysis included a comparison of executive remuneration to a peer group of companies primarily from the consumer discretionary and consumer staples sectors.

Fixed Remuneration

Fixed remuneration is a guaranteed salary level inclusive of any Fringe Benefits Tax (FBT), charges related to employee benefits including motor vehicles and employer contributions to Superannuation Funds.

Fixed remuneration levels are reviewed annually. Fixed remuneration levels are set in reference to each position's accountability and the median level for similar jobs in the market. Any adjustment needs to also consider individual segment results and overall performance of the consolidated entity. In addition, external consultants provide analysis and advice to ensure that the Managing Director and Senior Executives' remuneration is appropriate given market practice.

Performance Linked Remuneration

Performance linked remuneration includes both short term and long term incentives and is designed to reward the Managing Director and Senior Executives for meeting or exceeding their financial and non-financial objectives. The short term incentive is provided in the form of a cash payment and deferred rights to acquire shares while the long term incentive is provided as deferred rights to acquire shares ("Performance Rights").

The Group has a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. Entering into such arrangements has been prohibited by law since 1 July 2011.

C. Short Term Incentive Plan (STIP)

The STIP is an annual at risk incentive plan for the Managing Director and Senior Executives at API. Prior to the start of the Company's financial year the Remuneration Committee decides the size of the STIP pool which is the maximum amount payable under the STIP. The size of the pool is determined by the Committee as a percentage of target EBIT for the year. Prior to any payment under the STIP, company performance must pass an acceptable minimum gateway Group Net ProfitAfter Tax before associates (NPAT) requirement.

At the start of each year the Remuneration Committee sets a 'scorecard' of performance conditions for the STIP as follows:

- NPAT; and
- Other financial and non-financial measures tailored for each business segment.

Other performance measures vary by business segment, however each scorecard includes a measure related to Earnings Before Interest and Tax (EBIT), Return on Net Assets (RONA), Return on Capital Employed (ROCE) and, in relation to Supply Chain, overall cost measurement. Multiple measures of performance help diversify risk.

Each year, the Board establishes NPAT performance hurdles of which base, target and maximum STIP entitlements will be payable. The current practice is that base equates to budget less 10%, the target equates to budget and the maximum equates to 130% of budget.

At the conclusion of the year the Board assesses performance against Group and Segment Scorecards with 80% of the total maximum percentage based on key financial objectives and 20% based on individual objectives. Prior to any consideration of a STIP payment, the company must meet a base NPAT performance, usually set as 90% of the target NPAT. The Board has discretion for a STIP payment where achievement is between base and target NPAT levels.

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 12 months have resulted in sustainable Company benefit. The API Board has the discretion to clawback any unvested rights due to excessive risk taking, material misstatement of financial statements or fraudulent or gross misconduct.

The precise number of performance rights granted will be determined by dividing the value of the deferred component of the STIP award by the volume weighted average sale price of API shares on the ASX in the 10 day period after announcement of full year results. Rights granted will include additional rights to shares that would otherwise accrue from dividend reinvestment during the vesting period. No dividends are received by employees on unvested rights.

On vesting and exercise of a performance rights, an employee will be provided with fully paid ordinary shares in API. No amount will be payable for the API shares upon vesting and exercise of the performance right.

More broadly, the Board retains absolute discretion over all awards made under the incentive award plans at API, including the STIP.

Managing Director and Chief Executive Officer

At base, Mr Roche's STIP equates to 32.5% of fixed remuneration, at target it equates to 65% of fixed remuneration and if NPAT is at a level that is 130% of budget, the STIP provides for a maximum payment of 100% of fixed remuneration.

Mr Roche's STIP scorecard is varied by the Board from year to year and is drawn from financial measures such as NPAT (before associates), ROE and return on capital employed. Non-financial measures may include retail sales growth, Priceline Pharmacy network growth, pharmacy distribution market share and set improvement targets relating to workplace safety.

During the 2013-14 financial year there was no Short Term Incentive payment awarded to the Managing Director, given that NPAT did not pass the minimum NPAT gateway. Although the board has discretion in these matters considering the strong underlying performance, discretion was not exercised given Mr Roche's position as a Director.

Senior Executives

At base, Senior Executives STIP equates to 10% of fixed remuneration, at target it equates to 20% of fixed remuneration and if NPAT is at a level that is 130% of budget, the STIP provides for a maximum of 40% of fixed remuneration. The Remuneration Committee determines the financial measures for Senior Executives STIP which includes divisional EBIT, ROCE and in the case of Supply Chain, operating costs. The Managing Director is responsible for setting non-financial measures relating to each senior executive.

During the 2013-14 financial year, NPAT did not meet the minimum NPAT gateway permitting STI payments to be made. However, after consideration of the quality in the underlying earnings result, and a judgement as to the extent of each executive's service period and accountability for the impairment contributing to the NPAT result, the Board exercised its discretion to award the following Short Term Incentive payments to the Senior Executives.

In making the Short Term award to the Senior Executives, the Board had regard to the following factors:

- Underlying* net profit after tax of $31.7 million, up 32.5% on the prior year. This exceeded the Board's expectations;
- Priceline and Priceline Pharmacy 6% like for like sales growth. This exceeded the Board's expectations;
- Pharmacy Distribution underlying revenue growth of 11.9% excluding PBS reforms. This met the Board's expectations;
- Supply chain average unit cost improved by 7%. This exceeded the Board's expectations;
- Group earnings before interest, tax and associates (before impairments) up 16.5%. This exceeded the Board's expectations;
- Group financing costs 15% lower, along with the refinancing of the Group's cash advance and securitisation facilities. This met the Board's expectations;
- Underlying ROFE* and ROE* up 324 basis points and 246 basis points respectively. This exceeded the Board's expectations.
- NZ business unit performance was below the Board's expectations.

** To be read in conjunction with the Appendix 1 in the Full Year Results presentation and the Appendix 4E for the financial year ended 31 August 2014.*

EXECUTIVES	Maximum STIP Opportunity as a % of Fixed Remuneration %	STIP Forfeited %	STIP Awarded %	STIP Cash Entitlement $	STIP Deferred Equity[1] $
Mr R Vincent – Group General Manager, Business Development & Operations					
31 August 2014	40.0%	50.0%	50.0%	56,884	56,884
31 August 2013	40.0%	100.0%	–	–	–
Mr P Sanguinetti – Company Secretary and Chief Legal Counsel					
31 August 2014	40.0%	50.0%	50.0%	38,044	38,044
31 August 2013	40.0%	100.0%	–	–	–
Mr G Fallet – Chief Financial Officer					
31 August 2014	40.0%	50.0%	50.0%	47,160	47,160
31 August 2013	40.0%	100.0%	–	–	–
Mr S Arthurson – General Manager, People					
31 August 2014	40.0%	47.2%	52.8%	37,500	37,500
31 August 2013	40.0%	100.0%	–	–	–

1. 50% of the deferred equity has been recognised in remuneration for the year in accordance with AASB 2 Share Based Payments.

Guerdon Associates STIP Review

As a result of a review by Guerdon Associates undertaken in 2014, the Board has determined that for STIP performance scorecard measures established after 1 September 2014, the maximum STIP hurdle has been adjusted from 130% of budget NPAT to 110% of budget NPAT. This adjustment recommended by Guerdon Associates will bring STIP performance measures into line with market practice while providing a realistic, motivating and achievable, but stretch, requirements for maximum STIP to be paid. It is considered budget is a stretch target, and a maximum performance level of 110%, whilst difficult to achieve, is nevertheless achievable and therefore motivating. The prior maximum of 130% was deemed unachievable and therefore demotivating.

D. Long Term Incentive Plan (LTIP)

The Remuneration Committee has responsibility for API's Long Term Incentive Plan (LTIP). The Plan was established during the year ended 30 April 2006. The Remuneration Committee is responsible for awards to be granted under the Plan as well as overseeing administration of the Plan. Part of the administration is the determination of the performance conditions associated with each grant. The LTIP involves the granting of rights to acquire API shares.

Rights are granted to the Managing Director and Chief Executive Officer (which are subject to approval at the following AGM) and to Executives as soon as practicable after the full year results are announced. This ensures that the allocation of rights reflects the market's best informed assessment of company value and share price. The number of Rights granted is derived by calculating a value representing the relevant percentage of a participant's Fixed Remuneration, and dividing that value by the unit value per Right. This unit value is determined by calculating the 10 day Volume Weighted Average Closing Price of API shares immediately after announcement of full year results. To enhance shareholder alignment the number of performance rights also includes additional rights to shares that would otherwise accrue from dividend reinvestment during the three (3) year vesting period. Executives do not receive dividends on unvested shares.

If performance conditions are satisfied, the Rights vest and convert to API shares on a one-for-one basis. If performance conditions are not met, the Rights lapse. Under the LTIP, shares can be purchased on market on behalf of the participant or new shares issued by the Company. If any vesting is satisfied through the achievement of performance criteria, a participant will be provided with shares in API. Performance conditions will be tested only once and any Performance Rights that do not meet the performance conditions will lapse and will not be re-tested. The Company has a policy whereby directors and employees are prohibited from dealing in financial products issued or created over or in respect of securities (e.g. hedges or derivatives) which have the effect of reducing or eliminating the risk associated with any equity incentives that may be offered from time to time.

If a member of the KMP ceases to be employed before the end of the Performance Period for reasons other than redundancy, death, disability or illness, then the Performance Rights will automatically lapse, subject to Board discretion. If a member of the KMP ceases to be employed, before the Performance Period and the date of employment ceasing is on or after the first anniversary date of the Commencement Date, due to redundancy, death, disability or illness, then the number of Performance Rights will be reduced pro-rata to reflect the length of time during the Performance Period the member of KMP was employed.

More broadly, the Board retains absolute discretion over all awards made under the incentive award plans at API, including the LTIP.

The LTIP is in the form of a grant of ‘rights to shares’ for exceptional performance over a three year period.

For grants made prior to 31 August 2014, the performance condition is based on the actual Return on Equity (ROE) achieved by the consolidated entity during the three (3) year period commencing at the beginning of the performance period when compared to the target ROE set by the Board for the same period (Target ROE). In both cases, ROE is expressed as a percentage created by dividing the net profit after tax for the relevant financial period by total shareholder equity for the relevant financial year.

The target ROE is derived from the Corporate Plan for the three (3) years commencing at the beginning of the performance period.

Managing Director and Chief Executive Officer

The LTIP provides for Performance Rights equivalent in value to 40% of Fixed Remuneration.

Senior Executives

The LTIP provides for Performance Rights equivalent in value to 25% of Fixed Remuneration.

2011 grant

During the 2013-14 financial year the 1,766,393 Performance Rights relating to the 2011 grant lapsed as the hurdles set for this grant were not achieved.

2012 grant

At 22 February 2013, performance rights (the 2012 grant) were granted with a performance period commencing on 1 September 2012 and ending 31 August 2015. Performance rights granted to the Managing Director and Chief Executive Officer were approved by shareholders at the 2012 Annual General Meeting. The performance condition, being API’s return on equity (ROE) for the exercise of performance rights will be assessed at the Remuneration Committee meeting after 31 August 2015, being the end of the performance period.

The ROE performance condition has the effect that:

- if a cumulative ROE of 21.35% is achieved for the three year period ending 31 August 2015, then 50% of the Rights will vest;
- if a cumulative ROE of 25.62% is achieved for the three year period ending 31 August 2015, then 100% of the Rights will vest; and
- if the cumulative ROE is between these two levels, then the number of rights that vest will be calculated on a straight line proportional basis.

2013 grant

At 10 December 2013, performance rights (the 2013 grant) were granted with a performance period commencing on 1 September 2013 and ending 31 August 2016. Performance rights granted to the Managing Director and Chief Executive Officer were approved by shareholders at the 2014 Annual General Meeting. The performance condition, being API’s return on equity (ROE) for the exercise of performance rights will be assessed at the Remuneration Committee meeting after 31 August 2016, being the end of the performance period.

The ROE performance condition has the effect that:

- if a cumulative ROE of 21.35% is achieved for the three year period ending 31 August 2016, then 50% of the Rights will vest;
- if a cumulative ROE of 25.62% is achieved for the three year period ending 31 August 2016, then 100% of the Rights will vest; and
- if the cumulative ROE is between these two levels, then the number of rights that vest will be calculated on a straight line proportional basis.

Guerdon Associates LTIP Review

As a result of a review by Guerdon Associates undertaken in 2014, the Board has determined to make the following changes for grants of LTIP performance rights made after 1 September 2014:

- Increase the LTI proportion of total remuneration;
- Include an additional earnings per share growth performance measure; and
- Modify the vesting scale to reduce the proportion that will vest at threshold performance.

The proportions of total remuneration currently provided through the LTIP are less than market standards for a company the size of API. This change will permit levels of executive total remuneration to be better aligned with market levels. This will improve the attraction and retention potential of the remuneration package. The focus on both long term and short term performance will be re-balanced to minimise risks that otherwise may arise from “short-termism”. As gearing levels come down and earnings momentum improves, the additional incentive for longer term performance and the addition of an EPS growth measure which is reliant on factors that management can influence, and is therefore motivating, permits a reward system better balanced for growth from future investment. Accordingly the following changes have been made with effect from 1 September 2014.

Increase the LTIP proportion of total remuneration

Managing Director and Chief Executive Officer

The LTIP proportion of total remuneration will be increased by providing for Performance Rights equivalent in value to 60% of Fixed Remuneration (increased from 40%).

Senior Executives

The LTIP proportion of total remuneration will be increased by providing for Performance Rights equivalent in value to 30% of Fixed Remuneration (increased from 25%).

Additional performance measure.

Total Shareholder Return (TSR) was considered, however given the market sector in which the Company operates, the Board could not determine a suitable comparator peer group of companies to measure performance against. Therefore, an additional target measure of 3 year earnings per share (EPS) compound annual growth (CAGR) will be introduced, in addition to the existing ROE measure. Each of the two measures (EPS and ROE) will contribute equally to a LTIP award. If ROE is achieved and EPS is not achieved, or vice versa, then the total available award would be halved. This means 50% of the award is dependent on the ROE metric, and 50% of the award is dependent on the EPS metric. EPS is derived from the Corporate Plan for the three years commencing at the beginning of the performance period. The EPS performance condition compares the actual EPS growth achieved by the API group during a 3 year performance period, against the target amount of EPS growth set by the Board for the same period. The EPS is the basic earnings per share disclosed in the Income Statement of the Financial Statements of API for each financial year during the performance period. The initial benchmark EPS that serves as the basis for calculating EPS growth, and the target EPS may be varied by the Board in its absolute discretion.

Modification of vesting scale

The scale determining the proportion of performance rights that will vest for specified levels of performance will be modified so that a lower proportion will vest for reaching threshold performance levels. This will reduce the prospect of unacceptable risk taking as threshold performance levels are approached, because the reward will be more graduated and not subject to a large reward cliff. It will be fairer, in that a high incentive is not paid for meeting minimum board requirements, while executives will be more motivated to achieve performance beyond the threshold level, as higher rates of incentive increase are paid for additional performance improvement. No incentive is paid for just missing threshold requirements.

E. Employment Contracts

The Company has entered into service contracts with key management personnel. These contracts outline the components of remuneration paid to them but do not prescribe how remuneration levels are modified from year to year. 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 Company's remuneration policy outlined earlier.

Mr Stephen Roche, the Company's Managing Director and Chief Executive Officer, has a contract of employment with the Company dated 27 September 2006. The contract continues until the employment is terminated in accordance with the contract. The contract states the following in respect of cessation of his employment:-

- Mr Roche may resign from the Company by giving three months written notice;
- The Company may summarily terminate Mr Roche's employment in specified circumstances with immediate effect and no termination benefits will apply other than accrued entitlements; and
- The Company may terminate Mr Roche's employment by the giving of twelve months written notice and may make a termination payment in lieu of notice of up to twelve months fixed remuneration.

Mr Roche is subject to a twelve month non-compete restriction after cessation of his employment.

Mr Roche's service contract has no fixed term.

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

KMP	Terms of Contract	Notice Period by Company	Notice Period by Employee
Graeme Fallet	No fixed duration	6 months*	6 months
Peter Sanguinetti	No fixed duration	6 months	3 months
Richard Vincent	No fixed duration	12 months	3 months
Stephen Arthurson	No fixed duration	6 months*	3 months

* An additional 3 months notice is to be provided by the Company in the event of a successful takeover bid.

The Company may terminate an employment contract without cause by providing written notice, or making a payment in lieu of the notice period. Each employment contract provides for termination of employment without notice in circumstances sufficient to warrant summary termination. Each employment contract provides for a non-compete restriction of up to twelve (12) months after cessation of employment.

F. Remuneration of Executives including the CEO

Details of the nature and amount of each major element of remuneration of each of the Key Management Personnel of the consolidated entity (including the Chief Executive Officer)are:

	Short Term											
	Salary & Fees	Cash -Short-term incentives	Non-monetary benefits	Total	Post-employment superannuation contributions	Other long term	Termination payments	Equity Value of rights granted under STIP	Equity Value of rights granted under LTIP (i)	Total	Proportion of remuneration performance related	Value of rights as proportion of remuneration
EXECUTIVES	$	$	$	$	$	$	$	$	$	$	%	%
Mr S P Roche – Managing Director and CEO												
31 August 2014	910,723	–	15,834	926,557	17,943	22,996	–	–	107,494	1,074,990	10.0	10.0
31 August 2013	880,940	–	4,987	885,927	16,687	21,300	–	–	67,051	990,965	6.8	6.8
Mr R Vincent – Group General Manager, Business Development & Operations												
31 August 2014	547,855	56,884	2,615	607,354	17,943	13,796	–	28,442	41,216	708,751	17.9	9.8
31 August 2013	529,609	–	1,970	531,579	16,687	13,152	–	–	7,127	568,545	1.3	1.3
Mr P Sanguinetti – Company Secretary and Chief Legal Counsel												
31 August 2014	359,775	38,044	1,234	399,053	17,943	8,930	–	19,022	27,489	472,437	17.9	9.8
31 August 2013	344,506	–	–	344,506	16,687	38,670	–	–	1,349	401,212	0.3	0.3
Mr G Fallet – Chief Financial Officer												
31 August 2014	451,447	47,160	1,234	499,841	17,943	–	–	23,580	34,097	575,461	18.2	10.0
31 August 2013	438,052	–	–	438,052	16,687	–	–	–	1,997	456,736	0.4	0.4
Mr S Arthurson – General Manager, People												
31 August 2014	334,104	37,500	1,234	372,838	17,943	–	–	18,750	25,683	435,214	18.8	10.2
31 August 2013	319,131	–	783	319,914	16,687	–	–	–	2,045	338,646	0.6	0.6

(i) The value of performance rights is calculated at grant date using the Black-Scholes Option Pricing model.
The value is allocated to each reporting period evenly over the performance period.

Specific Bonus and Equity Remuneration Analysis – Audited

Analysis of Performance Rights over Equity Instruments granted as Compensation

Details of the vesting profile of performance rights awarded as remuneration to each key management person are detailed below.

	Performance Rights granted						
	Number	Value	Performance period commences	Included in Remuneration	% Vested in the period	% Forfeited in the period^	Financial period in which grant vests
Executive Director							
Mr S Roche							
LTIP	811,161	194,676	1 September 2011	(129,784)	0%	100%	31 August 2014
	957,774	354,375	1 September 2012	118,125	0%	0%	31 August 2015
	777,088	357,460	1 September 2013	119,153	0%	0%	31 August 2016
Executive Officers							
Mr P Sanguinetti							
LTIP	203,488	48,837	1 September 2011	(32,560)	0%	100%	31 August 2014
	240,848	89,114	1 September 2012	29,705	0%	0%	31 August 2015
	197,893	91,031	1 September 2013	30,344	0%	0%	31 August 2016
STIP Deferred Equity	59,783	38,044	1 September 2013	19,022	0%	0%	31 August 2015
Mr S Arthurson							
LTIP	188,953	45,348	1 September 2011	(30,232)	0%	100%	31 August 2015
	223,968	82,868	1 September 2012	27,623	0%	0%	31 August 2015
	184,516	84,877	1 September 2013	28,292	0%	0%	31 August 2016
STIP Deferred Equity	58,929	37,500	1 September 2013	18,750	0%	0%	31 August 2015
Mr R Vincent							
LTIP	306,977	73,674	1 September 2011	(49,116)	0%	100%	31 August 2014
	364,562	134,888	1 September 2012	44,963	0%	0%	31 August 2015
	295,888	136,108	1 September 2013	45,369	0%	0%	31 August 2016
STIP Deferred Equity	89,389	56,884	1 September 2013	28,442	0%	0%	31 August 2015
Mr G Fallet							
LTIP	255,814	61,398	1 September 2011	(40,932)	0%	100%	31 August 2014
	303,364	112,245	1 September 2012	37,415	0%	0%	31 August 2015
	245,309	112,842	1 September 2013	37,614	0%	0%	31 August 2016
STIP Deferred Equity	74,109	47,160	1 September 2013	23,580	0%	0%	31 August 2015

^ 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.

- The performance rights granted on 24 February 2012 (2011 grant) lapsed on 31 August 2014 without vesting.
- Performance rights were granted on 22 February 2013 with a performance period commencing on 1 September 2012 and ending 31 August 2015 (the 2012 grant). The performance condition for the exercise of performance rights will be assessed shortly after 31 October 2015. The fair value of the performance rights is dependent upon the ROE performance condition for the entire grant and is $0.37 per share.
- Performance rights were granted on 10 December 2013 with a performance period commencing on 1 September 2013 and ending 31 August 2016 (the 2013 grant). The performance condition for the exercise of performance rights will be assessed shortly after on 31 October 2016. The fair value of the performance rights is dependent upon the ROE performance condition for the entire grant and is $0.46 per share.
- Performance rights relating to the STIP program commencing on 1 September 2013 and ending 31 August 2015 have been valued at $0.70 per share reflecting the stock price on the date of Board approval of the STIP payment adjusted for additional rights to shares that would otherwise accrue from dividend reinvestment during the vesting period. Performance rights will only vest if the Executive remains employed with the Company at the exercise date subject to forfeiture conditions.
- The performance rights were provided at no cost to the recipient.

Performance rights over equity instruments

The movement during the reporting period in the number of performance rights over ordinary shares in Australian Pharmaceutical Industries Limited held directly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 Sept 13	Granted as Compensation*	Exercised	Other changes**	Held at 31 Aug 14	Vested during the year	Vested and exercisable at 31 Aug 14
Directors							
Mr S P Roche	1,768,935	777,088***	–	(811,161)	1,734,862	–	–
Executives							
Mr S Arthurson	412,921	243,445	–	(188,953)	467,413	–	–
Mr R Vincent	671,539	385,277	–	(306,977)	749,839	–	–
Mr P Sanguinetti	444,336	257,676	–	(203,488)	498,524	–	–
Mr G Fallet	559,178	319,418	–	(255,814)	622,782	–	–

	Held at 1 Sept 12	Granted as Compensation	Exercised	Other changes**	Held at 31 Aug 13	Vested during the year	Vested and exercisable at 31 Aug 13
Directors							
Mr S P Roche	1,308,161	957,774	–	(497,000)	1,768,935	–	–
Executives							
Mr S Arthurson	363,353	223,968	–	(174,400)	412,921	–	–
Mr R Vincent	574,377	364,562	–	(267,400)	671,539	–	–
Mr P Sanguinetti	394,788	240,848	–	(191,300)	444,336	–	–
Mr G Fallet	495,314	303,364	–	(239,500)	559,178	–	–

** Total KMP grants of 1,982,904 of rights over new issue shares were equal to 0.4% of common shares outstanding*
*** Other changes represent performance rights that expired or were forfeited during the year.*
No options held by key management personnel are vested but not exercisable at 31 August 2013 or 2014.
**** These grants were approved by shareholders at the 2013 Annual General Meeting held on 30 January 2014.*

In shares	Held at 1 September 2013	Purchases	Sales	Held at 31 August 2014
Directors				
Mr P R Robinson	302,168	–	–	302,168
Mr M Hampton (retired 30 January 2014)	200,000	–	200,000[1]	–
Ms E C Holley	16,667	–	–	16,667
Mr R D Millner	1,055,001	100,000	–	1,155,001
Mr S P Roche	676,667	–	–	676,667
Ms L Ausburn	83,334	–	–	83,334
Mr G Masters	218,000	–	–	218,000
Mr K Gunderson-Briggs (appointed 6 May 2014)	–	–	–	–
Executives				
Mr P Sanguinetti	8,334	–	–	8,334

[1] *Shares were sold on 26 May 2014*

The movement during the previous reporting period in the number of ordinary shares of the Company, held directly, indirectly or beneficially, by each key management person, including their personally related parties is as follows:

In shares	Held at 1 September 2012	Purchases	Sales	Held at 31 August 2013
Directors				
Mr P R Robinson	202,168	100,000	–	302,168
Mr M Hampton	200,000	–	–	200,000
Ms E C Holley	16,667	–	–	16,667
Mr R D Millner	955,001	100,000	–	1,055,001
Mr S P Roche	676,667	–	–	676,667
Ms L Ausburn	83,334	–	–	83,334
Mr G Masters	218,000	–	–	218,000
Executives				
Mr P Sanguinetti	8,334	–	–	8,334

Consequences Of Performance On Shareholders' Wealth – Audited

In considering the consolidated entity's performance and the benefits for shareholder wealth, the Remuneration Committee has regard to a range of indicators in respect of senior executive remuneration and linked these to the previously described short and long term incentives.

The following table presents these indicators over 5 periods, spanning 31 August 2010 to 31 August 2014, showing the impact of the Company's performance on shareholder wealth, taking into account dividend payments, share price changes and returns of capital during the financial years:

	31 August 2014	31 August 2013	31 August 2012	31 August 2011*	31 August 2010
Net profit/(loss)after tax ($ thousand)	(90,771)	24,292	30,283	(23,310)	22,646
Dividends paid – cents per share (franked)	3.5	3.25	3.00	2.50	2.50
Share price at	0.59	0.49	0.38	0.23	0.43

** Dividend paid 15 December 2011 (unfranked)*

SECTION 3 OTHER MATTERS REQUIRED BY SECTION 300A CORPORATIONS ACT 2001

A. Comments on Remuneration Report at the Company's most recent AGM

The Company's previous AGM was held on 30 January 2014. At this meeting:

(a) no comments were made on the Remuneration Report that was considered at this AGM;

(b) when the resolution that the Remuneration Report be adopted, at least 75% of the votes cast were in favour of adoption of that report; and

(c) performance rights issued to the Chief Executive Officer and Managing Director were approved.

B. Engagement of Remuneration Consultant

The Committee appointed Guerdon Associates as its independent external remuneration adviser from 2012.

$5,120.00 plus GST was paid in relation to the incentive remuneration review, including the proportions of remuneration to be at risk, which is considered a "remuneration recommendation" under the Corporations Act.

Other payments not considered a "remuneration recommendation" under the Corporations Act totalled $41,221.00 plus GST. These fees were for services in relation to board and director evaluation, market surveys of remuneration data, executive contracts and associated documentation, remuneration report disclosures and associated stakeholder engagement, and other related matters.

All advice provided by Guerdon Associates was provided only to Non-executive Director members of the Committee. Contact with management was permitted to collect and verify data. Otherwise contact was only with Non-executive Directors. All advice in relation to remuneration matters included a statement from Guerdon Associates that the advice was free from the undue influence of key management personnel to whom it may have related. Guerdon Associates only provided services to the Board. It did not receive fees from, or provide services to, management, ensuring there were no conflicts of interest. As a result, the board is satisfied that the advice received was free from the undue influence of key management personnel to whom it related.

The Remuneration Report concludes at this point.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial period were:

- the wholesale distribution of pharmaceutical and associated products;
- retail operations of the brands Priceline and Priceline Pharmacy;
- manufacture of pharmaceutical medicines and consumer toiletries;
- the distribution of pharmaceutical and medical consumable products to hospitals, through its associate CH2 Holdings Pty Ltd, in which the Company holds a 45.5% stake; and
- finance origination and retail services to pharmacists, including the retail banners of Soul Pattinson, and Pharmacist Advice.

The Priceline retail operation and its health and beauty offering remains important to the future growth of the Company. At the same time our wholesale distribution service to pharmacy customers, and our competitive proposition to independent pharmacists through the Soul Pattinson, Pharmacist Advice and API Premium service offerings, positions the Company to deal with challenging retail market conditions and sector reforms.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS.

There were no significant changes in the nature of the activities of the consolidated entity during the period.

DIVIDENDS

A dividend was paid during the year ended 31 August 2014 in respect of the year ended 31 August 2013. The dividend was at the rate of 1.75 cents per share, fully franked. The dividend totalled $8.542 million and was paid on 13 December 2013.

An interim dividend of 1.5 cents per share amounting to $7.322 million, fully franked in respect of half year ended 28 February 2014 was paid out of the Profits Reserve on 6 June 2013.

On 22 October 2014, a final dividend of 2.0 cents per share, fully franked to be paid on 12 December 2014 out of the Profits Reserve amounting to $9.762 million was declared.

EVENTS SUBSEQUENT TO REPORTING DATE

On 22 October 2014, a final dividend of 2.0 cents per share, fully franked to be paid out of the Profits Reserve on 12 December 2014, amounting to $9.762 million was declared.

Other than above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future years.

LIKELY DEVELOPMENTS

The consolidated entity 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.

Further information regarding the business strategies of the consolidated entity and the expected results of those 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 consolidated entity.

DIRECTORS' INTERESTS

The relevant direct and indirect and beneficial interest of each director, in the share capital of the Company, as notified by the Directors to the Australian Securities Exchange in accordance with section 205G(1) of the Corporations Act 2001 at the date of this report is as follows:

	Ordinary Shares	Performance Rights over Ordinary Shares
Mr P R Robinson	302,168	–
Ms E C Holley	16,667	–
Mr R D Millner	1,155,001	–
Mr S P Roche	676,667	1,734,862
Dr M R Wooldridge	–	–
Mr M L Hampton	–	–
Ms L Ausburn	83,334	–
Mr G J Masters	218,000	–
Mr K Gunderson–Briggs	–	–

PERFORMANCE RIGHTS GRANTED TO DIRECTORS AND OFFICERS OF THE COMPANY

Details of the performance rights granted to Directors and officers of the Company are set out in the Remuneration Report.

INSURANCE AND INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the year the Company paid a premium in respect of a contract insuring its Directors and officers against all 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 covers any past, present or future director, secretary, executive officer or employee of the Company and its controlled entities. Further details have not been disclosed due to confidentiality provisions of the contract of insurance. The Directors are each parties to a Director's Access and Insurance Deed. This Deed includes an indemnity by the Company (subject to and to the fullest extent permitted by applicable law) summarised as follows:

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

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

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

NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

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

- All non-audit services were subject to the corporate governance procedures adopted by the Company 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 Company, acting as an advocate for the Company, or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the period are set out below.

In AUD	31 August 2014 $	31 August 2013 $
Audit Services		
KPMG Australia		
– Audit and review of financial reports	595,400	582,170
Overseas KPMG firms		
– Audit and review of financial reports	37,000	38,586
	632,400	**620,756**
Other Services		
Auditors of the Company		
KPMG Australia		
– Other assurance services	29,021	35,465
– Other advisory services	74,749	57,097
Overseas KPMG firms		
– Taxation services	10,994	13,190
Total	**747,164**	**726,508**

LEAD AUDITOR’S INDEPENDENCE DECLARATION

The Lead Auditor’s Independence Declaration is set out on page 37 and forms part of the Directors’ report for the financial year ended 31 August 2014.

ROUNDING OFF OF AMOUNTS

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and the Directors’ report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Sydney, 22 October 2014

Signed in accordance with a resolution of the Directors:

Peter R. Robinson
Director

Lead Auditor's Independence Declaration
under Section 307C of the Corporations Act 2001

KPMG

TO: THE DIRECTORS OF AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 August 2014 there have been:

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

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

KPMG

KPMG

Paul J McDonald

Paul J McDonald
Partner

Melbourne
22 October 2014

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative("KPMG International"), a Swiss entity. Liability limited by a scheme approved under Professional Standards Legislation.

Income Statement

In thousands of AUD	Note	Consolidated Year Ended 31 August 2014	Year Ended 31 August 2013*
Revenue	4	3,345,946	3,166,369
Cost of sales		(2,914,142)	(2,762,118)
Gross profit		**431,804**	**404,251**
Other income and expense	4	6,638	16,661
Warehousing and distribution expenses		(129,594)	(126,814)
Marketing and sales expenses		(168,656)	(166,514)
Administration and general expenses		(75,060)	(71,676)
Significant items			
Non-current receivables impairment		(52,000)	–
Intangible assets impairment	16	(59,000)	–
Result from operating activities		**(45,868)**	**55,908**
Financial income		944	1,090
Financial expenses		(19,024)	(22,373)
Net financing costs	6	**(18,080)**	**(21,283)**
Share of (loss)/profit of associates (net of income tax)	13	(21,096)	403
(Loss)/profit before tax		**(85,044)**	**35,028**
Income tax expense	7	(5,727)	(10,736)
(Loss)/profit for the period		**(90,771)**	**24,292**
Attributable to:			
Equity holders of the Company		(90,771)	24,292
(Loss)/profit for the period		**(90,771)**	24,292
Earnings per share for (loss)/profit attributable to the ordinary shareholders of the Company (cents):			
Basic – (loss)/profit per share	8	(18.6)	5.0
Diluted – (loss)/profit per share	8	(18.6)	5.0

**Re-stated – refer Note 3*

Notes to the Income Statement are annexed.

Statement of Comprehensive Income

In thousands of AUD	Consolidated Year Ended 31 August 2014	 Year Ended 31 August 2013*
(Loss)/profit after income tax for the period	**(90,771)**	**24,292**
Items that will not be reclassified subsequently to the income statement		
Re-measurements of defined benefit liability, net of tax	40	431
Items that may be reclassified subsequently to the income statement		
Exchange fluctuations on translation of foreign operations, net of tax	1,892	4,750
Effective portion of changes in fair value of cash flow hedges, net of tax	734	1,195
Other comprehensive income for the period, net of income tax	**2,626**	**5,945**
Total comprehensive (expense)/income for the period attributable to equity holders of the parent company	**(88,105)**	**30,668**

Notes to the Statement of Comprehensive Income are annexed.

**Re-stated – refer Note 1(f)(i)*

Statement of Financial Position

In thousands of AUD	Note	Consolidated Year Ended 31 August 2014	Year Ended 31 August 2013*
Assets			
Cash and cash equivalents	27	23,526	22,576
Trade and other receivables	9	565,808	560,451
Inventories	10	342,482	335,938
Total current assets		**931,816**	**918,965**
Trade and other receivables	9	32,035	60,297
Investments accounted for using the equity method	13	7,229	28,325
Deferred tax assets	14	33,934	39,738
Property, plant and equipment	15	116,820	121,901
Intangible assets	16	167,232	206,290
Total non-current assets		**357,250**	**456,551**
Total assets		**1,289,066**	**1,375,516**
Liabilities			
Trade and other payables	17	614,614	607,361
Loans and borrowings	18	20,966	24,978
Employee benefits	19	19,485	15,637
Provisions	20	31,261	4,870
Income tax payable	12	502	8,235
Total current liabilities		**686,828**	**661,081**
Trade and other payables	17	8,108	5,695
Loans and borrowings	18	101,828	114,947
Employee benefits	19	5,629	5,172
Provisions	20	5,936	4,934
Total non-current liabilities		**121,501**	**130,748**
Total liabilities		**808,329**	**791,829**
Net assets		**480,737**	**583,687**
Equity			
Share capital	21	566,461	566,461
Reserves		18,940	31,159
Accumulated losses		(104,664)	(13,933)
Total equity		**480,737**	**583,687**

**Re-stated – refer Note 1(f)(i)*

Notes to the Statement of Financial Position are annexed.

Statement of Cash Flows

In thousands of AUD	Note	Consolidated Year Ended 31 August 2014	Year Ended 31 August 2013*
Cash receipts from customers		3,771,907	3,514,701
Cash payments to suppliers and employees		(3,681,977)	(3,412,940)
Cash generated from operations		**89,930**	**101,761**
Interest received		944	1,090
Financing costs paid		(18,757)	(21,674)
Income taxes paid		(7,929)	(14,577)
Net cash from operating activities	27	**64,188**	**66,600**
Cash flows from investing activities			
Proceeds from sale of stores, property, plant and equipment		1,628	783
Acquisition of property, plant and equipment		**(10,863)**	(18,875)
Deferred consideration received		**1,820**	400
Payment for intangibles		(19,263)	(6,223)
Net cash used in investing activities		**(26,678)**	**(23,915)**
Cash flows from financing activities			
Repayment of securitised receivables		(19,763)	(25,157)
(Repayment)/proceeds from borrowings		(486)	277
Payment of finance lease liabilities		(600)	(420)
Dividends paid		(15,864)	(14,643)
Net cash used in financing activities		**(36,713)**	**(39,943)**
Net increase in cash and cash equivalents		797	2,742
Cash and cash equivalents at the beginning of the period		22,576	19,549
Effect of exchange rate fluctuations on cash held		153	285
Cash and cash equivalents at the end of the period	27	**23,526**	**22,576**

Notes to the Statement of Cash Flows are annexed.

Statement of Changes in Equity

In thousands of AUD	Share Capital	Retained Losses	Profits* Reserve	Translation Reserve	Hedging Reserve	Equity Reserve	Total Equity
Balance at 1 September 2013	566,461	(13,933)**	33,041**	(2,342)	(772)	1,232	583,687
Total comprehensive income for the period							
Loss after tax	–	(90,771)	–	–	–	–	(90,771)
Total other comprehensive income	–	40	–	1,892	734	–	2,666
Total comprehensive (expense)/ income for the period	–	(90,731)	–	1,892	734	–	(88,105)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	–	–	(15,864)	–	–	–	(15,864)
Share based payment transactions	–	–	–	–	–	1,019	1,019
Total contributions by and distributions to owners	–	–	(15,864)	–	–	1,019	(14,845)
Balance at 31 August 2014	**566,461**	**(104,664)**	**17,177**	**(450)**	**(38)**	**2,251**	**480,737**

In thousands of AUD	Share Capital	Retained Losses	Profits* Reserve	Translation Reserve	Hedging Reserve	Equity Reserve	Total Equity
Balance at 1 September 2012	566,461	(13,933)**	22,961	(7,092)	(1,967)	1,014	567,444
Total comprehensive income for the period							
Profit after tax	–	–	24,292	–	–	–	24,292
Total other comprehensive income	–	–	431	4,750	1,195	–	6,376
Total comprehensive income for the period	–	–	24,723	4,750	1,195	–	30,668
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	–	–	(14,643)	–	–	–	(14,643)
Share based payment transactions	–	–	–	–	–	218	218
Total contributions by and distributions to owners	–	–	(14,643)	–	–	218	(14,425)
Balance at 31 August 2013	**566,461**	**(13,933)**	**33,041**	**(2,342)**	**(772)**	**1,232**	**583,687**

Notes to the Statement of Changes in Equity are annexed.

**Profits reserve*
The profits reserve represents current year profits transferred to a reserve to preserve the characteristic as a profit and not appropriate them against prior year accumulated losses. Such profits should be available to enable payment of franked dividends in the future should the directors declare by resolution.

***Re-stated – refer Note 1(f)(i)*

Notes to the Consolidated Financial Statements

1. BASIS OF PREPARATION

(a) Reporting Entity

Australian Pharmaceutical Industries Limited (the 'Company') is a company domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange. The summarised information from the Company's financial statements is included in note 11.

The consolidated financial report of the Company included herein comprises the Company and its subsidiaries (together referred to as the 'consolidated entity' or the 'Group') and the consolidated entity's interest in associates. The financial report was authorised for issue by the Directors on 22 October 2014.

(b) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') – including Australian Interpretations and the Corporations Act 2001.

Compliance with IFRS

The financial report of the consolidated entity also complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

(c) Basis of Measurement

The financial report is presented in Australian dollars, which is the Company's and consolidated entity's functional currency.

The financial report is prepared on the historical cost basis except for derivative financial instruments and share based payments which are stated at their fair value.

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(d) Accounting estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements include:

Carrying value of receivables and loans to Pharmacy customers

The consolidated entity assesses whether trade receivables and pharmacy loans are appropriately provided for at each reporting date. These calculations involve estimates and assumptions around specific customers and to the best of management's knowledge impairment of receivables and pharmacy loans have been correctly and fairly recorded as at 31 August 2014. Refer Note 22.

Carrying value of inventory

The consolidated entity assesses whether inventory is recorded at the lower of cost and Net Realisable Value and ensures all obsolete or slow moving stock is appropriately provided for at each reporting date. These calculations involve estimates and assumptions around specific inventories and to the best of management's knowledge inventories have been correctly and fairly recorded as at 31 August 2014.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical and industry experience and lease terms (for leased equipment). Adjustments to useful life are made when considered necessary.

Lease make good provision

The consolidated entity assesses its provision for rehabilitation ("make good provisions") under its lease agreements on distribution centres and support offices at each reporting date. Estimates and assumptions are made in determining the provision as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, cost increases and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at balance date represents the best estimate of the present value of the future make good costs required.

Share based payments

The Company measures the cost of equity settled securities allocated to employees by reference to the fair value of the equity instruments at the date at which they are granted.

For the Executive long term incentive plans, the fair value of the performance share rights is determined using the Black Scholes pricing model.

(e) Going concern basis of accounting

In preparing the Financial Report, the Directors made an assessment of the ability of the consolidated entity to continue as a going concern, which contemplates the continuity of business operations, realisation of assets and settlement of liabilities in the ordinary course of business.

1. BASIS OF PREPARATION (continued)

Based on forecast trading results and cash flows, the Directors believe that the consolidated entity will continue to generate sufficient operating cash flows to meet its funding requirements and debt covenants. However the trading and cash flow forecasts are based on best-estimate assumptions that may or may not occur as expected and are subject to influences and events outside the control of the consolidated entity.

Should the ability of the consolidated entity to realise sufficient cash flows from trading operations be restricted, the consolidated entity will institute additional measures to preserve cash. These may include (but are not limited to) drawing down committed but undrawn debt facilities and restriction of capital and operating expenditures.

In addition to the foregoing, the consolidated entity has long term loans to certain pharmacy customers and has guaranteed the bank facilities of some pharmacy customers. The obligations under these guarantees and the recovery of trade debt and the loans is dependent on the trading results and cash flows of the pharmacy customers and the value of collateral held over the receivables, which are subject to uncertainties arising from general trading conditions, the regulatory environment, and other factors impacting the pharmacy industry.

After making enquiries, and considering the uncertainties described above, the Directors have a reasonable expectation that the consolidated entity has the ability to continue to meet its obligations as they fall due for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial report.

(f) New accounting standards and interpretations

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

(i) Employee Benefits

The adoption of the revised AASB 119 (2011) Employee Benefits effective for the annual reporting period commencing 1 September 2013 has resulted in a change in the accounting for defined benefit superannuation plans. The removal of the corridor method has resulted in the Company recognising all actuarial gains and losses (renamed 're-measurements') immediately in other comprehensive income (OCI). The previous options of deferral (corridor method) or immediate recognition in profit or loss are no longer permitted. Gains and losses recognised in OCI will not be recycled to profit or loss in a subsequent period. The Company has recognised their re-measurements directly in Retained Losses and Profits Reserve for losses and gains, respectively. There was no impact on the income statement or the statement of cash flows.

The impact of these adjustments for the year ended 31 August 2013 is that the previously recognised defined benefit asset has been adjusted to reflect the accumulated re-measurements, and is now shown as a defined benefit asset of $676,000.

Upon application of the amended AASB 119(2011), the group has applied the transition provisions in the Standard requiring retrospective application and as a result the following have been restated:

Consolidated Financial Position as at 31 August 2013 (Comparative Financial Position):

- Trade and other receivables (non-current) have reduced by $624,000
- Deferred tax asset has increased by $186,000
- Trade and other payables (current) have reduced by $5,000
- Reserves (profit reserve) has increased by $431,000
- Accumulated losses have increased by $864,000

Consolidated Statement of Changes in Equity as at 1 September 2012 (earliest comparative period):

- Accumulated losses have increased by $864,000

Consolidated Statement of Changes in Equity as at 1 September 2013 (Opening):

- Reserves (profit reserve) has increased by $431,000
- Accumulated losses have increased by $864,000

(ii) Fair Value Measurement

The adoption of AASB 13 Fair Value Measurement effective for the annual reporting period commencing 1 September 2013 explains how to determine fair value and requires disclosures about fair value measurements. It does not change the requirements regarding which items should be measured or disclosed at fair value.

The Group is not significantly impacted by the new guidance with the only item on the balance sheet requiring valuation being the mark to market valuation of forward rate contracts.

(iii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept.

The amendment does not have any significant impact on the Group's disclosures.

(iv) Presentation of Items of Other Comprehensive Income ("OCI")

AASB 2011-9 makes amendments to a range of Australian Accounting Standards as a result of the issuance of the IASB Standard Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) in June 2011. The amendments:

- Requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments); and
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

Other than the above mentioned presentation changes under amendments to AASB 101 'Presentation of Financial Statements', the application does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Issued standards not yet early adopted

The following standards, amendments to standards and interpretations are available for early adoption but have not been applied in preparing these consolidated financial statements. Those, which may be relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments (applicable to annual reporting periods beginning on or after 1 January 2017)

AASB 9 includes requirements for the classification and measurement of financial assets.

It was further amended by AASB 2010–7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.

(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.

(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in the Income Statement and there is no recycling on disposal of the instrument.

(c) Financial assets can be designated and measured at fair value through the Income Statement at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

(d) Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:

  – The change attributable to changes in credit risk is presented in Other Comprehensive Income; and

  – The remaining change is presented in the Income Statement.

If this approach creates or enlarges an accounting mismatch in the Income Statement, the effect of the changes in credit risk are also presented in the Income Statement. The impact of the new standard on the Group's financial statements has not yet been determined.

AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets (applicable to annual reporting periods beginning on or after 1 January 2014).

1. BASIS OF PREPARATION (continued)

AASB 2013-3 amends the disclosures required by AASB 136 Impairment of Assets to remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment, to require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognised or reversed and to require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed. The amendments to the standard is not expected to have any significant impact to the Group's financial statements.

IFRS 15 Revenue from contracts with customers

The application of IFRS 15 Revenue from contracts with customers will become mandatory for the Group's consolidated financial statements in 2018. The impact of the new standard on the Group's financial statements has not yet been determined.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by all entities in the consolidated entity.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The subsidiaries are fully consolidated from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost, less any impairment, in the Company's financial statements.

(ii) Transactions Eliminated on Consolidation

Intra-group balances, income and expenses and unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are also eliminated, but only to the extent that there is no evidence of impairment.

Accounting policies of the Company and all subsidiaries in the Group are consistent.

(iii) Associates

Associates are those entities for which the consolidated entity has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has an obligation or has made payments on behalf of an associate.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the "Investment in associates" and "Share of associates net profit" accounts.

Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

In the Company's financial statements, investments in associates are carried at cost.

(b) Foreign Currency

(i) Foreign Currency Transactions

Transactions in foreign currencies are initially translated into Australian currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Australian currency at the exchange rate ruling at that date. Foreign exchange gains and losses arising on translation are recognised in the income statement in other income and expense. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Foreign Operations

The assets and liabilities of foreign controlled subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated to Australian currency at foreign exchange rates current at the balance sheet date, while revenues and expenses are translated at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences arising on translation are recognised in other comprehensive income, and taken to the foreign currency translation reserve in equity.

(c) Financial Instruments

(i) Non-derivative Financial Instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Financial instruments subject to material deferred settlement terms are recognised at their present value discounted using an interest rate that reflects the credit risk applicable to the counterparty equivalent to the extent of any underlying security. The unwinding of discounting is recognised in net finance costs

Receivables

The majority of trade debtors are settled within 40-120 days of the invoice date and are carried at amounts due less provision for impairment. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

When receivables are considered to be impaired, the carrying amount of the asset is reduced through the use of a provision for impairment account and the amount of the loss is recognised in profit or loss.

When a trade receivable is uncollectible, it is written off against the provision for impairment account for trade receivables. Subsequent recoveries of amounts previously written off are credited in profit or loss.

Trade payables

Liabilities are recognised for amounts to be paid in the future for goods or services provided prior to the end of the reporting period. Trade accounts payable are normally settled within 30 – 60 days of the invoice date.

Interest bearing liabilities

Interest bearing liabilities are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs.

Cash and cash equivalents

These comprise of cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Derivative Financial Instruments

The consolidated entity sometimes holds derivative financial instruments to hedge its interest rate and foreign currency risk exposures.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequently derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash Flow Hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(iii) Ordinary Shares

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Incremental costs directly attributable to the issue of new shares are recognised as a reduction from equity, net of any related tax benefit.

Dividends

Dividends are recognised as a liability when an obligation to pay a dividend arises, following declaration of the dividend by the Company's Board of Directors.

(iv) Financial guarantees

Financial guarantee contracts are recognised as a financial liability when it becomes probable that guarantees would be called upon in the foreseeable future, for the maximum potential obligation that the consolidated entity has an obligation to meet. The liability is not discounted.

(v) Securitised receivables

Securitised receivables are recognised on the balance sheet to reflect the fact that the consolidated entity assumes risks and rewards of the receivables collection performance.

(d) Property, Plant and Equipment

(i) Recognition and Measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Purchased software that is integral to the functionality of the equipment is capitalised as part of that equipment.

Subsequent expenditure is added to the carrying value of the asset when it is probable that future economic benefits, in excess of the original assessed standard of performance of the existing asset will flow to the operation. All other subsequent expenditure is expensed in the period in which it is incurred.

(ii) Disposal and de-recognition of property, plant and equipment

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the income statement in the period the item is derecognised.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Depreciation

Property, plant and equipment, other than freehold land, are depreciated or amortised on a straight-line basis at various rates dependent upon the estimated average useful life for that asset. The estimated useful lives of each class of asset are as follows:

- buildings 40 years
- plant and equipment 3 – 15 years
- fixtures and fittings 3 – 20 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(e) Intangible Assets and Goodwill

Intangibles are carried 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.

(i) Goodwill

Business Combinations prior to 1 May 2004

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP.

Business Combinations since 1 May 2004

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Acquisition-related costs are recognised in the income statement as incurred.

Goodwill is stated at cost less any accumulated impairment losses. An impairment loss recognised for goodwill is not reversed in subsequent periods.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(ii) Brand Names

Brand names acquired are included in the financial statements at cost less accumulated impairment losses.

Brand names are not amortised as the Directors believe the useful lives of these assets are considered indefinite at this point of time. The consolidated entity's brand names have an unlimited legal life and based on industry experience it is rare for leading brand names to disappear or become commercially or technically obsolete. If an event occurs which results in an impairment of the value of a brand name then the difference between recoverable amount and carrying value is charged against profit and loss in the year in which the event occurred.

Independent valuations of brand names are obtained during the year of acquisition. Expenditure incurred in developing, maintaining and enhancing brand names is charged against profit and loss in the year in which it is incurred.

(iii) 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, whereby 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 consolidated entity 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 in profit and loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Capitalised development are initially recorded at cost and amortised on a straight line basis over the estimated useful lives but not greater than a period of 4 years.

(iv) Software

Capitalised software are 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.

(v) Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition net of any rebates or trade discounts received or receivable. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(g) Impairment

Financial Assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the consolidated entity on terms that the consolidated entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate, including cash flows from the realisation of security held, if applicable.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

In determining the appropriate provision for impairment of pharmacy receivables, consideration is given to financial guarantees provided to individual debtors and debtor groups which are recorded as current liabilities where it is considered probable that the guarantees will be called. In assessing collective impairment the consolidated entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

All impairment losses are recognised in profit or loss.

Non-Financial Assets

The carrying amounts of the consolidated entity's tangible assets, other than inventories (refer Note 2 (f)) and deferred tax assets (refer Note 2 (m)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (refer below).

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated annually and whenever there is an impairment indicator.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed 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 asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Leases

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified operating leases. Assets, subject to finance leases, are capitalised. The initial amount of the lease asset is the lower of fair value and the present value of the minimum lease payments. The corresponding liability represents the future rental obligations net of finance charges. The leased assets are amortised on a straight-line basis over the life of the relevant lease.

Lease liabilities are reduced by repayments of principal. The interest components of lease payments are charged against profit or loss.

Operating leases are not capitalised. Operating lease payments are charged to profit or loss as incurred on a straight-line basis. Lease incentives received are recognised as an integral part of the total lease expense and spread over lease term.

(i) Employee Benefits

(i) Wages, Salaries, Annual Leave and Non-monetary Benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as cars and free or subsidised goods and services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(ii) Long Service leave

The provision for long service leave represents the present value of the estimated future cash outflows to be made by the consolidated entity resulting from employees services provided up to the reporting date. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government bonds at the reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expenses.

(iii) Defined Contribution Plans

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit and loss as incurred.

(iv) Defined Benefit Plans

The consolidated entity's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the yield at the balance sheet date on Commonwealth Government bonds that have maturity dates approximating the terms of the consolidated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit and loss.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, and the return on plan assets (excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual reporting period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

(v) Share-based Payment Transactions

Share Performance Rights granted to employees are recorded at fair value and recognised as an expense with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the options/performance rights reserve. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value of the Share Performance Rights is measured based on the Black-Scholes Option Pricing model for the ROE performance hurdle, taking into account the terms and conditions upon which the instruments were granted.

(j) Provisions

A provision is recognised when the consolidated entity has a present legal or constructive obligation and can be reliably measured as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Onerous leases

A provision for onerous leases is recognised when the expected benefits to be derived by the consolidated entity from a lease contract are lower than the unavoidable cost of meeting its obligations under the lease contract. The provision is measured at the present value of the lower of the expected cost of terminating the lease contract and the expected net cost of continuing with the lease contract.

(ii) Dismantling and Make Good

The provision is the best estimate of the present value of the expenditure required to complete dismantling and make good obligations in relation to properties held under operating leases at the reporting date. Future dismantling and make good costs are reviewed annually and any changes are reflected in the present value of the Make Good provision at the end of the reporting period.

The amount of the provision for future dismantling is capitalised and is depreciated over the useful life. Make Good costs are provided for over the lease term as the make good obligation arises. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(iii) Provision for Sister Club (formerly known as Clubcard)

The provision for Sister Club points which are convertible quarterly by customers in the form of gift vouchers is based upon the expected cost to the consolidated entity on redemption of Sister Club vouchers. A redemption rate is applied based on historical experience and is updated quarterly.

(k) Revenue

(i) Sale of goods

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, usually when goods are delivered to manufacturing and wholesale customers or the point of sale for retail customers.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods, or there is continuing management involvement with the goods. Revenue is recognised net of returns, allowances, trade discounts and volume rebates.

(ii) Community Service Obligation ("CSO")

A Community Service Obligation is an arrangement whereby the government provides a pool of funding which is available to qualifying wholesalers to provide services that would not otherwise be provided by that organisation in the pursuit of its other objectives. In the Group's case this requirement is around minimum delivery obligations Australia wide. The Government provides income to the Group to compensate for the higher expenditure incurred to meet these minimum delivery obligations.

Revenue from CSO is recognised when the consolidated entity has complied with the conditions attached to the obligation and has reasonable assurance that the income will be received

(iii) Other revenue

Membership and brand fees

The Priceline, Soul Pattinson and Pharmacist Advice banner stores pay fees to the Group. These fees entitle the stores to access certain Group's discounts (specifically applicable to banner members) and other benefits including participation in Group catalogue advertising. This revenue is recognised over the period of the year which matches the period over which the services are rendered.

Franchise service charges

This category primarily covers fees billed by the Group to franchisees for various operational services including stores development, lease negotiation, human resource & information technology assistance. This revenue is recognised once the delivery service has been performed.

Marketing services and promotional income

This category relates to income received from suppliers relating to promotional services rendered. This revenue is recognised once the service obligations have been performed.

Loyalty Card (Sister Club formerly known as Clubcard)

A provision for loyalty card deferred revenue is recognised as a reduction in sales revenue when the underlying products or services are sold. The deferred revenue is based on historical loyalty card data and a weighting of all possible outcomes against their associated probabilities. Revenue is then earned when loyalty card awards are redeemed.

(iv) Interest on overdue accounts

Interest revenue is recognised on financial assets on an accrual basis when it is considered probable of being recovered. Interest fee revenue includes interest earned on loans to customers and late fee charges on overdue debtors.

(l) Net Financing Costs

Finance costs are recognised as expenses in the period in which they are incurred, unless directly attributable to the acquisition of, or production of, a qualifying asset which are capitalised as part of the cost of that asset using the weighted average cost of borrowings. Finance costs include:

- interest on bank overdrafts, short-term and long-term borrowings;
- interest payable on debtors' securitisation programs;
- finance lease charges; and
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

(m) Income Tax

Income tax on the profit or loss for the year comprises 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 is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that arises in a transaction that is not a business combination and affects neither accounting nor taxable profit at the time of the transaction, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that the sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(n) Operating Segment

An operating segment is a component of the consolidated entity 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 consolidated entity's other components. All operating segments' operating results are regularly reviewed by the consolidated entity's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment to the gross profit level.

3. OPERATING SEGMENTS

AASB 8 Operating Segments requires a management approach under which segment information is presented on the same basis as that used for internal reporting provided to the Chief Operating Decision Maker (CODM) of the Group. The CODM has been identified as the Chief Executive Officer (CEO).

For internal reporting and risk management purposes, the consolidated entity is divided into three reportable segments as described below. The reportable segments offer different products and services, and are managed separately because they require different marketing strategies. For each of the reportable segments, the CEO reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the consolidated entity's reportable segments:

Pharmacy Distribution

Australia – Distribution of pharmaceutical and medical products to pharmacies, provider of retail services to pharmacy customers.

Retailing

Australia – The purchase and sale of various health, beauty and lifestyle products within the retail industry in Australia.

Manufacturing

New Zealand – Manufacturer and owner of rights of pharmaceutical medicines and consumer toiletries.

Monthly management reports provided to the CEO report business units at a gross margin level only, with functional costs not allocated by business unit.

Gross profit consists of the following:

Pharmacy Distribution

Gross profit from sales inclusive of Community Service Obligation income, banner membership fees and other Pharmacy services.

Retailing

Gross profit from sales inclusive of franchise fees, Sister Club income and net advertising recoveries.

In thousands of AUD	Distribution Australia Aug 14	Distribution Australia Aug 13	Retailing Australia Aug 14	Retailing Australia Aug 13	Manufacturing New Zealand Aug 14	Manufacturing New Zealand Aug 13	Eliminations Aug 14	Eliminations Aug 13*	Consolidated Aug 14	Consolidated Aug 13***
Revenue										
External revenue	2,400,587	2,310,043	751,653	676,547	36,093	34,864	–	–	3,188,333	3,021,454
External services	87,419	84,604	70,194	60,311	–	–	–	–	157,613	144,915
Inter–segment revenue**	–	–	–	–	9,503	8,885	(9,503)	(8,885)	–	–
Total segment revenue	2,488,006	2,394,647	821,847	736,858	45,596	43,749	(9,503)	(8,885)	3,345,946	3,166,369
Reportable segment gross profit	214,473	200,297	197,276	184,693	20,055	19,261	–	–	431,804	404,251
Reportable segment profit	–	–	–	–	971	2,988	–	–	–	–

** The prior period has been adjusted to correct inter-segment revenue eliminations. For the year ended 31 August 2013, this reclassification had the impact of decreasing inter-segment revenue by $10.9 million.*
*** All inter- segment sales are on an arm's length basis.*
**** The prior period has been adjusted to reclassify rebates from revenue to cost of sales in accordance with accounting policy 2(f). This reclassification had the impact of decreasing both external services revenue and cost of sales by $19.8 million.*

Reconciliation of reportable segment profit

In thousands of AUD	Year ended 31 August 2014	Year ended 31 August 2013
Total profit for reportable segments	431,804	404,251
Unallocated amounts		
Other income and expense	6,638	16,661
Warehousing and distribution expenses	(129,594)	(126,814)
Marketing and sales expenses	(168,656)	(166,514)
Administration and general expenses	(75,060)	(71,676)
Significant items		
Non-current receivables impairment	(52,000)	–
Intangible assets impairment	(59,000)	–
Results from operating activities	**(45,868)**	**55,908**
Net financing costs	(18,080)	(21,283)
Share of (loss)/profit of equity accounted investments	(21,096)	403
Consolidated (loss)/profit before tax	**(85,044)**	**35,028**

4. REVENUE, OTHER INCOME AND EXPENSE

In thousands of AUD	Year Ended 31 August 2014	Year Ended 31 August 2013*
Revenue		
Sales revenue	3,188,333	3,021,454
Service revenue	157,613	144,915
	3,345,946	3,166,369
Other income and expense		
Gain on disposal of stores, property, plant and equipment	1,093	539
Interest fee income	5,441	16,382
Net foreign exchange gain/(loss)	104	(260)
	6,638	**16,661**

*Re-stated – refer Note 3

5. PERSONNEL EXPENSES

In thousands of AUD	Year ended 31 August 2014	Year ended 31 August 2013
Wages and salaries	158,884	151,958
Other associated personnel expenses	15,511	15,329
Contributions to defined contribution superannuation funds	11,787	10,683
Expenses related to defined benefit superannuation funds	61	92
Equity settled share based payment transactions	1,019	218
	187,262	**178,280**

6. FINANCE INCOME AND COSTS

Recognised in Profit and Loss

In thousands of AUD	Year ended 31 August 2014	Year ended 31 August 2013
Interest income on bank deposits	922	1,068
Other interest income	22	22
Finance income	**944**	**1,090**
Interest expense	(9,882)	(13,271)
Borrowing costs	(4,555)	(4,791)
API Rewards	(4,444)	(4,276)
Finance charges – leased assets	(143)	(35)
Finance costs	**(19,024)**	**(22,373)**
Net finance costs	**(18,080)**	**(21,283)**

Interest fee income on overdue debts is presented in other income in Note 4 rather than in net finance costs.

7. INCOME TAX EXPENSE

Numerical reconciliation between tax expense and pre-tax net profit

In thousands of AUD	Year ended 31 August 2014	Year ended 31 August 2013
(Loss)/profit before tax	(85,044)	35,028
Income tax using the domestic corporation tax rate of 30% (2013: 30%)	(25,513)	10,508
Increase in income tax expense due to:		
Non-deductible expenses		
– Impairment loss on investment in associate	6,000	–
– Impairment losses on goodwill and brand name	17,700	–
– Impairment losses on long term debts	5,928	–
– Share of associate's net losses	329	–
– Share based payment transactions	337	65
– Entertainment and other sundry expenses	316	232
– Dismantling costs	137	142
Other		
– Effect of tax rate in foreign jurisdictions	6	–
– Foreign withholding tax	25	–
– Write off of deferred tax asset relating to certain debts	631	–
Decrease in income tax expense due to:		
Write off of deferred tax liability relating to brand names	(148)	–
Effect of tax rate in foreign jurisdictions	–	(33)
Share of associate's net profit	–	(120)
	5,748	10,794
Adjustment for prior years	(21)	(58)
Income tax expense on pre-tax net (loss)/profit	**5,727**	**10,736**

7. INCOME TAX EXPENSE (continued)

Recognised in the Income Statement

In thousands of AUD	Year ended 31 August 2014	Year ended 31 August 2013
Current tax expense		
Current year	25	14,099
Adjustments for prior years	266	(526)
	291	13,573
Deferred tax expense		
Current year-origination and reversal of temporary differences	9,028	(3,305)
Benefit of tax losses recognised	(3,936)	–
Write down of deferred tax asset	631	–
Adjustment for prior years	(287)	468
	5,436	(2,837)
Total income tax expense in income statement	**5,727**	**10,736**

Deferred tax recognised in equity

In thousands of AUD	Year ended 31 August 2014	Year ended 31 August 2013
Relating to		
Derivatives	315	512
Defined benefit superannuation fund	14	–
Unrealised foreign exchange gains	39	141
	368	**653**

8. EARNINGS PER SHARE

In thousands of AUD	Year ended 31 August 2014	Year ended 31 August 2013
(Loss)/profit attributable to ordinary shareholders	**(90,771)**	**24,292**
In thousands of shares		
Basic weighted average number of ordinary shares for the period	488,116	488,116
Effect of potential ordinary shares on issue	–	–
Diluted weighted average number of ordinary shares for the period	**488,116**	**488,116**
In cents		
Basic earnings per share	(18.6)	5.0
In cents		
Diluted earnings per share	(18.6)	5.0

9. TRADE AND OTHER RECEIVABLES

In thousands of AUD	As at 31 August 2014	As at 31 August 2013
Current		
Trade receivables	544,544	579,060
Provision for impairment	(10,324)	(50,519)
	534,220	528,541
Amounts receivable as deferred consideration	160	951
Loans receivable from pharmacy customers	–	820
Other receivables and prepayments	31,302	30,040
Trade receivables due from associates	126	99
	565,808	**560,451**
Non-current		
Loans receivable from pharmacy customers	53,635	84,342
Provision for impairment	(22,390)	(24,784)
	31,245	59,558
Loans to employees	68	63
Pension asset	722	676*
	32,035	**60,297**

*Re-stated – refer Note 1(f)(i).

10. INVENTORIES

In thousands of AUD	As at 31 August 2014	As at 31 August 2013
Raw materials and consumables	3,830	3,342
Work in progress	188	325
Finished goods	344,212	337,561
Less: provision for obsolescence and shrinkage	(5,748)	(5,290)
	342,482	**335,938**

11. SUMMARISED PARENT ENTITY FINANCIALS

In thousands of AUD	As at 31 August 2014	As at 31 August 2013*
Current assets	348,345	317,926
Total assets	834,612	986,478
Current liabilities	336,467	318,868
Total liabilities	442,649	440,291
Net assets	391,963	546,187
Equity		
Share capital	566,461	566,461
Reserves	2,214	458
Retained earnings	(190,383)	(50,267)
Profits reserve	29,535	44,178
Dividends paid out of profits reserve	(15,864)	(14,643)
Total equity	**391,963**	**546,187**
(Loss)/profit after tax	(140,159)	28,770
Other comprehensive income	1,799	1,843
Total comprehensive (deficit)/income	**(138,360)**	**30,613**
Capital commitments of the parent entity at year end	**20,923**	**12,678**

Details of any guarantees and contingencies of the parent entity are included in note 24.
*Re-stated – refer Note 1(f)(i)

12. CURRENT TAX ASSETS AND LIABILITIES

The current tax liability for the consolidated entity of $502,000 (31 August 2013: $8,235,000) represents the amount of income taxes payable in respect of current and prior financial periods. In accordance with the Australian tax consolidation legislation, the Company as the head entity of the Australian tax consolidated group has assumed the current tax liability/(asset) initially recognised by the members in the Australian consolidated tax group.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates

The consolidated entity accounts for investments in associates using the equity method.

The consolidated entity has the following investments in associates:

				Ownership	
Venture	Principal Activities	Country	Reporting Date	31 August 2014	31 August 2013
CH2 Holdings Pty Ltd	Hospital supplies distribution	Australia	30 June	45.5%	45.5 %

Details of Investments in Associates

In thousands of AUD	Revenues 100%	(Loss)/profit 100%	Share of associates net (loss)/profit recognised	Net assets as reported by associate 100% at its June end reporting period	Share of associate's net assets equity accounted (including goodwill)
For the year ended 31 August 2014					
CH2 Holdings Pty Ltd	832,477	(2,410)	(21,096)	48,468	7,229
For the year ended 31 August 2013					
CH2 Holdings Pty Ltd	809,245	891	403	50,501	28,325

Impairment testing

The continued underperformance of the business due to ongoing tightening of industry margins and the impact of public healthcare cost management has resulted in the business not achieving the forecasts previously used to assess its recoverable value this period and accordingly a review of its recoverable amount was undertaken.

In the absence of reliable information regarding the long term projected future cash flows for the business, the recoverable amount of the investment was based on fair value less costs of disposal, applying a market-based earnings multiple to the FY14 earnings. The multiple was determined based on market values of comparable organisations. An estimate of disposal costs was then deducted from the fair value.

Based on this review a non-cash impairment charge of $20 million has been recorded against the equity accounted value of this investment.

A material change in the key assumptions would result in an increase or write back of the impairment charge.

In thousands of AUD	31 August 2014	31 August 2013
Share of associate net (loss)/profit – equity accounted	(1,096)	403
Impairment charge	(20,000)	–
Share of (loss)/profit of associates	**(21,096)**	**403**

Results of Associates

In thousands of AUD	Year ended 31 August 2014	Year ended 31 August 2013
Share of associate (loss)/profit before income tax	(1,566)	583
Share of income tax benefit/(expense)	470	(180)
Share of associates net (loss)/profit accounted for using the equity method	**(1,096)**	**403**

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

Commitments

In thousands of AUD	As at 31 August 2014	As at 31 August 2013
Share of associates operating lease rentals are payable as follows:		
Within one year	2,278	2,166
One year or later and no later than five years	4,470	5,072
Later than five years	2,947	2,887
	9,695	**10,125**

14. DEFERRED TAX ASSETS AND LIABILITIES

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets		Liabilities		Net	
In thousands of AUD	31 August 2014	31 August 2013*	31 August 2014	31 August 2013	31 August 2014	31 August 2013*
Property, plant and equipment	1,280	861	(947)	(906)	333	(45)
Intangible assets	–	–	–	(148)	–	(148)
Unrealised foreign exchange losses	–	74	(12)	–	(12)	74
Employee benefits	7,371	6,141	–	–	7,371	6,141
Provisions	18,232	29,369	–	–	18,232	29,369
Costs of equity raising	–	249	–	–	–	249
Derivatives	16	331	–	–	16	331
Other items	4,058	3,767	–	–	4,058	3,767
Tax loss carried forward	3,936	–	–	–	3,936	–
Tax assets/(liabilities)	**34,893**	**40,792**	**(959)**	**(1,054)**	**33,934**	**39,738**

Change in Deferred Tax Asset

In thousands of AUD	31 August 2014	31 August 2013*
Balance at 1 September	39,738	37,554
Recognised in income statement	(5,436)	2,837
Recognised directly in equity	(368)	(653)
Balance as at 31 August	**33,934**	**39,738**

*Re-stated – refer Note 1(f)(i)

15. PROPERTY, PLANT AND EQUIPMENT

In thousands of AUD	Land and Buildings	Plant and Equipment	Leased Plant and Equipment	Capital Works in Progress	Total
Cost					
Balance at 1 September 2012	**9,776**	**207,584**	**10,313**	**11,228**	**238,901**
Additions	–	436	–	19,888	20,324
Reclassification of assets	–	26,903	474	(27,377)	–
Transfer of assets to intangibles	–	–	–	(232)	(232)
Disposals	–	(9,898)	(852)	–	(10,750)
Effect of movement in foreign exchange	868	1,490	–	87	2,445
Balance at 31 August 2013	**10,644**	**226,515**	**9,935**	**3,594**	**250,688**
Additions	–	510	–	14,827	15,337
Reclassification of assets	–	9,661	3,634	(13,295)	–
Transfer of assets to intangibles	–	–	–	(317)	(317)
Disposals	–	(10,729)	(330)	–	(11,059)
Effect of movement in foreign exchange	252	455	–	8	715
Balance at 31 August 2014	**10,896**	**226,412**	**13,239**	**4,817**	**255,364**
Depreciation and impairment losses					
Balance at 1 September 2012	**(4,541)**	**(106,701)**	**(7,770)**	**–**	**(119,012)**
Depreciation charge for the period	(244)	(17,029)	(413)	–	(17,686)
Impairment loss	–	(511)	–	–	(511)
Reclassification of assets	–	–	–	–	–
Disposals	–	8,946	852	–	9,798
Effect of movements in foreign exchange	(385)	(991)	–	–	(1,376)
Balance at 31 August 2013	**(5,170)**	**(116,286)**	**(7,331)**	**–**	**(128,787)**
Depreciation charge for the period	(267)	(17,143)	(565)	–	(17,975)
Impairment loss	–	(1,189)	–	–	(1,189)
Reclassification of assets	–	–	–	–	–
Disposals	–	9,474	329	–	9,803
Effect of movements in foreign exchange	(111)	(285)	–	–	(396)
Balance at 31 August 2014	**(5,548)**	**(125,429)**	**(7,567)**	**–**	**(138,544)**
Carrying amounts					
At 1 September 2012	5,235	100,883	2,543	11,228	119,889
At 31 August 2013	5,474	110,229	2,604	3,594	121,901
At 31 August 2014	5,348	100,983	5,672	4,817	116,820

Financing costs are expensed in the income statement except where they relate to the financing of projects under construction, where they are capitalised up to the date of commissioning.

16. INTANGIBLE ASSETS

In thousands of AUD	Goodwill	Brand Names	Software	Development Costs	Capital Works in Progress	Total
Cost						
Balance at 1 September 2012	**91,880**	**99,000**	**19,194**	**470**	**–**	**210,544**
Transfer from property, plant and equipment	–	–	40	192	–	232
Other acquisitions*	5,696	–	–	–	5,991	11,687
Effect of movements in foreign exchange	3,251	–	–	69	–	3,320
Balance at 31 August 2013	**100,827**	**99,000**	**19,234**	**731**	**5,991**	**225,783**
Transfer from property, plant and equipment	–	–	262	55	–	317
Other acquisitions*	–	–	–	–	18,946	18,946
Disposals	–	–	(178)	–	–	(178)
Effect of movements in foreign exchange	940	–	–	22	–	962
Balance at 31 August 2014	**101,767**	**99,000**	**19,318**	**808**	**24,937**	**245,830**
Amortisation and impairment losses						
Balance at 1 September 2012	**–**	**–**	**(18,492)**	**(466)**	**–**	**(18,958)**
Amortisation for the period	–	–	(471)	(12)	–	(483)
Effect of movements in foreign exchange	–	–	–	(52)	–	(52)
Balance at 31 August 2013	**–**	**–**	**(18,963)**	**(530)**	**–**	**(19,493)**
Amortisation for the period	–	–	(224)	(46)	–	(270)
Disposals	–	–	178	–	–	178
Impairment loss	(56,360)	(2,640)	–	–	–	(59,000)
Effect of mov ements in foreign exchange	–	–	–	(13)	–	(13)
Balance at 31 August 2014	**(56,360)**	**(2,640)**	**(19,009)**	**(589)**	**–**	**(78,598)**
Carrying amounts						
At 1 September 2012	91,880	99,000	702	4	–	191,586
At 31 August 2013	100,827	99,000	271	201	5,991	206,290
At 31 August 2014	45,407	96,360	309	219	24,937	167,232

* Includes the capitalisation of interest of $1,153,000 (31 August 2013: $212,000) within Capital Works in Progress

Other acquisitions

During the year, the consolidated entity acquired two retail stores. Goodwill was recognised as a result of the acquisitions as follows:

In thousands of AUD	31 August 2014	31 August 2013
Total consideration transferred	1,197	6,460
Fair value of net assets acquired:		
– Inventories	797	573
– Property, plant and equipment	414	257
– Employee entitlements	(14)	(66)
Goodwill recognised	–	5,696

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts then the acquisition accounting will be revised.

Amortisation and Impairment Charge

The amortisation charge was recognised within administration and general expenses in the income statement.

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

The following cash generating units have significant carrying amounts of goodwill and brand names:

Goodwill

In thousands of AUD	31 August 2014	31 August 2013
Australian pharmaceutical distribution	29,418	29,418
Australian retailing	–	41,360
New Zealand manufacturing	15,989	30,049
	45,407	100,827

Assumptions

The assumptions used for determining the recoverable amount of each asset and CGU are based on past experience and expectations for the future. Cashflow projections have been based on Board approved budgets and the Board approved five year strategic plan. These forecasts use management estimates to determine income, expenses, working capital movements, capital expenditure and cashflows for each CGU.

The projected cashflows for each CGU are discounted using an appropriate discount rate and terminal growth rate applicable to each CGU. Management apportions a reasonable allocation of its corporate overhead and supply chain distribution costs to the Retailing and Pharmacy Distribution CGU based on a reasonable allocation methodology. The Retailing and Pharmacy Distribution CGU's are particularly sensitive to the allocation of supply chain distribution costs.

For all cash generating units containing goodwill, the value in use (VIU) approach was adopted for assessing the recoverable value of non-financial assets. VIU is calculated using a discounted cash flow model covering a 5 year period with an appropriate terminal growth rate at the end of that period, for the business segment. The model utilises cash flow forecasts and extrapolations based on budgets that have been reviewed by management and the Board. VIU was determined by discounting the future cash flows generated for the continuing use of the CGU and based on the following assumptions:

Retail CGU

During the year, the Company reassessed the carrying value of the Retail CGU and reperformed impairment analysis to take into account the following changes:

- A 50% reduction in the proposed store rollout program; and
- A decrease in the discount rate to reflect the change in the risk profile of the Retail CGU arising from the reduction in the store rollout program.

Due to the changes identified above, the value in use calculation did not support the carrying amount of the Retail CGU goodwill as at 28 February 2014 and a non-cash impairment charge of $44 million was recorded in the period. Material adverse movement in any of the key assumptions may result in an impairment of goodwill.

16. INTANGIBLE ASSETS (continued)

Discount Rate	The discount rate of 15.6% represents the pre-tax discount rate applied to the cash flow projections, based on a market-determined, risk adjusted post-tax discount of 11.0%.
Terminal Growth rate	The terminal growth rate of 3% represents the growth rate applied to extrapolate cash flows beyond the five year forecast period. The growth rate is based on management expectations of the CGU's long term performance after considering current conditions and available external market data.
New Store Rollout	New store rollout estimates are derived from management's analysis of the likely net annual increase in stores in the five year forecast period, based on recent past history, applications from prospective franchisees currently under consideration and the potential pool of new franchisees, after adjusting for the risks associated with execution of the strategic plan and the potential for loss of existing franchisees. The cash flow contribution from new stores is based on management's estimates of net contribution from individual stores, including working capital, marketing and supply chain costs.
Sales Growth	Comparable stores sales growth is based on management estimates of 3% in FY15-19.

Pharmacy CGU

During the year, the Company reviewed the carrying value of the Pharmacy CGU. The recoverable amount for the CGU continues to exceed the carrying value.

A decrease in the terminal growth rate or the pre-tax discount rate of 250bps would result in a value in use that approaches but is not less than the carrying amount. A decrease of 100% of New Business growth would result in a value in use that approaches but is not less than the carrying amount.

Discount rate	The discount rate of 14.3% represents the pre-tax discount rate applied to the cash flow projections, based on a market-determined, risk adjusted post-tax discount of 10.0%.
Terminal Growth rate	The terminal growth rate of 2.5% represents the growth rate applied to extrapolate cash flows beyond the five year forecast period. The growth rate is based on management's expectations of the CGU's long term performance.
New Business Growth	New business growth is based on board-approved budgets for 2015, with a conservative growth assumption for 2016 and beyond.

NZ Consumer Products CGU

During the year, the Company reassessed the carrying value of the NZ Consumer Products CGU and reperformed impairment analysis to take into account the following changes:

- A strengthening of the New Zealand dollar impacting cost of sales and subsequent margin; and
- A recent reduction in Australian contract volumes.

Due to the changes identified above, the value in use calculation did not support the carrying amount of the NZ Consumer Products CGU goodwill as at 28 February 2014 and a non-cash impairment charge of $15 million was recorded in the period. Material adverse movement in any of the key assumptions may result in an impairment of goodwill.

Discount Rate	The discount rate of 15.6% represents the pre-tax discount rate applied to the cash flow projections, based on a market-determined, risk adjusted post-tax discount of 11.0%.
Terminal Growth rate	The terminal growth rate of 2.5% represents the growth rate applied to extrapolate cash flows beyond the five year forecast period. The growth rate is based on expectations of the CGU's long term performance.
New Business Growth	New business growth is based on board-approved budgets for 2015, with growth assumptions for 2016 and beyond based on management's expectation of contract renewals and new contract manufacturing contracts achieved

Brand names

In thousands of AUD	As at 31 August 2014	As at 31 August 2013
Australian pharmaceutical distribution		
– Soul Pattinson brand name	37,500	37,500
Australian retailing		
– Priceline brand name	58,860	61,500
	96,360	**99,000**

The Soul Pattinson (SP) brand has been included as part of the Australian Pharmacy Distribution CGU as predominant economic benefits of the SP brand have been realised in Pharmacy Distribution business. Additionally, the cash flows derived from the SP brand cannot be separated from the cash flows derived from the wholesale distribution business and banner group operations.

17. TRADE AND OTHER PAYABLES

In thousands of AUD	As at 31 August 2014	As at 31 August 2013*
Current		
Trade payables	566,659	561,825
Accrued expenses and other payables	47,955	45,536
	614,614	**607,361**
Non-current		
Other payables	**8,108**	**5,695**

*Re-stated – refer Note 1(f)(i)

18. LOANS AND BORROWINGS

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings.

In thousands of AUD	As at 31 August 2014	As at 31 August 2013
Current liabilities		
Customer deposits	7	7
Insurance premium funding	2,820	3,472
Finance lease liabilities	1,139	314
Securitisation of trade receivables	17,000	10,000
Cash advance facility – secured	–	11,185
	20,966	24,978
Non-current liabilities		
Finance lease liabilities	2,504	209
Securitisation of trade receivables	87,975	114,738
Cash advance facilities – secured	11,349	–
	101,828	114,947
Financing Facilities		
Bank overdraft – secured	5,691	12,609
Standby letters of credit	500	500
Cash advance facilities – secured	76,382	120,000
Securitisation of trade receivables	320,000	345,000
	402,573	478,109
Facilities utilised at reporting date [1]		
Bank overdraft – secured	–	–
Standby letters of credit	–	67
Cash advance facilities – secured	11,349	11,185
Securitisation of trade receivables	104,975	124,738
	116,324	135,990
Facilities not utilised at reporting date [2]		
Bank overdraft – secured	5,691	12,609
Standby letters of credit	500	433
Cash advance facilities – secured	65,033	108,815
Securitisation of trade receivables	215,025	220,262
	286,249	342,119

1. Average used facilities during the year was $213,825,372 (2013:$233,792,156).
2. Average unused facilities during the year was $245,721,094 (2013:$243,668,946).
*Restated – refer Note 1(f)(i)

Bank Overdraft

The Company is a guarantor to a bank facility agreement which provides a total overdraft facility of $5,690,848 (31 August 2013: $12,609,000) to entities in the Australian Pharmaceutical Industries Limited Group. The facility is subject to set off arrangements between the consolidated entity companies. Interest on bank overdrafts is charged at prevailing market rates. The bank overdraft is repayable on demand and subject to annual review.

Standby Letter of Credit

The standby letter of credit facility is available to be drawn down over the next year and is subject to annual review.

Finance Lease Facility

The consolidated entity's lease liabilities are secured by the leased assets. In the event of default, the assets revert to the lessor.

Cash Advances

The consolidated cash advance facilities total $76,381,697. The borrowings are secured by way of fixed and floating charge over the assets of the consolidated entity. Interest is based on the bank-bill reference rate plus a margin charged by the lender.

Securitisation

Refer Note 22.

Finance Lease Liabilities

Finance lease liabilities of the consolidated entity are payable as follows:

In thousands of AUD	Minimum Lease Payments 31 August 2014	Interest 31 August 2014	Principal 31 August 2014	Minimum Lease Payments 31 August 2013	Interest 31 August 2013	Principal 31 August 2013
Less than one year	1,344	205	1,139	337	23	314
Between one and five years	2,747	243	2,504	219	10	209
	4,091	**448**	**3,643**	**556**	**33**	**523**

The consolidated entity leases plant and equipment under finance leases expiring within five years. At the end of the lease term the consolidated entity has the option to purchase the leased equipment at a price considered to be a bargain purchase option.

Under the terms of the lease agreements no contingent rents are payable.

19. EMPLOYEE BENEFITS

In thousands of AUD	As at 31 August 2014	As at 31 August 2013
Current		
Short-term incentive payments	2,802	–
Liability for long service leave	5,958	5,542
Liability for annual leave	10,725	10,095
	19,485	**15,637**
Non-current		
Liability for long service leave	**5,629**	**5,172**

(a) Defined Benefit Plan

The consolidated entity makes contributions to a defined benefit superannuation fund that provides defined benefit amounts for employees upon retirement.

In thousands of AUD	31 August 2014	31 August 2013*
Fair value of fund assets – funded	1,577	1,398
Present value of funded obligations	(855)	(722)
Present value of net fund assets	**722**	**676**

Movements in the net asset for defined benefit obligations recognised in the balance sheet

In thousands of AUD	31 August 2014	31 August 2013*
Net defined benefit asset at beginning of the period	676	61
Contributions received	50	92
Gains allocated to Other Comprehensive Income	57	615
Expense recognised in the income statement	(61)	(92)
Net defined benefit asset at end of the period	**722**	**676**

(b) Defined Contribution Superannuation Funds

In addition to the contributions to the defined benefit plan outlined above, the consolidated entity makes contributions to various defined contribution superannuation funds. The amount recognised as expense was $11,787,000 for the year ended 31 August 2014 (year ended 31 August 2013: $10,683,000).

*Restated – refer Note 1(f)(i)

(c) Share Based Payments

Share performance rights

The consolidated entity granted equity settled performance rights that entitle key management personnel and senior employees to receive shares in the Company if defined performance conditions are achieved.

The performance rights granted on 24 February 2012 (2011 grant) did not vest and lapsed on 31 August 2014.

On 22 February 2013, performance rights (the 2012 grant) were granted with a performance period commencing 1 September 2012 and ending 31 August 2015. The performance condition, being API's return on equity ('ROE') for the exercise of performance rights will be assessed at the Remuneration Committee meeting following the 31 August 2015 year end.

On 10 December 2013, performance rights (the 2013 grant) were granted with a performance period commencing 1 September 2013 and ending 31 August 2016. The performance condition, being API's return on equity ('ROE') for the exercise of performance rights will be assessed at the Remuneration Committee meeting following the 31 August 2016 year end.

Performance conditions will be tested once only, and any performance rights that do not meet the performance conditions will lapse and will not be re-tested.

The terms and conditions of the grants at 31 August 2014 are as follows. All performance rights are settled by physical delivery of shares:

Grant date/employee entitled	Number of instruments	Vesting conditions	Contractual life of Performance Rights
Performance rights to key management personnel and senior employees – Performance period to Aug 2015	4,189,206	Three years of service and cumulative ROE with a minimum of 21.35% permitting exercise of 50% of the rights and 25.62% achievement to exercise 100% of the rights and proportionate between these two levels.	3 years
Performance rights to key management personnel and senior employees – Performance period to Aug 2016	3,431,821	Three years of service and cumulative ROE with a minimum of 21.35% permitting exercise of 50% of the rights and 25.62% achievement to exercise 100% of the rights and proportionate between these two levels.	3 years
	7,621,027		

The number of performance rights outstanding in the period is as follows:

In thousands of performance rights	Number of performance rights 31 August 2014	Number of performance rights 31 August 2013
Outstanding at the beginning of the period	6,817	5,095
Forfeited/Lapsed during the period	(2,628)	(2,467)
Exercised during the period	–	–
Granted during the period	3,432	4,189
Outstanding at the end of the period	**7,621**	**6,817**
Exercisable at the end of the period	–	–

Fair value of performance rights and assumptions	Key Management Personnel and Senior Managers	
	31 August 2014	
	1 Sept 2012	1 Sept 2013
Performance period commences and performance condition	**ROE**	**ROE**
Grant date	22 Feb 13	10 Dec 13
Fair value at measurement date	$0.37	$0.46
Share price	$0.44	$0.55
Exercise price	–	–
Expected volatility (expressed as weighted average)	40%	40%
Performance Rights life (expressed as weighted average life)	3yrs	3yrs
Expected dividends	7.0%	6.0%
Risk-free interest rate (based on national government bonds)	2.88%	3.09%

The expected volatility is based on the historic volatility (calculated based on the weighted average expected life of the share performance rights), adjusted for any expected changes to future volatility due to publicly available information.

Share performance rights are granted under a service condition and, for grants to key management personnel and, senior executives market and non-market performance conditions apply. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

19. EMPLOYEE BENEFITS (continued)

Executive Short Term Incentive Option Plan

The short term incentive plan (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 12 months have resulted in sustainable Company benefit. Further details of the STIP are set out in the Remuneration Report.

Set out below is a summary of the performance rights granted under the STIP:

Grant Date	Expiry Date	Exercise Price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
2014								
7 Oct 14*	31 Aug 14	$0.70	–	1,135,433	–	–	1,135,433	–

* Performance rights relating to the STIP program commencing on 1 September 2013 and ending on 31 August 2015 have been valued at $0.70 per share reflecting the stock price on the date of Board approval of the STIP payment, adjusted for additional rights to shares that would otherwise accrue from dividend reinvestment during the vesting period. While the grant date is post year-end, the vesting period for these options commenced on 1 September 2013

Employee Expenses

Total expenses arising from share-based payment transactions attributable to employees recognised during the period as part of total share-based payment expenses were as follows:

In thousands of AUD	31 August 2014	31 August 2013
Performance rights granted in 2010 – equity settled	–	(475)*
Performance rights granted in 2011 – equity settled	(421)*	176
Performance rights granted in 2012 – equity settled	516	517
Performance rights granted in 2013 – equity settled	526	–
Performance rights granted under executive STIP program	398	–
Total expense recognised as employee costs	**1,019**	**218**

*Reflects the reversal of expenses previously recognised for performance rights forfeited in the period.

20. PROVISIONS

In thousands of AUD	Directors' retirement scheme	Provision for dismantling	Provision for financial guarantees	Provision for onerous leases	Other	Total
Balance at 1 September 2013	**351**	**4,585**	**–**	**541**	**4,327**	**9,804**
Provisions made during the year	–	493	24,739	1,458	19,701	46,391
Provisions used during the year	–	(127)	–	(195)	(18,804)	(19,126)
Provision reversed during the year	–	–	–	–	–	–
Unwind of discount	–	128	–	–	–	128
Balance at 31 August 2014	**351**	**5,079**	**24,739**	**1,804**	**5,224**	**37,197**
Current	–	418	24,739	880	5,224	31,261
Non-current	351	4,661	–	924	–	5,936
	351	**5,079**	**24,739**	**1,804**	**5,224**	**37,197**

Directors' Retirement Scheme

Retirement benefits for non-executive Directors are included on an accrual basis. They are paid on a pro-rata basis up to 10 years service to a maximum of three times the average annual remuneration in the three years preceding retirement. The retirement benefit is capped at $220,000 per director and applies only to Directors appointed prior to 9 September 2003. On 31 August 2009 the Directors agreed to freeze this benefit.

Dismantling

The consolidated entity provides for the estimated costs to cover its obligations to lessors to restore premises to the condition that existed when leases of real property were entered into.

Financial guarantees

Guarantees are issued to pharmacists on the basis of being fully recoverable from the pharmacist. Guarantees are typically recovered in line with pharmacy refinancing timetables. Guarantees are provided for when it is assessed that it is probable that guarantees will be called in the foreseeable future.

Financial guarantees totalling $24.7 million, reported as contingent liabilities in the previous year have been recognised as a liability as at 31 August 2014.

Onerous leases

In 2006 the Group entered into non-cancellable property leases as part of a wider pharmacy lease arrangement. The facilities have been sublet for the remaining lease term, however as the rental income is lower than the rental expense, the obligation for the discounted future payments, net of expected rental income, has been provided for against earnings.

Other

Other consists only of provision for Sister Club points in the Retail Division which are convertible quarterly by customers in the form of gift vouchers. The provision is based upon the expected cost to the consolidated entity on redemption of Sister Club vouchers. A redemption rate is applied based on historical experience and is updated quarterly.

21. CAPITAL AND RESERVES

Share capital

	Ordinary shares	
In thousands of shares	**31 August 2014**	**31 August 2013**
Shares on issue at the beginning of the period – fully paid	**488,116**	488,116
Shares on issue at the end of the period – fully paid	**488,116**	488,116

Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings. In the event of a winding up of the Company, ordinary shareholders rank after all other creditors and are fully entitled to any proceeds of liquidation.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

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.

Dividends

During the year the company recognised the following dividends:

$8.542 million was paid on 13 December 2013 out of profits earned in the year ended 31 August 2013. It was at the rate of 1.75 cents per share, fully franked.

An interim dividend (paid out of the profits reserve) in respect of the half year ended 28 February 2014 amounting to $7.322 million paid on 6 June 2014. It was at the rate of 1.5 cents per share, fully franked.

On 22 October 2014 a final dividend of 2.0 cents per share (payable out of the Profits Reserve), fully franked to be paid on 12 December 2014, amounting to $9.762 million was declared.

Dividend Franking Account

	The Company	
In thousands of AUD	**31 August 2014**	**31 August 2013**
30 per cent franking credits available to shareholders of the Company for subsequent financial years	**43,440**	**49,615**

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) Franking credits that will arise from the payment of the current tax liabilities;

(b) Franking debits that will arise from the payment of dividends recognised as a liability at the year end;

(c) Franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year end;

(d) Franking credits that the entity may be prevented from distributing in subsequent years; and

(e) Franking debits that will arise from receipt of the current income tax receivable.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The future reduction in the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability at year end is $4,183,856 (31 August 2013: $3,660,869).

22. FINANCIAL INSTRUMENTS

Financial Risk Management

Overview

The consolidated entity has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the consolidated entity's risk management framework. The Board has established an Audit and Risk Committee, which is responsible for developing and monitoring the consolidated entity's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The consolidated entity's risk management policies are established to identify and analyse the risks faced by the consolidated entity, 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 consolidated entity's activities.

The Audit and Risk Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks. The Audit and Risk Committee is assisted in its oversight by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its constructive obligations, and arises principally from the consolidated entity's receivables from customers and financial guarantees.

Trade and other receivables

The consolidated entity's exposure to credit risk is mainly influenced by the individual characteristics of each customer.

The consolidated entity has established a credit policy under which new customers are analysed individually for credit worthiness including using external ratings, where available. Purchase limits are established for each customer, which represents the maximum open amount available and limits are reviewed on a needs-basis. Customers that fail to meet the benchmark credit worthiness may transact with the consolidated entity only on a prepayment 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.

Goods sold under some customer arrangements are subject to retention of title clauses, so that in the event of non-payment the consolidated entity may have a secured claim.

The consolidated entity establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main component of this allowance is a specific loss component that relates to individually significant exposures (after consideration of any collateral held).

Guarantees

Financial guarantees are initially recognised at fair value. The fair value is amortised as an expense through the income statement over the life of the guarantee. Subsequent to initial measurement, the guarantee is measured at the higher of the amortised balance of the guarantee or the value of the guarantee determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Company and consolidated entity have varying borrowing levels based on seasonal requirements of the business. Any obligations can be met by the unused facilities.

Market risk

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

Currency risk

The consolidated entity 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 consolidated entity companies.

Interest rate risk

The consolidated entity is exposed to interest rate risk as a consequence of its financing facilities. The consolidated entity adopts a policy that up to 80% of its exposure to the changes in interest rates on its long term variable rate borrowings relating to the securitised trade receivables may be hedged on a fixed rate basis. At 31 August 2014, there were no fixed rate hedges outstanding.

22. FINANCIAL INSTRUMENTS (continued)

Subsequent to 31 August 2014, the consolidated entity entered into interest rate swaps with a notional contract amount of $75,000,000, with a maturity date of October 2016 and a fixed rate of 2.75%.

Capital Management

The Board's policy 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 consolidated entity's approach to capital management during the period.

Securitisation

The consolidated entity has access to funds as a result of the securitisation of current trade receivables provided the receivables meet certain criteria. There are two separate programs which have limits of $275,000,000 and $70,000,000 (31 August 2013: $275,000,000 and $70,000,000). As part of these programs, the program provider charges a monthly variable interest rate plus margin based on the drawn down portion of this program. As at 31 August 2014 the weighted average rate was 4.69% (31 August 2013: 4.68%).Settlement of the funds is monthly and daily respectively. During the year, the Company refinanced its securitisation facilities to May 2018, with the $70,000,000 program reduced to $45,000,000.

The funds able to be drawn down under either securitisation facility are limited by the existence of qualifying trade receivables at the time of drawdown which may be less than the unutilised amount otherwise available under the facility (set out in Note 18). The trade receivables are collaterised in full against amounts drawn down.

The facility imposes rights and obligations on API with respect to the quality and maintenance of the receivables, collection of receivables, settlement and reporting to the financier. API has complied with its obligations under the facility throughout the financial year.

The amount that has been determined as non-current is the lowest expected balance of the facility in the 12 month period post balance date based on board approved budgets.

At 31 August 2014, $90,000,000 and $14,975,061 respectively were drawn down on these programs by the consolidated entity (31 August 2013: $107,000,000 and $17,738,355). The trade receivables and loans and borrowings relating to these transactions are recognised on the statement of financial position.

Credit Risk

Exposure to credit risk

The consolidated entity's exposure to credit risk as at the reporting date was in relation to the carrying amounts of current and non-current trade receivables (note 9), other receivables (note 9), cash deposits and the amount disclosed in respect of contingent liabilities arising from financial guarantees provided to pharmacy customers (note 24).

Concentrations of credit risk

Concentrations of credit risk arise from customers that have similar characteristics and are affected in a similar manner where there are changes in economic, regulatory or other conditions. In this regard, the economic entity has a significant concentration of credit risk associated with the pharmacy and retail industries in Australia.

Trade Receivables

Details of the ageing of Trade Receivables and the impairment losses recorded at the reporting date are set out below:

In thousands of AUD	**31 August 2014**	**31 August 2013**
Not past due	482,843	475,156
Past due 0-30 days	26,832	26,215
Past due 31+ days	34,869	77,689
Sub-total	544,544	579,060
Impairment	(10,324)	(50,519)
	534,220	**528,541**

The movement in the provision for impairment losses in respect of Trade Receivables was as follows:

In thousands of AUD	**31 August 2014**	**31 August 2013**
Balance at start of year	50,519	32,191
Amounts provided during the year	15,099	19,744
Amounts transferred from provision for financial guarantees	530	6,535
Amounts written off during the year	(55,824)	(7,951)
Balance at end of year	**10,324**	**50,519**

Loans receivable from Pharmacy customers

Historically, the consolidated entity has provided financial assistance to certain pharmacy customers in the form of long term loans.

The consolidated entity seeks to obtain collateral wherever long term funding arrangements are agreed to. This collateral may include personal guarantees and formal charges over pharmacy assets. The security held by the consolidated entity over pharmacy assets is generally in the form of a second-ranking charge after the security held by the pharmacist's financiers.

As the due date for repayment approaches, management makes a determination of the most advantageous mechanism to realise the value of the loans and receivables, which may involve:

- Settlement of the loans and receivables in full (which normally requires refinancing by the pharmacy customer with an external financier);
- Re-negotiating the terms and conditions of the loans, including the interest rate and repayment date; and/or
- Enforcing the Company's security rights through liquidation of assets held as collateral.

The loan agreements, which included an annual interest rate of up to 10%, originally called for the full repayment of the majority of the loans by October 2013. In October 2013 a heads of agreement was signed extending the loans for a further five years however since that date the parties have been unable to reach agreement on the final form of the loan documentation.

The customers have also yet to renew their banking arrangements which are approaching expiry.

Due to the ongoing negotiations relating to documentation of the form and conditions of the loans and the requirement for the relevant customers to renew their bank finance facilities, the carrying value of the loans have been determined on the basis that they are now due and payable immediately in estimating the present value of cash flow to be received. The Directors have assumed the realisation of assets is on an orderly basis.

In addition, as a result of the factors above financial guarantees totalling $24.7 million previously reported as contingent liabilities have been recognised as a liability during the year (refer note 20).

In determining the provision for impairment for both Trade receivables and Loans receivable from Pharmacy customers, the Directors have taken into account the value of collateral held, financial guarantees provided to individual debtors and debtor groups which are recorded as current liabilities where it is considered probable that the guarantees will be called, the risks associated with general trading conditions and the specific circumstances of individual pharmacy debtors. Where appropriate, independent valuation experts have provided relevant store trading multiples to support the valuation of assets held as collateral for long term and past-due debts. Priority ranking security held by financial institutions and estimated disposal costs are deducted from the estimated collateral value.

The aggregate exposure to pharmacy loans is:

Non-current loans receivable

In thousands of AUD	**31 August 2014**
Loans receivable	53,635
Provision for Impairment	(22,390)
	31,245

22. FINANCIAL INSTRUMENTS (continued)

The determination of the impairment provisions is necessarily based on a number of best-estimate assumptions and is subject to inherent uncertainties based on information available at balance date. These uncertainties include general economic and trading conditions, the valuation of assets held as security (and the priority rights of other financiers over those assets), the potential impact on asset values of enforcing the company's security rights through liquidation of the assets, disposal costs, the regulatory environment, the ability of pharmacy customers to obtain external finance, estimates of the timing of repayment or enforcement of security rights and other factors impacting the pharmacy industry. The impact of these uncertainties could reduce or increase the potential recoverable value of these assets.

The movement in the provision for impairment losses in respect of non-current loans receivable was as follows:

In thousands of AUD	31 August 2014	31 August 2013
Balance at start of year	24,784	2,759
Amounts provided during the year	22,390	–
Amounts written off during the year	(24,784)	–
Amounts transferred from provision for financial guarantees	–	22,025
Balance at end of year	**22,390**	**24,784**

Liquidity Risk

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

In thousands of AUD	Carrying Amount	Contract Cash Flows	1 year or less	1-2 years	2-5 years	More than 5 years
31 August 2014						
Non-derivative financial liabilities						
Finance lease liabilities	3,643	4,091	1,344	1,046	1,701	–
Customer deposits	7	7	7	–	–	–
Insurance premium funding	2,820	2,820	2,820	–	–	–
Trade and other payables	622,722	622,722	614,614	928	2,648	4,532
Cash Advance facility	11,349	11,349	–	11,349	–	–
	640,541	640,989	618,785	13,323	4,349	4,532
31 August 2013						
Non-derivative financial liabilities						
Finance lease liabilities	523	556	337	161	58	–
Customer deposits	7	7	7	–	–	–
Insurance premium funding	3,472	3,472	3,472	–	–	–
Trade and other payables	613,061	613,061	607,366	697	2,221	2,777
Cash Advance facility	11,185	11,185	11,185	–	–	–
	628,248	628,281	622,367	858	2,279	2,777

Cash Flow Hedges

The only financial assets or financial liabilities carried at fair value are cash flow hedges. The Company considers the cash flow hedges to be Level 2 financial instruments because, unlike Level 1 financial instruments, their measurement is derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices). There have been no transfers between levels 1, 2 and 3 for recurring fair value measurements during the half-year. The cash flow hedges fair values have been obtained from third party valuations derived from forward interests rates at the balance sheet date.

The fair value of the cash flow hedges at 31 August 2014 was a liability of $53,948 (31 August 2013: liability of $1,103,908).

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:

31 August 2014

In thousands of AUD

Consolidated and the Company	Carrying Amount	Expected Cash Flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Foreign Exchange Forward-Liability	(54)	(54)	(54)	–	–	–	–

31 August 2013

In thousands of AUD

Consolidated and the Company	Carrying Amount	Expected Cash Flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Interest Rate Swap-Liability	(1,104)	(1,104)	–	(1,104)	–	–	–

Interest Rate Risk

Effective Interest Rates and Repricing Analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

Consolidated		31 August 2014						31 August 2013					
In thousands of AUD	Note	Effective interest rate	Total	1 year or less	1-2 years	2-5 years	More than 5 years	Effective interest rate	Total	1 year or less	1-2 years	2-5 years	More than 5 years
Cash and cash equivalents	27	1.88%	23,526	23,526	–	–	–	1.35%	22,576	22,576	–	–	–
Restricted cash (Aspire cash reserve)	9	2.60%	4,118	4,118	–	–	–	2.75%	4,435	4,435	–	–	–
Loans receivable from pharmacy customers*	9	Nil**	53,635	–	–	53,635	–	8.76%	84,342	–	–	84,342	–
Securitised trade receivables	18	4.69%	(104,975)	–	–	(104,975)	–	4.68%	(124,738)	–	(124,738)	–	–
Finance lease liabilities*	18	3.78%	(3,643)	(1,139)	(915)	(1,589)	–	4.85%	(523)	(314)	(151)	(58)	–
Bank overdrafts and cash advance facility	18	6.20%	(11,349)	–	(11,349)	–	–	6.31%	(11,185)	(11,185)	–	–	–
Insurance premium funding*	18	1.89%	(2,820)	(2,820)	–	–	–	2.12%	(3,472)	(3,472)	–	–	–
Employee Loans	9	5.95%	68	68	–	–	–	6.45%	63	–	–	–	63
			(41,440)	23,753	(12,264)	(52,929)	–		(28,502)	12,040	(124,889)	84,284	63

22. FINANCIAL INSTRUMENTS (continued)

* Fixed rate income earning financial assets and interest bearing financial liabilities. Remaining balances are variable rates.

** The effective interest rate on loans receivable from pharmacy customers was nil during the year as agreement on the form and conditions of the loans was not complete.

Foreign Currency Risk

The consolidated entity 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 consolidated entity companies.

Fair value sensitivity analysis for fixed rate instruments

The consolidated entity does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the consolidated entity does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at reporting date would not affect profit and loss unless any hedges became ineffective.

Cash flow sensitivity analysis for variable rate instruments

A strengthening by 100 basis points in interest rates at the reporting date would have increased (or in the event of a commensurate weakening, decreased) profit or loss and equity (pre-tax) by the amounts shown below for the consolidated entity. This analysis assumes that all other variables remain constant.

	Profit/(loss)		Equity	
In thousands of AUD	100bp increase	100bp decrease	100bp increase	100bp decrease
31 August 2014				
Variable rate instruments	(887)	887	–	–
Interest rate swap	–	–	–	–
Cash flow sensitivity (net)	**(887)**	**887**	**–**	**–**
31 August 2013				
Variable rate instruments	(1,089)	1,089	–	–
Interest rate swap	500	(500)	414	(414)
Cash flow sensitivity (net)	**(589)**	**589**	**414**	**(414)**

Fair values

The fair values of financial assets and liabilities are not materially different from the carrying amounts shown in the balance sheet.

Estimation of Fair Values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Loans and Borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance Lease Liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

Trade and other Receivables/Payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Interest rates used for determining fair value

The entity uses the government yield curve as of the year end, plus an adequate constant credit spread, to discount financial instruments. The interest rates used are as follows:

	31 August 2014	31 August 2013
Loans and borrowings	4.5%-6.5%	5.0% -7.0%
Leases	3.0%-4.0%	4.0% - 5.0%
Receivables	Nil	8.0%-10.0%

23. COMMITMENTS

Operating Leases – Leases as Lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	31 August 2014	31 August 2013
Less than one year	45,961	45,489
Between one and five years	110,715	110,081
More than five years	39,371	51,451
	196,047	**207,021**

The consolidated entity leases property and plant under non-cancellable operating leases expiring from two to fifteen years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

During the year ended 31 August 2014, $60,713,797 was recognised by the consolidated entity as an expense in the profit and loss in respect of operating leases and other related occupancy costs (31 August 2013: $58,628,176).

Certain leases are subject to contingent rental clauses calculated as a percentage of revenue earned in excess of pre-determined thresholds set out in the lease agreements. The consolidated entity recognises these amounts as an expense in the period where it is anticipated these thresholds will be reached.

With certain franchise arrangements, the consolidated entity continues to hold the head lease and recharges the franchisee the appropriate rental charge. For those leases, the franchisee is invoiced in advance and offset against the rental charge from the landlord.

Capital Expenditure Commitments

In thousands of AUD	31 August 2014	31 August 2013
Contracted but not provided for or payable:	22,609	14,824

24. CONTINGENCIES

Contingent liabilities

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

		Consolidated		The Company	
In thousands of AUD		Year ended 31 August 2014	Year ended 31 August 2013	Year ended 31 August 2014	Year ended 31 August 2013
Guarantee of bank facilities to controlled entities	(i)	–	–	8,073	7,827
Guarantee of bank facilities of pharmacy customers	(ii)	–	25,386	–	25,386

(i) These guarantees all relate to the parent entity.

(ii) The Company has strict controls over the approval of guarantees of pharmacy customers and takes security over the assets of the relevant pharmacy. During the year ended 31 August 2014, the Company brought the liability for any expected payments under the guarantee contract onto the balance sheet.

The Company from time to time issues legal proceedings for the recovery of moneys owed. Defendants in some of these proceedings may issue cross-claims, and thereby create a contingent liability, against the Company in an attempt to reduce the amount owed. The Company rejects these cross claims and are defended as part of the legal proceedings. Further disclosure of the cross-claims would seriously prejudice the outcome of the legal proceedings.

The parent entity has entered into a deed of cross guarantee with the effect that Australian Pharmaceuticals Industries Limited guarantees debts in respect of its subsidiaries.

Further detail of the Deed of Cross Guarantee and the nominated subsidiaries subject to the deed are disclosed in Note 26.

25. CONSOLIDATED ENTITIES

	Note	Ownership interest (%) 31 August 2014	31 August 2013
Parent Entity			
Australian Pharmaceutical Industries Limited			
Subsidiaries			
API Services Australia Pty Ltd	(iv)	100	–
Thrift Chemist Merchandising Pty Limited	(iii)	100	100
Australian Pharmaceutical Industries (Queensland) Pty Limited	(ii)	100	100
API Victoria Pty Limited	(ii)	100	100
Soul Pattinson (Manufacturing) Pty Limited		100	100
API Financial Services Australia Pty Limited	(ii)	100	100
Pharma-Pack Pty Limited		100	100
API (Canberra) Pty Limited		100	100
Canberra Pharmaceutical Supplies Trust		100	100
Stevens KMS Equities Limited	(i)	100	100
API Healthcare Holdings (NZ) Limited	(i)	100	100
Priceline (NZ) Pty Ltd	(i)	100	100
PAF (New Zealand) Ltd	(i)	100	100
The Medicine Shoppe Limited	(i)	100	100
PSM Healthcare Limited	(i)	100	100
Pharmaceutical Sales and Marketing Ltd	(i)	100	100
Garrett Investments Limited	(i)	100	100
Healthcare Manufacturing Group Limited	(i)	100	100
Synapse Finance Pty Ltd	(ii)	100	100
New Price Retail Finance Pty Ltd	(ii)	100	100
New Price Retail Pty Ltd		100	100
New Price Retail Services Pty Ltd		100	100
You Pay Less Pty Ltd	(iii)	100	100
PAF (Priceline) Pty Ltd	(iii)	100	100
Priceline Unit Trust		100	100
Second Priceline Unit Trust		100	100
Priceline Proprietary Limited	(ii)	100	100
Making Life Easy – Mobility and Independent Living Superstores Pty Ltd		100	100
MLE Unit Trust		100	100

(i) These controlled entities are incorporated in New Zealand and carry on business predominantly in New Zealand.
All other controlled entities are incorporated and carry on business predominantly in Australia.

(ii) These controlled entities have each entered into a Deed of Cross Guarantee with Australian Pharmaceutical Industries Limited in respect of relief granted from specific accounting and financial reporting requirements in accordance with ASIC Class Order 98/1418.

(iii) Applications were submitted with ASIC in September 2014 for the voluntary deregistration of these companies

(iv) Entity was incorporated in November 2013.

All subsidiaries have a balance date equivalent to the parent entity.

26. DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- API Financial Services Australia Pty Ltd
- API Victoria Pty Ltd
- Australian Pharmaceutical Industries (Queensland) Pty Ltd
- New Price Retail Finance Pty Ltd
- Priceline Pty Ltd
- Synapse Finance Pty Ltd

A condensed consolidated income statement and consolidated balance sheet comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 31 August 2014 is set out as follows:

Summarised Statement of Comprehensive Income, Retained Profits and Reserves

	Closed Group	
In thousands of AUD	Year ended 31 August 2014	Year ended 31 August 2013*
(Loss)/profit before tax	(116,441)	25,884
Income tax benefit/(expense)	8,027	(6,757)
(Loss)/profit after tax	**(108,414)**	**19,127**
Other comprehensive income	734	1,195
Total comprehensive (expense)/income for the period	**(107,680)**	**20,322**
Accumulated losses at beginning of the year	(12,142)	(12,142)
Loss after tax	(108,414)	–
Remeasurements of Defined Benefit Liability, net of tax	40	–
Accumulated losses at end of the year attributable to equity holders	**(120,516)**	**(12,142)**
Reserves at beginning of the year	17,831	11,934
Profits reserve	–	19,127
Dividend paid out of profits reserve	(15,864)	(14,643)
Other comprehensive income	734	1,195
Share based payment transactions	1,019	218
Reserves at the end of the year attributable to equity holders	**3,720**	**17,831**

*Re-stated – refer Note 1(f)(i)

Summarised Statement of Financial Position

	Closed Group	
In thousands of AUD	As at 31 August 2014	As at 31 August 2013*
Assets		
Cash and cash equivalents	5,760	4,898
Trade and other receivables	463,698	484,374
Inventories	189,258	181,149
Total current assets	658,716	670,421
Trade and other receivables	133,230	189,442
Investments	148,186	147,495
Investments accounted for using the equity method	7,229	28,325
Deferred tax assets	25,796	28,203
Property, plant and equipment	64,906	66,014
Intangible assets	91,864	116,880
Total non-current assets	471,211	576,359
Total assets	**1,129,927**	**1,246,780**
Liabilities		
Trade and other payables	510,956	513,813
Loans and borrowings	20,952	19,760
Employee benefits	12,904	9,283
Provisions	25,604	177
Income tax payable	160	7,203
Total current liabilities	570,576	550,236
Trade and other payables	5,076	2,693
Loans and borrowings	96,377	114,947
Employee benefits	3,129	2,719
Provisions	5,104	4,035
Total non-current liabilities	109,686	124,394
Total liabilities	680,262	674,630
Net assets	449,665	572,150
Equity		
Share capital	566,461	566,461
Reserves	3,720	17,831
Accumulated losses	(120,516)	(12,142)
Total equity	**449,665**	**572,150**

*Re-stated – refer Note 1(f)(i)

27. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

In thousands of AUD	Year ended 31 August 2014	Year ended 31 August 2013
Cash Flows from Operating Activities		
(Loss)/profit for the period	(90,771)	24,292
Adjustments for:		
Depreciation	17,975	17,686
Amortisation	270	483
Impairment loss on property, plant and equipment	1,189	511
Impairment loss on goodwill/brands/JV investments	79,000	–
Foreign exchange (gains)/losses	(104)	260
Share of loss/(profit) of associates net of dividends received	1,096	(403)
Net loss on sale of stores, property, plant and equipment	710	148
Equity-settled share-based payment expenses	1,019	218
Net finance cost	18,080	21,283
Income tax expense	5,727	10,736
Decrease/(increase) in trade and other receivables	21,005	(257)
Increase in inventories	(6,544)	(15,334)
Increase in trade and other payables	10,815	39,585
Increase in provisions and employee benefits	30,463	2,553
	89,930	**101,761**
Net interest paid	(17,813)	(20,584)
Income taxes paid	(7,929)	(14,577)
Net Cash from Operating Activities	**64,188**	**66,600**

In thousands of AUD	As at 31 August 2014	As at 31 August 2013
Cash at bank	23,526	22,576
Cash and cash equivalents in the statement of cash flows	**23,526**	**22,576**

28. RELATED PARTIES

Key management personnel compensation

The key management personnel compensation included in 'Personnel Expenses' is as follows

In AUD	Year ended 31 August 2014	Year ended 31 August 2013
Short-term employee benefits	3,385,254	3,044,028
Post employment benefits	188,995	203,727
Share based payments	325,773	79,569
	3,900,022	**3,327,324**

Individual Directors and executives compensation disclosures

Information regarding individual Directors and executives compensation and some 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 the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

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

Certain members of key management personnel are Directors of an associate entity (as discussed in Note 13) that result in them having influence over the financial or operating policies of that entity. The associate transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with that party were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related entities on an arm's length basis.

Certain Directors of the Company are also directors of companies that have entered into transactions with the Company and its controlled entities during the financial year. These transactions may include purchasing of inventories from the Company or its controlled entities. All transactions with the Directors and the companies they represent are on the same terms and conditions as those entered into by other entities, employees or customers and are trivial or domestic in nature.

No shares were granted during the period to Directors or senior executives.

Messrs R D Millner and P R Robinson are Directors of Washington H Soul Pattinson and Company Limited. Washington H Soul Pattinson and Company Limited holds 120,214,969 shares (31 August 2013: 120,214,969 shares) in the Company at year end 31 August 2014.

During the year, further performance rights were issued by the Company to key management personnel and certain senior executives. Share rights forfeited by and issued to key management personnel have been disclosed in the Remuneration Report contained within the Directors Report of this report.

Non Key Management Personnel Disclosures

Associates

During the year ended 31 August 2014, associates purchased goods from the consolidated entity in the amount of $319,264 (year ended 31 August 2013: $373,235) and at 31 August 2014 associates owed the consolidated entity $125,816 (31 August 2013: $98,633). Transactions with associates are priced on an arm's length basis.

No dividends were received from associates during the period ended 31 August 2014 nor for the period ended 31 August 2013.

29. AUDITORS' REMUNERATION

In AUD	Consolidated Year ended 31 August 2014	Year ended 31 August 2013*
Audit services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	595,400	582,170
Overseas KPMG firms:		
Audit and review of financial reports	37,000	38,586
	632,400	**620,756**
Other services		
Auditors of the Company		
KPMG Australia:		
Other assurance services	29,021	35,465
Other advisory services	74,749	57,097
Overseas KPMG firms:		
Taxation services	10,994	13,190
	747,164	**726,508**

*Prior period fees have been restated to include additional fees paid in 2014 in respect of 2013.

30. SUBSEQUENT EVENTS

On 22 October 2014, a final dividend of 2.0 cents per share, fully franked to be paid out of the Profits Reserve on 12 December 2014, amounting to $9.762 million was declared.

Directors' Declaration

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

   (a) the consolidated financial statements and notes set out on pages 38 to 86, and the Remuneration Report set out on pages 21 to 33 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 consolidated entity as at 31 August 2014 and of its performance, for the financial period ended on that date; and

      (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001;

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

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

   There are reasonable grounds to believe that API and the controlled entities identified in note 25 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 Class Order 98/1418.

2. The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial period ended 31 August 2014 pursuant to Section 295A of the Corporations Act 2001.

Dated at Sydney, 22 October 2014

Signed in accordance with a resolution of the Directors:

Peter R. Robinson

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

Report on the financial report

We have audited the accompanying financial report of Australian Pharmaceutical Industries Limited (the Company), which comprises the consolidated statement of financial position as at 31 August 2014, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 30 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(b), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Group is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 31 August 2014 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(b).

Report on the remuneration report

We have audited the Remuneration Report included in pages 21 to 33 of the directors' report for the year ended 31 August 2014. 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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Australian Pharmaceutical Industries Limited for the year ended 31 August 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Paul J McDonald

Paul J McDonald
Partner

Melbourne

22 October 2014

Shareholder Information

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings as at 22 October 2014

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Washington H Soul Pattinson and Company Limited	120,214,969	ordinary shares
SL Nominees Pty Ltd	58,122,597	ordinary shares
HSBC Custody Nominees (Australia) limited	29,809,565	ordinary shares
J P Morgan Nominees Australia Limited	29,114,354	ordinary shares
Citicorp Nominees Pty Limited	26,773,795	ordinary shares

Voting rights

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

(a) on a show of hands:

(i) if a member has appointed two proxies, neither of those proxies may vote;

(ii) a member who is present and entitled to vote and is also a proxy, attorney or representative of another member has one vote; and

(iii) subject to paragraphs (a)(i) and (a)(ii), every individual present who is a member, or a proxy, attorney or representative of a member, entitled to vote has one vote;

(b) on a poll every member entitled to vote who is present in person or by proxy, attorney or representative:

(i) has one vote for every fully paid share held; and

(ii)`subject to paragraph (c), in respect of each partly paid share held has a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share; and

(c) unless:

(i) permitted under the Listing Rules; and

(ii) otherwise provided in the terms on which shares are issued,

in calculating the fraction of a vote which the holder of a partly paid share has, the Company must not count an amount:

(iii) paid in advance of a call; or

(iv) credited on a partly paid share without payment in money or money's worth being made to the Company.

On-market share buy-back

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

Distribution of Shareholders as at 22 October 2014

Category Ordinary Shares	Number of Shareholders
1 – 1,000	1,558
1,001 – 5,000	2,549
5,001 – 10,000	1,162
10,001 – 100,000	2,057
100,001 and over	299
	7,625

The number of shareholders holding less than a marketable parcel at 22 October 2014 was 741 (21 October 2013: 1,228).

Stock Exchange

The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

Other Information

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

Twenty largest Shareholders as at 22 October 2014*

Name	Number of Ordinary shares held	Percentage of Capital held
Washington H Soul Pattinson and Company Limited	120,214,969	24.63
SL Nominees Pty Ltd	44,734,167	9.16
HSBC Custody Nominees (Australia) Limited	29,809,565	6.11
J P Morgan Nominees Australia Limited	29,114,354	5.96
Citicorp Nominees Pty Limited	26,773,795	5.49
RBC Investor Services Aust. Nominees Pty Limited (BKCUST A/c)	17,155,259	3.51
Dancetown Pty Limited	13,388,430	2.74
National Nominees Limited	10,702,340	2.19
Prudential Nominees Pty Ltd	10,000,000	2.05
3rd Wave Investors Limited	8,000,000	1.64
National Exchange Pty Ltd	5,500,000	1.13
Investment Custodial Limited(990038243 A/c)	3,000,000	0.61
BNP Paribas Noms Pty Ltd (DRP)	2,824,558	0.58
Brispot Nominees Pty Ltd (House Head Nominee No 1 A/c)	2,636,886	0.54
Bell Potter Nominees Limited (BB Nominees A/c)	2,152,776	0.44
Mercantile Investment Company Limited	1,750,000	0.36
Mr Frederick Benjamin Warmbrand (FB & LI Warmbrand Super A/c)	1,618,329	0.33
QIC Limited	1,603,731	0.33
Mr Raymond Francis Frew & Mrs Gillian Margaret Frew	1,560,000	0.32
Warbont Nominees Pty Ltd (Accumulation Entrepot A/c)	1,121,806	0.23
	333,660,965	**68.35**

*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
Level 7
207 Kent 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.

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 reason, shareholders should keep their Security Holder Reference Numbers confidential.

Annual Report Mailing List

Shareholders (whether Issuer or Broker Sponsored) wishing to receive the Annual Report should advise Boardroom in writing so that their names can be added to the mailing list. Shareholders are able to update their preference via the Boardroom website. Shareholders can also elect to receive the Annual report by e-mail or by accessing the Company 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 also available for download via the Boardroom website. Broker Sponsored (CHESS) holders must advise their sponsoring broker of the change.

Share Trading and Price

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

Off-Market Share Transfers

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

Information on 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 the main source of information for shareholders. Other sources of information include:

- Interim results
- Annual results
- The Annual General Meeting – the Chairman and the Managing Director address the meeting
- ASX announcements

Financial Calendar*

Half year end	28 February 2015
Half year profit announcement	16 April 2015
Year end	31 August 2015
Full year profit announcement	22 October 2015
Annual General Meeting	28 January 2016

* 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
250 Camberwell Road
Camberwell, VIC 3124
Enquiries can also be made via email by accessing www.api.net.au – "contact us"

Corporate Directory

Offices and Officers

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Mr Peter Sanguinetti B.Juris, LLB
Principal Registered Office
Australian Pharmaceutical Industries Limited
11 Grand Avenue
Camellia, NSW 2142
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Facsimile: (02) 8844 2400

Location of Share Registry

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Level 7
207 Kent Street
Sydney NSW 2000

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