Appendix 4D
Financial Report for the half year ended 28 February 2015

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The following information is presented in accordance with ASX listing rule 4.2A.3.

1. Details of the reporting period and the previous corresponding period

Current period	- the half year ended 28 February 2015
Previous corresponding period	- the half year ended 28 February 2014

2. Results for announcement to the market

		Half year ended 28 Feb 2015 $'000	Half year ended 28 Feb 2014 $'000	Increase
2.1	**Revenue from ordinary activities**	**1,712,369**	**1,658,749**	**3.2%**
2.2	**Profit/(loss) from ordinary activities after tax attributable to members**	**21,269**	**(114,937)**	**118.5%**
2.3	**Net profit/(loss) for the period attributable to members**	**21,269**	**(114,937)**	**118.5%**
	Profit/(loss) before interest, tax, depreciation and associates	**47,654**	**(68,891)**	**169.2%**
	Profit/(loss) before tax	**31,411**	**(107,739)**	**129.2%**
2.3a	**Underlying net profit after tax (Attachment 1)**	**21,444**	**16,237**	**32.1%**

		Amount per security	Franking %	Franked amount per security
2.4	Dividends			
	Interim Dividend (declared)	2.00 cents	100	2.00 cents
	Final Dividend (prior year – paid)	2.00 cents	100	2.00 cents

2.5 The record date for determining entitlements to the interim dividends is 5.00pm Sydney time 8 May 2015. The Dividend will be paid on 5 June 2015.

2.6 Supplementary comments of any figures in 2.1 to 2.4 above.

3. Income Statement

Please refer to the Income Statement in the attached Consolidated Interim Financial Report for the half year ended 28 February 2015.

4. Statement of Financial Position

Please refer to the Statement of Financial Position in the attached Consolidated Interim Financial Report for the half year ended 28 February 2015.

5. Statement of Cash Flows

Please refer to the Statement of Cash Flows in the attached Consolidated Interim Financial Report for the half year ended 28 February 2015.

6. Dividends Paid

	Amount per share	Franked amount per share	Total amount	Date of payment
Paid during the half year ended 28 February 2015				
Final August 2014 - Ordinary	2.00 cents	2.00 cents	9,762,318	12 December 2014
Paid during the half year ended 28 February 2014				
Final August 2013 - Ordinary	1.75 cents	1.75 cents	8,542,033	13 December 2013
Declared in respect of the half year ended 28 February 2015				
Interim - Ordinary	2.00 cents	2.00 cents	9,762,318	5 June 2015

7. Dividend Reinvestment Plan

There are no dividend reinvestment plans currently in operation.

8. Statement of Retained Earnings

Please refer to the Statement of Changes in Equity in the attached Consolidated Interim Financial Report for the half year ended 28 February 2015.

9. Net tangible asset backing (cents per share)

	28 Feb 2015	28 Feb 2014
Net tangible asset backing per ordinary security (cents)	64.3	62.3

10. Subsidiaries

There were no acquisitions, disposals or loss of control over any entities during the half year period ended 28 February 2015.

11. Associates and Joint Ventures

Refer to Note 6 of the attached Consolidated Interim Financial Report for the half year ended 28 February 2015.

12. Other Significant Information

Refer to the attached Consolidated Interim Financial Report for the half year ended 28 February 2015.

13. Foreign Entities

Not applicable.

14. Commentary on the Results for the Period

14.1 The earnings per security and the nature of any dilution aspects.
Please refer to Note 5 of the attached Consolidated Interim Financial Report for the half year ended 28 February 2015.

14.2 Returns to shareholders including distributions and buy backs.
Please refer to Statement of Changes in Equity of the attached Consolidated Interim Financial Report for the half year ended 28 February 2015.

14.3 Significant features of operating performance.
Please refer to the attached Directors' Report for the half year ended 28 February 2015.

14.4 The results of segments that are significant to an understanding of the business as a whole.
Please refer to Note 2 of the attached Consolidated Interim Financial Report for the half year ended 28 February 2015.

14.5 A discussion of trends in performance.
Please refer to the Results Announcement and Results Presentation issued 23 April 2015.

14.6 Any other factors which have affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified.
Please refer to the Results Announcement and Results Presentation issued 23 April 2015.

15. Independent Review

The Consolidated Interim Financial Report has been subject to review and is not subject to any dispute or qualification.

16. Audit Committee

The entity has a formally constituted Audit Committee.

Directors' Report

The Directors present their report on the consolidated entity consisting of Australian Pharmaceutical Industries Limited ("the Company") and the entities it controlled at the end of, or during, the half year ended 28 February 2015 and the auditor's review report thereon.

Directors

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

Mr Peter R Robinson	Non-executive Director and Chairman
Ms Lee Ausburn	Non-executive Director
Mr Robert D Millner	Non-executive Director
The Hon Dr Michael R Wooldridge	Non-executive Director (resigned 31 December 2014)
Ms E Carol Holley	Non-executive Director
Mr Kenneth W Gunderson-Briggs	Non-executive Director
Mr Gerard J Masters	Non-executive Director
Mr Stephen P Roche	Executive Director and Chief Executive Officer

Review of operations

- Net profit after tax of $21.3 million
- Retail sales up 7.1% to $423.4 million with comparable store growth of 3.9%
- Priceline stores network increased to 400 stores
- Pharmacy distribution performed to expectations
- Warehousing and distribution costs consistent with prior year
- Strong cash production and debt reduction
- The Board has declared a fully franked interim dividend of 2.00 cents per share

The consolidated entity reported a net underlying profit after tax of $21.4 million.

The Retail segment recorded overall reported sales growth of 7.1% and like-for-like store sales growth of 3.9%. Transactions were up 7.9% and basket size up almost 2%, while gross profit improved by $8.0m. This performance was driven by an increased investment in marketing and operational programs along with customer driven initiatives. Priceline and Priceline Pharmacy store numbers grew to 400, up from 390 at the full year to 31 August 2014, with the Sister Club loyalty program now having over 5.2 million members. For completeness it should be noted that 'register' sales made by franchisees do not form part of the financial results of the consolidated entity.

Priceline Pharmacy's sustained sales growth and profit continue to reinforce its position with existing and prospective customers when compared to the impacts of PBS reforms and aggressive competition from supermarkets and discount operators. Our total store experience combined with the introduction of small footprint formats demonstrate the agility and strength of the Priceline pharmacy brand and the value proposition to our network partnerships.

Pharmacy distribution performed to expectations with underlying sales growth of 9.5% to $1.19 billion, excluding PBS reforms, over the prior year period. Gross profit margins remained consistent to the same period last year at 8.6% due to continued management of trading terms in-line with market conditions.

The New Zealand manufacturing segment recorded a profit of $1.3 million for the period on the back of stronger Australian contract over the counter sales.

The OneERP Project is now operational as at 20 April 2015, with benefits to flow from 2016.

Review of operations continued

Financing costs reduced by $2.6 million following reductions in average net debt and a reduction in financing facilities flowing on from the previous refinance in August 2014.

The Company reported cash flow from operations of $51.1 million with total capital expenditure of $15.1 million.

Dividends

The Company paid on 12 December 2014, a final dividend of 2.00 cents per share, fully franked, amounting to $9.8 million.

On 22 April 2015, an interim dividend of 2.00 cents per share, fully franked to be paid on 5 June 2015, amounting to $9.8 million was declared.

Auditor's Independence Declaration

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 21 and forms part of this report.

Rounding of amounts to nearest thousand dollars

The Company is 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.

Signed in accordance with a resolution of directors:

Peter R Robinson

Director

Sydney

22 April 2015

Income Statement

In thousands of AUD		**Consolidated**	
	Note	**Half year ended 28 February 2015**	**Half year ended 28 February 2014***
Revenue		1,712,369	1,658,749
Cost of sales		(1,485,167)	(1,443,225)
Gross profit		**227,202**	**215,524**
Other income and expense	*3*	2,699	3,275
Warehousing and distribution expenses		(63,862)	(63,938)
Marketing and sales expenses		(88,928)	(84,978)
Administration and general expenses		(38,529)	(36,898)
Non-current receivable impairment		-	(52,000)
Intangible assets impairment		-	(59,000)
Results from operating activities		**38,582**	**(78,015)**
Financial income		449	484
Financial expenses		(7,445)	(10,034)
Net financing costs	*4*	**(6,996)**	**(9,550)**
Profit/(loss) before tax and results from associates		**31,586**	**(87,565)**
Share of loss of associates (net of income tax)	*6*	(175)	(20,174)
Profit/(loss) before tax		**31,411**	**(107,739)**
Income tax expense		(10,142)	(7,198)
Profit/(loss) for the period		**21,269**	**(114,937)**

The profit/(loss) for the half year is attributable to equity holders of the parent company.

Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company (cents):			
Basic – profit per share	*5*	4.4	(23.5)
Diluted – profit per share	*5*	4.4	(23.5)

* Restated – refer Note 2

Notes to the Income Statement are annexed.

Statement of Comprehensive Income

In thousands of AUD	Consolidated	
	Half year ended 28 February 2015	**Half year ended 28 February 2014**
Profit/(loss) after Income Tax for the period	**21,269**	**(114,937)**
Items that will not be reclassified subsequently to the income statement	**-**	**-**
Items that may be reclassified subsequently to the income statement		
Exchange fluctuations on translation of foreign operations, net of tax	3,486	3,556
Effective portion of changes in fair value of cash flow hedges, net of tax	(921)	479
Other comprehensive income for the period, net of income tax	**2,565**	**4,035**
Total comprehensive income/(expense) for the period attributable to equity holders of the parent company	**23,834**	**(110,902)**

Notes to the Statement of Comprehensive Income are annexed.

Statement of Financial Position

In thousands of AUD		Consolidated	
	Note	**28 February 2015**	**31 August 2014**
Assets			
Cash and cash equivalents		13,476	23,526
Trade and other receivables		518,611	565,808
Inventories		327,963	342,482
Total current assets		**860,050**	**931,816**
Trade and other receivables		32,015	32,035
Investments accounted for using the equity method	*6*	7,054	7,229
Deferred tax assets		31,370	33,934
Property, plant and equipment		112,690	116,820
Intangible assets	*10*	180,869	167,232
Total non-current assets		**363,998**	**357,250**
Total assets		**1,224,048**	**1,289,066**
Liabilities			
Trade and other payables		571,789	614,614
Loans and borrowings		30,336	20,966
Employee benefits		18,034	19,485
Provisions		30,368	31,261
Income tax payable		1,753	502
Total current liabilities		**652,280**	**686,828**
Trade and other payables		8,376	8,108
Loans and borrowings		57,309	101,828
Employee benefits		5,835	5,629
Provisions		5,526	5,936
Total non-current liabilities		**77,046**	**121,501**
Total liabilities		**729,326**	**808,329**
Net assets		**494,722**	**480,737**
Equity			
Issued capital		566,461	566,461
Reserves		32,925	18,940
Retained losses		(104,664)	(104,664)
Total equity		**494,722**	**480,737**

Notes to the Statement of Financial Position are annexed.

Statement of Cash Flows

In thousands of AUD		Consolidated	
	Note	**Half year ended 28 February 2015**	**Half year ended 28 February 2014**
Cash flows from operating activities			
Cash receipts from customers		1,928,807	1,883,302
Cash paid to suppliers and employees		(1,864,402)	(1,837,300)
Cash generated from operations		64,405	46,002
Interest received		449	484
Financing costs paid		(7,669)	(9,561)
Income tax paid		(6,057)	(7,797)
Net cash from operating activities		**51,128**	**29,128**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		151	1,628
Acquisition of property, plant and equipment		(3,929)	(4,157)
Deferred consideration received		15	975
Proceeds from employee loan		69	-
Payment for intangibles		(11,126)	(8,016)
Net cash used in investing activities		**(14,820)**	**(9,570)**
Cash flows from financing activities			
Repayment of securitised receivables		(33,408)	(8,281)
Repayment of borrowings		(2,399)	(3,091)
Payment of finance lease liabilities		(704)	(295)
Dividends paid		(9,762)	(8,542)
Net cash used in financing activities		**(46,273)**	**(20,209)**
Net decrease in cash and cash equivalents		(9,965)	(651)
Cash and cash equivalents at the beginning of the period		23,526	22,576
Effect of exchange rate fluctuations on cash held		(85)	403
Cash and cash equivalents at the end of the period		**13,476**	**22,328**

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 2014	**566,461**	**(104,664)**	**17,177**	**(450)**	**(38)**	**2,251**	**480,737**
Total comprehensive income for the period							
Profit after tax	-	-	21,269	-	-	-	21,269
Total other comprehensive income/(expense)	-	-	-	3,486	(921)	-	2,565
Total comprehensive income/(expense) for the period	-	-	21,269	3,486	(921)	-	23,834
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	(9,762)	-	-	-	(9,762)
Share based payment transactions	-	-	-	-	-	(87)	(87)
Total distributions to owners	-	-	(9,762)	-	-	(87)	(9,849)
Balance at 28 February 2015	**566,461**	**(104,664)**	**28,684**	**3,036**	**(959)**	**2,164**	**494,722**

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	-	(114,937)	-	-	-	-	(114,937)
Total other comprehensive income	-	-	-	3,556	479	-	4,035
Total comprehensive (expense)/income for the period	-	(114,937)	-	3,556	479	-	(110,902)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	(8,542)	-	-	-	(8,542)
Share based payment transactions	-	-	-	-	-	(938)	(938)
Total distributions to owners	-	-	(8,542)	-	-	(938)	(9,480)
Balance at 28 February 2014	**566,461**	**(128,870)**	**24,499**	**1,214**	**(293)**	**294**	**463,305**

Notes to the statement of changes in equity are annexed.

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

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Australian Pharmaceutical Industries Limited (the 'Company') is a company domiciled in Australia. The Condensed Consolidated Financial Report of the Company for the half year ended 28 February 2015 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interest in associates and jointly controlled entities.

(a) Statement of compliance

The half year Condensed Consolidated Financial Report has been prepared in accordance with the measurement requirements of the Australian Accounting Standards Board ('AASB') 134 *Interim Financial Reporting* for the purpose of fulfilling the consolidated entity's obligation under the Australian Stock Exchange listing rules.

(b) Basis of preparation

The half year financial report is presented in Australian dollars. The half year financial report is prepared on the historical cost basis except that the derivative financial instruments are stated at their fair value.

The accounting policies have been applied consistently and a full description of the accounting policies adopted by the consolidated entity may be found in the consolidated entity's 31 August 2014 full financial report.

(c) Estimates

The preparation of the consolidated interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are evaluated on an ongoing basis and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing the consolidated interim financial report the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those applied in the consolidated financial report as at and for the year ended 31 August 2014.

Notes to the Financial Statements continued

2. 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 the segments 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 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.

Notes to the Financial Statements continued

2. OPERATING SEGMENTS (CONTINUED)

	Distribution Australia		Retailing Australia		Manufacturing New Zealand		Eliminations		Consolidated	
In thousands of AUD	**Feb 15**	**Feb 14**	**Feb 15**	**Feb 14**	**Feb 15**	**Feb 14**	**Feb 15**	**Feb 14**	**Feb 15**	**Feb 14***
Revenue										
External revenue	1,186,980	1,170,552	423,352	395,344	20,917	18,232	-	-	1,631,249	1,584,128
External services	42,983	42,900	38,137	31,721	-	-	-	-	81,120	74,621
Inter-segment revenue**	-	-	-	-	2,537	2,935	(2,537)	(2,935)	-	-
Total segment revenue	1,229,963	1,213,452	461,489	427,065	23,454	21,167	(2,537)	(2,935)	1,712,369	1,658,749
Reportable segment gross profit	106,178	104,715	109,318	101,323	11,706	9,486	-	-	227,202	215,524
Reportable segment profit/(loss)	-	-	-	-	1,311	(767)	-	-	-	-

Reconciliation of reportable segment profit

In thousands of AUD	**Half Year ended 28 February 2015**	**Half Year ended 28 February 2014**
Total profit for reportable segments	227,202	215,524
Unallocated amounts		
Other income and expense	2,699	3,275
Warehousing and distribution expenses	(63,862)	(63,938)
Marketing and sales expenses	(88,928)	(84,978)
Administration and general expenses	(38,529)	(36,898)
Non-current receivable impairment	-	(52,000)
Goodwill impairment	-	(59,000)
Results from operating activities	**38,582**	**(78,015)**
Net financing costs	(6,996)	(9,550)
Share of loss of equity accounted investments	(175)	(20,174)
Consolidated profit/(loss) before tax	**31,411**	**(107,739)**

* The prior period has been adjusted to reclassify rebates from revenue to cost of sales in accordance with accounting policy 2(f) as disclosed in the consolidated financial report as at and for the year ended 31 August 2014. This reclassification had the impact of decreasing both external services revenue and cost of sales by $13.8 million.

** All intersegment sales are on an arm's length basis.

Notes to the Financial Statements continued

3. OTHER INCOME AND EXPENSE

	Consolidated	
In thousands of AUD	**Half Year ended 28 February 2015**	**Half Year ended 28 February 2014**
Gain on disposal of stores, property, plant and equipment	-	1,094
Interest fee income	2,878	2,249
Net foreign exchange loss	(179)	(68)
Other income	2,699	3,275

4. FINANCE INCOME AND COSTS

	Consolidated	
In thousands of AUD	**Half Year ended 28 February 2015**	**Half Year ended 28 February 2014**
Interest income on bank deposits	449	476
Other interest income	-	8
Finance income	**449**	**484**
Interest expense	(3,417)	(5,576)
Borrowing costs	(1,554)	(2,355)
API rewards	(2,362)	(2,061)
Finance charges – leased assets	(112)	(42)
Finance costs	**(7,445)**	**(10,034)**
Net finance costs	**(6,996)**	**(9,550)**

5. EARNINGS PER SHARE

	Consolidated	
In thousands of AUD	**Half Year ended 28 February 2015**	**Half Year ended 28 February 2014**
Profit/(loss) attributable to ordinary shares	21,269	(114,937)
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 shares for the period	**488,116**	**488,116**
In cents		
Basic earnings per share	4.4	(23.5)
Diluted earnings per share	4.4	(23.5)

Notes to the Financial Statements continued

6. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates and joint venture entities

The consolidated entity accounts for investments in associates and joint venture entities using the equity method and has the following investment:

Venture	Principal activities	Country	Reporting Date	Ownership	
				28 February 2015	31 August 2014
CH2 Holdings Pty Ltd	Hospital supplies distribution	Australia	30 June	45.5%	45.5%

	Revenues 100%	Profit/ (loss) after income tax expense - 100%	Share of associate net profit/ (loss) before income tax expense	Share of associate net profit/ (loss) – equity accounted	Impairment charge	Net assets as reported by associate 100%	Share of associate's net assets equity accounted (including goodwill)
In thousands of AUD						28 February 2015	28 February 2015
For the half year ended 28 February 2015							
CH2 Holdings Pty Ltd	446,421	(386)	(250)	(175)	-	32,982	7,054
						31 August 2014	31 August 2014
For the half year ended 28 February 2014							
CH2 Holdings Pty Ltd	404,430	(382)	(249)	(174)	(20,000)	48,468	7,229

The Group's share of the loss for the half year ended 28 February 2015 was $175,000 (2014: loss of $174,000).

Notes to the Financial Statements continued

7. NON-CURRENT LOANS RECEIVABLE

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.

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 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	**28 February 2015**	**31 August 2014**
Loans receivable	53,683	53,635
Provision for Impairment	(22,390)	(22,390)
	31,293	**31,245**

The determination of the impairment provisions is 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 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.

Notes to the Financial Statements continued

8. SHARE CAPITAL AND RESERVES

Share capital

In thousands of shares	Ordinary shares 28 February 2015	Ordinary shares 31 August 2014
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.

Reserves

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.

9. FAIR VALUE MEASUREMENTS

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 28 February 2015 was a liability of $1,369,414 (31 August 2014: liability of $53,948).

The Company considers that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

Notes to the Financial Statements continued

10. INTANGIBLE ASSETS

In thousands of AUD	Goodwill	Brand Names	Software	Development Costs	Capital Works in Progress	Total
Cost						
Balance at 1 September 2014	**101,767**	**99,000**	**19,318**	**808**	**24,937**	**245,830**
Transfer from property, plant and equipment	-	-	157	21	-	178
Other acquisitions	-	-	-	-	11,126	11,126
Effect of movements in foreign exchange	2,424	-	-	141	-	2,565
Balance at 28 February 2015	**104,191**	**99,000**	**19,475**	**970**	**36,063**	**259,699**
Amortisation and impairment losses						
Balance at 1 September 2014	**(56,360)**	**(2,640)**	**(19,009)**	**(589)**	**-**	**(78,598)**
Amortisation for the period	-	-	(79)	(28)	-	(107)
Effect of movements in foreign exchange	-	-	-	(125)	-	(125)
Balance at 28 February 2015	**(56,360)**	**(2,640)**	**(19,088)**	**(742)**	**-**	**(78,830)**
Carrying amounts						
At 31 August 2014	45,407	96,360	309	219	24,937	167,232
At 28 February 2015	47,831	96,360	387	228	36,063	180,869

Notes to the Financial Statements continued

11. CONTINGENCIES

Contingent liabilities

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 Directors are not aware of any matters that would require disclosure either as a Contingent Liability or Contingent Asset (2014: nil).

12. SUBSEQUENT EVENTS

On 22 April 2015, an interim fully franked dividend of 2.00 cents per share was declared to be paid on 5 June 2015.

Directors' declaration

In the opinion of the directors of Australian Pharmaceutical Industries Limited ("the Company"):

(a) the financial statements and notes set out on pages 6 to 19 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 28 February 2015 and of its performance for the half-year ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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

Dated at Sydney this 22nd day of April 2015.

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

To: the directors of Australian Pharmaceutical Industries Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 28 February 2015, there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

M. Bisetto

Maurice Bisetto
Partner

Melbourne

22 April 2015

KPMG

Independent auditor's review report to the members of Australian Pharmaceutical Industries Limited

Report on the financial report

We have reviewed the accompanying condensed interim financial report of Australian Pharmaceutical Industries Limited, which comprises the consolidated statement of financial position as at 28 February 2015, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 12 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 half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 28 February 2015 and its performance for the interim periodended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australian Pharmaceutical Industries Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent Auditor's Review Report to the Members of Australian Pharmaceutical Industries Limited (continued)

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Australian Pharmaceutical Industries Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 28 February 2015 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

M. Bisetto

Maurice Bisetto
Partner

Melbourne

22 April 2015

ATTACHMENT 1

UNDERLYING EARNINGS RECONCILIATION (UNAUDITED)

	Half year ended 28-Feb-15 $,000	Half year ended 28-Feb-14 $,000
Result from Operating Activities	**38,582**	**(78,015)**
Intangible impairment (NZ Manufacturing and Retail)	-	59,000
Impairment of pharmacy customer loans and bank guarantees on balance sheet	-	52,000
Underlying EBIT	**38,582**	**32,985**
Reported net profit/(loss) after tax	21,269	(114,937)
After tax effect of underlying adjustments	-	111,000
Impairment and share of loss from associate	175	20,174
Underlying net profit after tax	**21,444**	**16,237**