

Appendix 4D Financial Report for the half year ended 29 February 2016

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 29 February 2016

Previous corresponding period - the half year ended 28 February 2015

2. Results for announcement to the market

| | | Half year ended 29 Feb 2016 \$'000 | Half year ended 28 Feb 2015 \$'000 | Increase |
|------|---|--|--|--------------------------------|
| 2.1 | Revenue from ordinary activities | 1,788,469 | 1,712,369 | 4.4% |
| 2.2 | Profit from ordinary activities after tax attributable to members | 22,897 | 21,269 | 7.7% |
| 2.3 | Net profit for the period attributable to members | 22,897 | 21,269 | 7.7% |
| | Profit before interest, tax, depreciation and associates (Attachment 1) | 57,631 | 47,654 | 20.9% |
| | Profit before tax | 33,858 | 31,411 | 7.8% |
| 2.3a | Underlying net profit after tax (Attachment 1) | 25,334 | 21,444 | 18.1% |
| | | Amount per security | Franking % | Franked amount per security |
| 2.4 | Dividends | | | |
| | Interim Dividend (declared) | 2.5 cents | 100 | 2.5 cents |
| | Final Dividend (prior year – paid) | 2.5 cents | 100 | 2.5 cents |
| 2.5 | The record date for determining entitlements to the interim dividends is 5.00pm Sydney time 6 May 2016. The Dividend will be paid on 3 June 2016. | | | |

3. Income Statement

Please refer to the Income Statement in the attached Condensed Consolidated Interim Financial Report for the half year ended 29 February 2016.

4. Statement of Financial Position

Please refer to the Statement of Financial Position in the attached Condensed Consolidated Interim Financial Report for the half year ended 29 February 2016.

5. Statement of Cash Flows

Please refer to the Statement of Cash Flows in the attached Condensed Consolidated Interim Financial Report for the half year ended 29 February 2016.

6. Dividends Paid

| | Amount per share | Franked amount per share | Total amount | Date of payment |
|--|------------------|--------------------------|--------------|------------------|
| Paid during the half year ended 29 February 2016 | | | | |
| Final August 2015- Ordinary | 2.50 cents | 2.50 cents | 12,202,907 | 4 December 2015 |
| 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 |
| Declared in respect of the half year ended 29 February 2016 | | | | |
| Interim - Ordinary | 2.50 cents | 2.50 cents | 12,227,423 | 3 June 2016 |

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 Condensed Consolidated Interim Financial Report for the half year ended 29 February 2016.

9. Net tangible asset backing (cents per share)

| | 29 Feb 2016 | 28 Feb 2015 |
|--|-------------|-------------|
| Net tangible asset backing per ordinary security (cents) | 66.9 | 64.3 |

10. Subsidiaries

There were no acquisitions, disposals or loss of control over any entities during the half year ended 29 February 2016.

11. Associates and Joint Ventures

Refer to Note 6 of the attached Condensed Consolidated Interim Financial Report for the half year ended 29 February 2016.

12. Other Significant Information

Refer to the attached Condensed Consolidated Interim Financial Report for the half year ended 29 February 2016.

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 Condensed Consolidated Interim Financial Report for the half year ended 29 February 2016.
- 14.2 Returns to shareholders including distributions and buy backs.
Please refer to Statement of Changes in Equity of the attached Condensed Consolidated Interim Financial Report for the half year ended 29 February 2016.
- 14.3 Significant features of operating performance.
Please refer to the attached Directors' Report for the half year ended 29 February 2016.
- 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 Condensed Consolidated Interim Financial Report for the half year ended 29 February 2016.
- 14.5 A discussion of trends in performance.
Please refer to the Results Announcement and Results Presentation issued 21 April 2016.
- 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 21 April 2016.

15. Independent Review

The Condensed 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 29 February 2016 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 |
| 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

- Underlying net profit after tax up 18.1% to \$25.3 million (excluding CH2)
- Reported net profit after tax up 7.7% to \$22.9 million
- Earnings before interest and tax up 15.6% to \$44.6 million
- Revenue up 4.4% to \$1.788 billion
- Overall cost of doing business further reduced by 16 basis points
- Shareholding in CH2 business sold during the year for \$4.36 million in cash and a net loss of \$2.4 million
- Declared interim dividend of 2.5 cents per share fully franked up 25%

The consolidated entity reported an underlying net profit after tax of \$25.3 million, which excluded the loss on sale of API's shareholding in hospital supplies distributor CH2 (announced on 26 November 2015). Earnings before interest and tax rose 15.6% primarily due to growth from the Priceline / Priceline Pharmacy business, maintained earnings from Pharmacy Distribution and improved operating cost performance.

Priceline / Priceline Pharmacy recorded overall reported register sales growth of 7.1% and comparable store sales growth of 2.4%. This performance was driven by the continued strength of the customer offer, with strong customer response to new products, promotions and service offers. For completeness it should be noted that 'register' sales made by franchisees do not form part of the financial results of the consolidated entity.

Due to the strong customer focus, demand for new stores from potential pharmacist franchise partners is high and new store openings also contributed to increased sales. The Priceline Pharmacy network numbers were 425 up from 420 at 31 August 2015. Engagement with customers across all forums, including online, social media and in stores, is a key driver of loyalty to the brand, shown demonstrably with the Sister Club loyalty program now having 6.1 million members. This loyalty program remains the pre eminent leader in health and beauty in Australia.

Pharmacy Distribution performed to expectations with sales growth of 1.5% to \$1.2 billion, and excluding the effect of PBS reforms sales growth would have been 7% over the prior year period. The business grew independent accounts, demonstrating the appeal of the Club Premium program that now has more than 750 members. Pharmacists are choosing to deal with API due to the choice of programs that can be tailored to the individual needs of their business.

The New Zealand manufacturing segment recorded a profit of \$1.7 million. Sales growth of 12.1% was largely driven by demand for private label products from the Australian market, which continues to be a source of growth.

Review of operations (continued)

Business operating costs have delivered further efficiencies for the business. Overall operating costs as a percentage of revenue have declined for a fourth straight reporting period while initiatives to drive labour, delivery and stock handling savings have delivered 3% overall productivity gain across the supply chain network.

Net financing costs increased by \$1.3 million compared to the same period last year. This was predominantly due to the company taking a conservative position on inventory following the SAP implementation to ensure that sales were protected during the seasonal trading period. This resulted in higher debt balances during the period. Working capital and financing costs are expected to improve during the second half.

The Company reported cash flow from trading operations of \$58.8 million. Movements in working capital resulted in a negative cash generated from operations of \$45.8m. Net capital expenditure incurred was \$7.8 million.

Dividends

The Company paid on 4 December 2015, a final dividend of 2.50 cents per share, fully franked, amounting to \$12.2 million.

On 21 April 2016, an interim dividend of 2.50 cents per share, fully franked to be paid on 3 June 2016 amounting to \$12.2 million was declared.

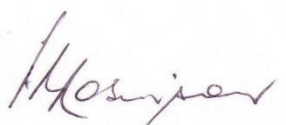
Auditor's Independence Declaration

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 20 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

21 April 2016

Income Statement

In thousands of AUD

| | | Consolidated | |
|--|-------------|---|---|
| | Note | Half year ended 29 February 2016 | Half year ended 28 February 2015 |
| Revenue | | 1,788,469 | 1,712,369 |
| Cost of sales | | (1,550,577) | (1,485,167) |
| Gross profit | | 237,892 | 227,202 |
| Other income and expense | 3 | 3,683 | 2,699 |
| Warehousing and distribution expenses | | (62,219) | (63,862) |
| Marketing and sales expenses | | (90,883) | (88,928) |
| Administration and general expenses | | (43,857) | (38,529) |
| Results from operating activities | | 44,616 | 38,582 |
| Financial income | | 365 | 449 |
| Financial expenses | | (8,686) | (7,445) |
| Net financing costs | 4 | (8,321) | (6,996) |
| Profit before tax and results from associates | | 36,295 | 31,586 |
| Loss from investment in associates | 6 | (2,437) | (175) |
| Profit before tax | | 33,858 | 31,411 |
| Income tax expense | | (10,961) | (10,142) |
| Profit for the period | | 22,897 | 21,269 |

The profit for the half year is attributable to equity holders of the parent company.

Earnings per share for profit attributable to the ordinary equity holders of the company (cents):

| | | | |
|----------------------------|---|-----|-----|
| Basic – profit per share | 5 | 4.7 | 4.4 |
| Diluted – profit per share | 5 | 4.6 | 4.4 |

Notes to the Income Statement are annexed.

Statement of Comprehensive Income

In thousands of AUD

| | Consolidated | |
|---|---|---|
| | Half year ended 29 February 2016 | Half year ended 28 February 2015 |
| Profit after Income Tax for the period | 22,897 | 21,269 |
| 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 | 1,423 | 3,486 |
| Effective portion of changes in fair value of cash flow hedges, net of tax | 51 | (921) |
| Other comprehensive income for the period, net of income tax | 1,474 | 2,565 |
| Total comprehensive income for the period attributable to equity holders of the parent company | 24,371 | 23,834 |

Notes to the Statement of Comprehensive Income are annexed.

Statement of Financial Position

In thousands of AUD

| | | Consolidated | |
|--------------------------------------|------|---------------------|-------------------|
| | Note | 29 February 2016 | 31 August 2015 |
| Assets | | | |
| Cash and cash equivalents | | 19,772 | 28,047 |
| Trade and other receivables | | 533,222 | 592,330 |
| Inventories | | 382,981 | 364,206 |
| Income tax receivable | | - | 2,426 |
| Other investments | 6 | - | 6,798 |
| Total current assets | | 935,975 | 993,807 |
| Trade and other receivables | | 30,975 | 30,380 |
| Deferred tax assets | | 24,752 | 22,722 |
| Property, plant and equipment | | 100,673 | 101,946 |
| Intangible assets | | 192,104 | 193,693 |
| Total non-current assets | | 348,504 | 348,741 |
| Total assets | | 1,284,479 | 1,342,548 |
| Liabilities | | | |
| Trade and other payables | | 528,394 | 665,933 |
| Loans and borrowings | 7 | 7,384 | 58,254 |
| Employee benefits | | 19,618 | 23,288 |
| Income tax payable | | 9,635 | - |
| Provisions | | 27,448 | 30,245 |
| Total current liabilities | | 592,479 | 777,720 |
| Trade and other payables | | 8,558 | 8,616 |
| Loans and borrowings | 7 | 154,159 | 40,613 |
| Employee benefits | | 5,297 | 5,215 |
| Provisions | | 4,877 | 4,982 |
| Total non-current liabilities | | 172,891 | 59,426 |
| Total liabilities | | 765,370 | 837,146 |
| Net assets | | 519,109 | 505,402 |
| Equity | | | |
| Issued capital | | 566,461 | 566,461 |
| Reserves | | 57,312 | 43,605 |
| Accumulated losses | | (104,664) | (104,664) |
| Total equity | | 519,109 | 505,402 |

Notes to the Statement of Financial Position are annexed.

Statement of Cash Flows

In thousands of AUD

Consolidated

| | | Half year ended 29 February 2016 | Half year ended 28 February 2015 |
|---|------|-------------------------------------|-------------------------------------|
| | Note | | |
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 2,020,307 | 1,928,807 |
| Cash paid to suppliers and employees | | (2,066,067) | (1,864,402) |
| Cash generated from operations | | (45,760) | 64,405 |
| Interest received | | 365 | 449 |
| Financing costs paid | | (8,469) | (7,669) |
| Income tax paid | | (944) | (6,057) |
| Net cash (used in) / from operating activities | | (54,808) | 51,128 |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment | | 1,000 | 151 |
| Acquisition of property, plant and equipment | | (6,466) | (3,929) |
| Proceeds from divestment of associates | 6 | 4,361 | - |
| Deferred consideration received | | - | 15 |
| Proceeds from employee loan | | - | 69 |
| Payment for intangibles | | (2,302) | (11,126) |
| Net cash used in investing activities | | (3,407) | (14,820) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 677,000 | 592,000 |
| Repayment of borrowings | | (614,361) | (627,807) |
| Payment of finance lease liabilities | | (735) | (704) |
| Dividends paid | | (12,203) | (9,762) |
| Net cash from / (used in) financing activities | | 49,701 | (46,273) |
| Net decrease in cash and cash equivalents | | (8,514) | (9,965) |
| Cash and cash equivalents at the beginning of the period | | 28,047 | 23,526 |
| Effect of exchange rate fluctuations on cash held | | 239 | (85) |
| Cash and cash equivalents at the end of the period | | 19,772 | 13,476 |

Notes to the Statement of Cash Flows are annexed.

Australian Pharmaceutical Industries Limited and Controlled Entities
ABN 57 000 004 320
Condensed Consolidated Interim Financial Report
For the half year ended 29 February 2016

Statement of changes in equity

| <i>In thousands of AUD</i> | Share Capital | Accumulated Losses | Profits* Reserve | Translation Reserve | Hedging Reserve | Equity Reserve | Total Equity |
|--|----------------|--------------------|------------------|---------------------|-----------------|----------------|----------------|
| <i>Balance at 1 September 2015</i> | 566,461 | (104,664) | 40,819 | (375) | (593) | 3,754 | 505,402 |
| Total comprehensive income for the period | | | | | | | |
| Profit after tax | - | - | 22,897 | - | - | - | 22,897 |
| Total other comprehensive income | - | - | - | 1,423 | 51 | - | 1,474 |
| Total comprehensive income for the period | - | - | 22,897 | 1,423 | 51 | - | 24,371 |
| Transactions with owners, recorded directly in equity | | | | | | | |
| Contributions by and distributions to owners | | | | | | | |
| Dividends to equity holders | - | - | (12,203) | - | - | - | (12,203) |
| Share based payment transactions | - | - | - | - | - | 1,539 | 1,539 |
| Total contributions by and (distributions) to owners | - | - | (12,203) | - | - | 1,539 | (10,664) |
| Balance at 29 February 2016 | 566,461 | (104,664) | 51,513 | 1,048 | (542) | 5,293 | 519,109 |

| <i>In thousands of AUD</i> | Share Capital | Accumulated Losses | Profits* Reserve | Translation Reserve | Hedging Reserve | Equity Reserve | Total Equity |
|--|----------------|--------------------|------------------|---------------------|-----------------|----------------|----------------|
| <i>Balance at 1 September 2014</i> | 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 (expense)/income 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 |

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 Condensed Consolidated Interim Financial report

1. SIGNIFICANT ACCOUNTING POLICIES

Australian Pharmaceutical Industries Limited (the 'Company') is a company domiciled in Australia. The Condensed Consolidated Interim Financial Report of the Company for the half year ended 29 February 2016 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 Condensed Consolidated Interim 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 Condensed Consolidated Interim Financial Report is presented in Australian dollars. The Condensed Consolidated Interim 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 2015 full financial report.

(c) Estimates

The preparation of the Condensed 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 in 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 Condensed 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 2015.

(d) Comparatives

Where applicable, comparative periods have been adjusted to disclose them on the same basis as the current period figures.

Notes to the Condensed Consolidated Interim Financial report 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).

Effective 1 September 2015, API Board approval was provided to move the API Australian operations to one operating segment in line with the One Enterprise business restructure which is how segment information is presented to the CEO, which comprises two segments, Australia and New Zealand.

Following the restructure a review of the cash generating units (CGU) was completed, resulting in the Australia business being identified as one CGU as at 1 September 2015.

Australia

Distribution of pharmaceutical, medical, health, beauty and lifestyle products to pharmacies, the purchase and sale of various health, beauty and lifestyle products within the retail industry, and provider of retail services to pharmacies.

The consolidated entity predominantly operates within Australia.

New Zealand

Manufacturer and owner of rights of pharmaceutical medicines and consumer toiletries.

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

| | Australia | | New Zealand*** | | Eliminations | | Consolidated | |
|---------------------------------|-----------|-----------|----------------|--------|--------------|---------|--------------|-----------|
| <i>In thousands of AUD</i> | Feb 16 | Feb 15** | Feb 16 | Feb 15 | Feb 16 | Feb 15 | Feb 16 | Feb 15 |
| Revenue | | | | | | | | |
| External revenue | 1,703,929 | 1,625,373 | 23,455 | 20,917 | - | - | 1,727,384 | 1,646,290 |
| External services | 61,085 | 66,079 | - | - | - | - | 61,085 | 66,079 |
| Inter-segment revenue* | - | - | 3,414 | 2,537 | (3,414) | (2,537) | - | - |
| Total segment revenue | 1,765,014 | 1,691,452 | 26,869 | 23,454 | (3,414) | (2,537) | 1,788,469 | 1,712,369 |
| Reportable segment gross profit | 225,656 | 215,496 | 12,236 | 11,706 | - | - | 237,892 | 227,202 |
| Reportable segment profit | - | - | 1,684 | 1,311 | - | - | - | - |

Notes to the Condensed Consolidated Interim Financial report continued

Reconciliation of reportable segment profit

In thousands of AUD

| | Half Year ended 29 February 2016 | Half Year ended 28 February 2015 |
|--|-------------------------------------|-------------------------------------|
| Total profit for reportable segments | 237,892 | 227,202 |
| Unallocated amounts | | |
| Other income and expense | 3,683 | 2,699 |
| Warehousing and distribution expenses | (62,219) | (63,862) |
| Marketing and sales expenses | (90,883) | (88,928) |
| Administration and general expenses | (43,857) | (38,529) |
| Results from operating activities | 44,616 | 38,582 |
| Net financing costs | (8,321) | (6,996) |
| Loss from investment in associates | (2,437) | (175) |
| Consolidated profit before tax | 33,858 | 31,411 |

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

** Prior year comparatives have been restated to reflect the change in the composition of API's reportable segments as at 1 September 2015.

*** Previously disclosed as Manufacturing New Zealand.

Notes to the Condensed Consolidated Interim Financial report continued

3. OTHER INCOME AND EXPENSE

| <i>In thousands of AUD</i> | Consolidated | |
|---|-------------------------------------|-------------------------------------|
| | Half Year ended 29 February 2016 | Half Year ended 28 February 2015 |
| Gain on disposal of stores, property, plant and equipment | 667 | - |
| Interest fee income | 3,160 | 2,878 |
| Net foreign exchange loss | (144) | (179) |
| Other income | 3,683 | 2,699 |

4. FINANCE INCOME AND COSTS

| <i>In thousands of AUD</i> | Consolidated | |
|----------------------------------|-------------------------------------|-------------------------------------|
| | Half Year ended 29 February 2016 | Half Year ended 28 February 2015 |
| Interest income on bank deposits | 365 | 449 |
| Finance income | 365 | 449 |
| Interest expense | (4,975) | (3,417) |
| Borrowing costs | (946) | (1,554) |
| API rewards | (2,602) | (2,362) |
| Finance charges –leased assets | (163) | (112) |
| Finance costs | (8,686) | (7,445) |
| Net finance costs | (8,321) | (6,996) |

5. EARNINGS PER SHARE

| <i>In thousands of AUD</i> | Consolidated | |
|---|-------------------------------------|-------------------------------------|
| | Half Year ended 29 February 2016 | Half Year ended 28 February 2015 |
| Profit attributable to ordinary shares | 22,897 | 21,269 |
| <i>In thousands of shares</i> | | |
| Basic weighted average number of ordinary shares for the period | 488,723 | 488,116 |
| Effect of potential ordinary shares on issue | 4,938 | - |
| Diluted weighted average number of shares for the period | 493,661 | 488,116 |
| <i>In cents</i> | | |
| Basic earnings per share | 4.7 | 4.4 |
| Diluted earnings per share | 4.6 | 4.4 |

Notes to the Condensed Consolidated Interim Financial report continued

6. OTHER INVESTMENTS

Investments in associates

The consolidated entity divested its shareholding in hospital supplies distributor, CH2 Holdings Pty Ltd (CH2) during the half year ended 29 February 2016 for \$4.36 million resulting in a loss of \$2.44 million at the consolidated level.

7. LOAN AND BORROWINGS

| <i>In thousands of AUD</i> | Consolidated | |
|-------------------------------------|---------------------|-------------------|
| | 29 February 2016 | 31 August 2015 |
| Current liabilities | | |
| Customer deposits | 7 | 7 |
| Insurance premium funding | - | 1,592 |
| Finance lease liabilities | 1,794 | 1,233 |
| Securitisation of trade receivables | - | 50,000 |
| Cash advance facilities – secured | 5,583 | 5,422 |
| | 7,384 | 58,254 |
| Non current liabilities | | |
| Finance lease liabilities | 2,702 | 3,229 |
| Securitisation of trade receivables | 151,457 | 37,384 |
| Cash advance facilities – secured | - | - |
| | 154,159 | 40,613 |

Reclassification of facilities

As at 29 February 2016, API have no intention to repay the securitisation facilities prior to the termination date on the facilities of 1 May 2018. As such, in accordance with accounting standards, the debt drawn on API's securitisation facilities have been classified entirely as non-current liabilities. As at 31 August 2015, the amounts shown as non current were determined as the lowest expected balance of the securitisation facilities in the 12 month period post balance date based on board approved budgets at that time.

Notes to the Condensed Consolidated Interim Financial report continued

8. 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

| <i>In thousands of AUD</i> | 29 February 2016 | 31 August 2015 |
|----------------------------|-----------------------------|---------------------------|
| Loans receivable | 48,781 | 48,186 |
| Provision for Impairment | (18,548) | (18,548) |
| | 30,233 | 29,638 |

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 Condensed Consolidated Interim Financial report continued

9. SHARE CAPITAL AND RESERVES

Share capital

| <i>In thousands of shares</i> | Ordinary shares | |
|---|---------------------|-------------------|
| | 29 February 2016 | 31 August 2015 |
| Shares on issue at the beginning of the period – fully paid | 488,116 | 488,116 |
| Ordinary shares issued during November 2015 pursuant to the Company's Short Term Incentive Plan | 981 | - |
| Shares on issue at the end of the period – fully paid | <u>489,097</u> | <u>488,116</u> |

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.

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.

10. 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 interest rates at the balance sheet date.

The fair value of the cash flow hedges at 29 February 2016 was a liability of \$774,287 (31 August 2015: net liability of \$846,344).

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 Condensed Consolidated Interim Financial report 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 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 (2015: nil).

12. SUBSEQUENT EVENTS

On 21 April 2016, an interim fully franked dividend of 2.50 cents per share was declared to be paid on 3 June 2016.

Directors' declaration

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

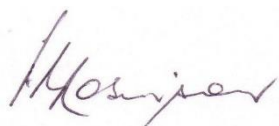
(a) the condensed consolidated financial statements and notes set out on pages 6 to 18 are in accordance with the Corporations Act 2001 including:

- (i) giving a true and fair view of the financial position of the consolidated entity as at 29 February 2016 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 21 day of April 2016.

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 29 February 2016, 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.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'M. Bisetto'.

Maurice Bisetto
Partner

Melbourne

21 April 2016



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

Report on the financial report

We have reviewed the accompanying condensed consolidated interim financial report of Australian Pharmaceutical Industries Limited, which comprises the consolidated statement of financial position as at 29 February 2016, 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 29 February 2016 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australian Pharmaceutical Industries Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



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 29 February 2016 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*.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'M. Bisetto'.

Maurice Bisetto
Partner

Melbourne

21 April 2016

ATTACHMENT 1

A. UNDERLYING EARNINGS RECONCILIATION (UNAUDITED)

| | Half year ended 29-Feb-16 \$'000 | Half year ended 28-Feb-15 \$'000 |
|---|--|--|
| Result from Operating Activities | 44,616 | 38,582 |
| Underlying EBIT | 44,616 | 38,582 |
| Reported net profit after tax | 22,897 | 21,269 |
| After tax effect of underlying adjustments | - | - |
| Impairment and share of loss from associate | 2,437 | 175 |
| Underlying net profit after tax | 25,334 | 21,444 |

B. UNDERLYING PROFIT BEFORE INTEREST, TAX, DEPRECIATION, AND ASSOCIATES RECONCILIATION (UNAUDITED)

| | Half year ended 29-Feb-16 \$'000 | Half year ended 28-Feb-15 \$'000 |
|--|--|--|
| Result from Operating Activities | 44,616 | 38,582 |
| Underlying EBIT | 44,616 | 38,582 |
| Depreciation and amortisation | 13,015 | 9,072 |
| Underlying profit before interest, tax, depreciation, and associates | 57,631 | 47,654 |