APPENDIX 4D

Australian Pharmaceutical Industries Limited
ABN 57 000 004 320
Interim financial report for the half year ended 28 February 2019

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	Half year ended 28 February 2019
Previous corresponding period	Half year ended 28 February 2018

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

For the half year ended 28 February	2019 $'000	2018 $'000	Change $'000	Change %
Revenue from ordinary activities	**1,977,097**	2,009,319	(32,222)	(1.6%)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**59,213**	56,106	3,107	5.5%
Earnings before interest and tax (EBIT)	**44,418**	41,979	2,439	5.8%
Profit before tax	**36,339**	35,957	382	1.1%
Net profit after tax for the half year (NPAT)	**24,990**	24,937	53	0.2%
Net profit after tax for the half year, attributable to members of the Company	**24,240**	24,937	(697)	(2.8%)
Underlying net profit after tax for the half year	**26,782**	26,774	8	0.0%
Underlying net profit after tax for the half year, attributable to members of the Company (i)	**26,032**	26,774	(742)	(2.8%)
Earnings per share (in cents)				
Basic earnings per share	**4.9**	5.1	(0.2)	(3.9%)
Diluted earnings per share	**4.9**	5.0	(0.1)	(2.0%)
Underlying basic earnings per share - consolidated group (i)	**5.4**	5.5	(0.1)	(1.8%)
Underlying basic earnings per share attributable to members (i)	**5.3**	5.5	(0.2)	(3.6%)

(i) Refer to Attachment 1 for reconciliation of reported net profit and basic earnings per share to underlying net profit and underlying basic earnings per share

Commentary on the results for the period

For an explanation of the results, refer to the Results Announcement and Results Presentation issued 17 April 2019.

3. DIVIDEND INFORMATION

	Amount per share (cents)	Franking percentage	Total Amount A$	Date of payment
Half year ended 28 February 2019				
Interim ordinary dividend - declared	3.75	100%	18,470,005	31 May 2019
Record Date: 3 May 2019				
Final ordinary dividend (prior year) - paid	4.00	100%	19,701,339	7 December 2018

There is no dividend reinvestment plan currently in operation.

APPENDIX 4D

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Interim financial report for the half year ended 28 February 2019

4. NET TANGIBLE ASSET BACKING (CENTS PER SHARE)

	28 Feb 19	31 Aug 18	28 Feb 18
Net tangible asset backing - cents per share	46.7	46.6	75.4

Net tangible asset backing has reduced due to the acquisition of Clearskincare business as noted in the year end financial statements dated 31 August 2018.

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

There were no acquisitions, disposals, or loss of control over any entities during the half year ended 28 February 2019.

The Company has a New Zealand subsidiary which adopts the New Zealand equivalents of the International Financial Reporting Standards ('NZIFRS') which is consistent with the framework adopted by the Company.

6. FINANCIAL STATEMENTS

The following additional Appendix 4D disclosure requirements can be found in the attached Interim Financial Report for the half year ended 28 February 2019, which contains the Directors' Report, the Directors' Declaration and the 28 February 2019 consolidated financial statements and accompanying notes:

- Consolidated income statement;
- Consolidated statement of comprehensive income;
- Consolidated balance sheet;
- Consolidated statement of changes in equity;
- Consolidated statement of cash flows;
- Condensed notes to the consolidated financial statements;
- Review of operations; and
- Returns to shareholders including distributions and earnings per share.

The consolidated financial statements have been subject to review and are not subject to any dispute or qualification.

7. COMMENTARY ON THE RESULTS FOR THE PERIOD

7.1 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 2019.

7.2 Returns to shareholders including distributions and buy backs.

Please refer to Consolidated Statement of Changes in Equity of the attached Consolidated Interim Financial Report for the half year ended 28 February 2019.

7.3 Significant features of operating performance.

Please refer to the attached Directors' Report for the half year ended 28 February 2019.

7.4 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 2019.

7.5 A discussion of trends in performance.

Please refer to the Results Announcement and Results Presentation issued 17 April 2019.

7.6 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 17 April 2019.

8. AUDIT AND RISK COMMITTEE

The entity has a formally constituted Audit and Risk Committee.

APPENDIX 4D

Australian Pharmaceutical Industries Limited

ABN 57 000 004 320

Interim financial report for the half year ended 28 February 2019

ATTACHMENT 1 – RECONCILIATION OF REPORTED INFORMATION TO UNDERLYING INFORMATION

Reconciliation of reported NPAT to underlying NPAT	**Half year ended 28 February**	
In thousands of AUD	**2019**	**2018**
Reported Net profit after tax	**24,990**	24,937
Add:		
Costs incurred for strategic business growth	**1,792**	1,837
Underlying NPAT	**26,782**	26,774
Underlying basic earnings per share - Consolidated group (in cents)	**5.4**	5.5
Less: Non-controlling interests	**(750)**	-
Underlying NPAT attributable to members	**26,032**	26,774
Underlying basic earnings per share attributable to members (in cents)	**5.3**	5.5

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

We believe these non-statutory measures provide useful information to understand the financial performance of the Company, but should not be considered as an indication of, or substitution for reported information. Underlying NPAT and underlying basic earnings per share has not been audited or reviewed in accordance with Australian Auditing Standards.

DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Australian Pharmaceutical Industries Limited ('the Company' or 'API') and the entities it controlled at the end of, or during, the half year ended 28 February 2019 ('the Group') and the auditor's review report thereon.

Directors

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

Mr Mark Smith	Non-executive Director and Chairman
Ms Lee Ausburn	Non-executive Director
Mr Robert D Millner	Non-executive Director
Mr Kenneth W Gunderson-Briggs	Non-executive Director
Mr Gerard J Masters	Non-executive Director
Ms Jennifer Macdonald	Non-executive Director
Mr Richard C Vincent	Executive Director and Chief Executive Officer

Review of operations

- Earnings before interest and tax up 5.8% to $44.4 million
- Underlying net profit after tax is consistent with the prior year at $26.8 million
- Reported net profit after tax up 0.2% to $25.0 million
- Revenue down 1.6% to $2.0 billion
- Declared interim dividend of 3.75 cents per share fully franked

Earnings before interest and tax increased by 5.8% to $44.4 million primarily due to improved performance in both Priceline Retail, Consumer Brands, and from Clearskincare which reported its first half year contribution; and supported by consistent performance from Pharmacy Distribution. The Group reported underlying net profit after tax of $26.8 million which is consistent with the prior corresponding period.

Reported net debt was $262.0 million. On a Like for Like basis when funding used for the acquisition of Clearskincare and for the acquisition of Sigma shares were excluded, net debt totalled $107.5 million which was up $82.4 million on the prior corresponding period. This increase in Net Debt reflects our Working Capital management strategy for the half year which was to increase inventory in key categories to promote revenue growth in the Priceline Retail network over the Christmas trading period and for subsequent sales events. This additional inventory was sold through late in the reporting period and is reflected in increased Priceline Like for Like sales, increased Trade Debtors for collection after the half year end, and in reduced Trade Creditors reflecting earlier payment for the inventory. The payment for the inventory before half year end and collection after half year end resulted in higher Net Debt at reporting date.

Revenue was down slightly by 1.6% to $2.0 billion. This reduction was due to the impact of declining Hepatitis C sales, PBS price reductions, and the introduction of AAB15 which resulted in the reclassification of revenues. Adjusting for the impact of Hepatitis C medicine sales and PBS price reductions, Revenue growth was 6.6%.

<u>Priceline Retail Network</u>

Priceline Pharmacy network's overall total register sales were up by 1.2% on the prior corresponding period. This was achieved despite continued challenges in the retail environment and variable consumer sentiment. The business focussed on optimising sales over the Christmas period followed by Valentine's Day and Chinese New Year by launching catalogues and digital campaigns optimising shopper trends. As a result, like for like growth in the Priceline Pharmacy network totalled 0.3%, up from -1.7% in the prior corresponding period, and average shopper basket size increased 3.0%. Sisterclub membership continued to grow over the half year and the Group continued to improve our communication and offers to those members. Note that 'register' sales made by franchisees do not form part of the financial results of the Group.

Due to the strong Priceline brand position, demand for new stores from potential pharmacist franchise partners remains compelling with Priceline Pharmacy network numbers increasing to 479 at 28 February 2019.

DIRECTORS' REPORT

Pharmacy Distribution

Pharmacy Distribution revenue was down by 3.2% compared to the prior corresponding period, was consistent with the performance in the market, and was influenced by continued reductions in demand for high cost Hepatitis C medicines and PBS reforms. Adjusting for this effect of Hepatitis C, overall reported sales growth was 3.0%. When normalised for the impact of the Pharmaceutical Benefits Scheme (PBS) reforms and Hepatitis C, the underlying sales growth would have been 8.8% over the prior corresponding period. The business continued to focus on higher margin business, to win new customer groups and to focus on our banner brands and retail services.

Consumer Brands

Consumer Brands continued its positive results reflecting the restructure of the business. Revenue grew by 20.7% and the business reported earnings before interest and tax of $2.3 million, an increase of $1.8 million on the prior corresponding period. This growth was primarily driven by new contracts and products within Healthcare. In addition, PersonalCare expanded the Only Good range with the first shipment to the United Kingdom during the period.

Clearskincare

The first full half of trading under Group ownership has resulted in sales revenue of $21.8 million and growth in all treatments and treatment categories over the prior corresponding period prior to Group ownership. Overall revenue grew by 21% on the prior corresponding period prior to ownership. Significantly Clearskincare opened 3 new clinics for a total of 47 clinics at reporting date. The Group employed new management to work closely with the founders, and had a strong focus on integrating the business and on improving the treatment output at existing and new clinics during the half.

Significant event during the half

On 14 December 2018 API lodged a substantial shareholder notice advising that API held 12.95% of the shares in Sigma Healthcare Limited ('Sigma Healthcare'). The notice confirmed API had made a non-binding indicative proposal to Sigma Healthcare's Board of Directors in October 2018 which was to acquire 100% of the shares in Sigma Healthcare via a scheme of arrangement. On 13 March 2019 Sigma Healthcare announced it had rejected this non-binding offer. API currently holds 12.95% of the shares in Sigma Healthcare and is currently reviewing its plans in relation to this shareholding.

Dividends

The Company paid a final dividend of 4.00 cents per share for the FY18 year on 7 December 2018, fully franked, amounting to $19.7 million.

On 16 April 2019, an interim dividend of 3.75 cents per share, fully franked to be paid on 31 May 2019 amounting to $18.5 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 6 and forms part of this report.

Rounding of amounts to nearest thousand dollars

The Company is a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 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:

Mark G Smith

Mark Smith
Chairman

Melbourne
16 April 2019

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 of Australian Pharmaceutical Industries Limited for the half-year ended 28 February 2019 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

Tony Romeo
Partner

Melbourne
16 April 2019

INTERIM FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT

		Half year ended 28 February	
In thousands of AUD	Note	2019	2018
Revenue	3	1,977,097	2,009,319
Cost of sales		(1,711,201)	(1,766,500)
Gross profit		**265,896**	**242,819**
Other income	3	4,501	4,920
Warehousing and distribution expenses		(72,295)	(69,761)
Marketing and sales expenses		(107,492)	(90,428)
Administration and general expenses		(46,192)	(45,571)
Profit from operating activities (EBIT)		**44,418**	**41,979**
Finance income	4	310	102
Finance expenses	4	(8,389)	(6,124)
Net finance costs		**(8,079)**	**(6,022)**
Profit before tax		**36,339**	**35,957**
Income tax expense		(11,349)	(11,020)
Profit for the half year		**24,990**	**24,937**
Attributable to:			
Ordinary shareholders of the Company		24,240	24,937
Non-controlling interest		750	-
Profit for the half year		**24,990**	**24,937**
Earnings per share for profit attributable to the ordinary shareholders of the Company:		**cents**	**cents**
Basic earnings per share	5	4.9	5.1
Diluted earnings per share	5	4.9	5.0

Notes to the Consolidated Income Statement are annexed.

INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Half year ended 28 February	
In thousands of AUD	Note	2019	2018
Profit for the half year		**24,990**	**24,937**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to the consolidated income statement			
Changes in the fair value of financial assets at fair value through other comprehensive income	9	(1,483)	-
Total items that will not be reclassified		**(1,483)**	**-**
Items that may be reclassified subsequently to the consolidated income statement			
Exchange fluctuations on translation of foreign operations (post tax)		550	456
Effective portion of changes in fair value of cash flow hedges (post tax)		(121)	227
Total items that may be reclassified		**429**	**683**
Total other comprehensive income/(loss) for the half year		**(1,054)**	**683**
Total comprehensive income for the half year		**23,936**	**25,620**
Attributable to:			
Ordinary shareholders of the Company		23,186	25,620
Non-controlling interest		750	-
Total comprehensive income		**23,936**	**25,620**

Notes to the Consolidated Statement of Comprehensive Income are annexed.

INTERIM FINANCIAL REPORT

CONSOLIDATED BALANCE SHEET

In thousands of AUD	Note	As at 28 Feb 19	31 Aug 18 (restated)(i)
Current assets			
Cash and cash equivalents		14,956	35,948
Trade and other receivables		614,159	654,661
Inventories		402,985	395,219
Total current assets		**1,032,100**	**1,085,828**
Non-current assets			
Trade and other receivables		45,016	28,279
Financial assets at fair value through other comprehensive income	9	84,418	-
Deferred tax assets		27,170	21,916
Property, plant and equipment		100,730	101,015
Intangible assets	6	279,318	282,301
Total non-current assets		**536,652**	**433,511**
Total assets		**1,568,752**	**1,519,339**
Current liabilities			
Trade and other payables		642,105	774,920
Loans and borrowings	8	55,043	2,679
Provisions		31,496	29,851
Income tax payable		5,508	7,141
Total current liabilities		**734,152**	**814,591**
Non-current liabilities			
Trade and other payables		97,372	97,826
Deferred tax liabilities		361	292
Loans and borrowings	8	221,936	89,214
Provisions		5,428	5,637
Total non-current liabilities		**325,097**	**192,969**
Total liabilities		**1,059,249**	**1,007,560**
Net assets		**509,503**	**511,779**
Equity			
Share capital		566,461	566,461
Reserves		43,961	46,987
Accumulated losses		(104,664)	(104,664)
Total equity attributable to members of the Company		**505,758**	**508,784**
Non-controlling interest in controlled entities		**3,745**	**2,995**
Total equity		**509,503**	**511,779**

(i)The 31 August 2018 balances have been restated due to measurement period adjustments with respect to business acquisitions. Refer to Note 10 and 11 for further details.

Notes to the Consolidated Balance Sheet are annexed.

INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to ordinary shareholders of API Limited										
In thousands of AUD	Share Capital	Accumulated Losses	Profits[i] Reserve	Translation Reserve	Hedging Reserve	Equity Reserve	Control Reserve	Fair Value Reserve	Total	Non-controlling interest[iii]	Total Equity[iii]
Balance at 31 August 2018	**566,461**	**(104,664)**	**99,811**	**737**	**68**	**6,271**	**(59,900)**	**-**	**508,784**	**2,995**	**511,779**
Adjustment on Adoption of AASB 9	-	-	(6,242)	-	-	-	-	-	(6,242)	-	(6,242)
Adjustment on Adoption of AASB 15	-	-	717	-	-	-	-	-	717	-	717
Balance at 1 September 2018	**566,461**	**(104,664)**	**94,286**	**737**	**68**	**6,271**	**(59,900)**	**-**	**503,259**	**2,995**	**506,254**
Profit after tax	-	-	24,240	-	-	-	-	-	24,240	750	24,990
Total other comprehensive income/(loss)	-	-	-	550	(121)	-	-	(1,483)	(1,054)	-	(1,054)
Total comprehensive income for the year	-	-	24,240	550	(121)	-	-	(1,483)	23,186	750	23,936
Transactions with owners, recorded directly in equity											
Dividends to equity holders	-	-	(19,701)	-	-	-	-	-	(19,701)	-	(19,701)
Unwinding of discount on put and call option	-	-	-	-	-	-	(1,282)	-	(1,282)	-	(1,282)
Share based payments	-	-	-	-	-	296	-	-	296	-	296
Total contributions by and distributions to owners	-	-	(19,701)	-	-	296	(1,282)	-	(20,687)	-	(20,687)
Balance at 28 February 2019	**566,461**	**(104,664)**	**98,825**	**1,287**	**(53)**	**6,567**	**(61,182)**	**(1,483)**	**505,758**	**3,745**	**509,503**
Balance at 1 September 2017	**566,461**	**(104,664)**	**86,155**	**(189)**	**(204)**	**6,687**	**-**		**554,246**	**-**	**554,246**
Profit after tax	-	-	24,937	-	-	-	-		24,937	-	24,937
Total other comprehensive income/(loss)	-	-	-	456	227	-	-		683	-	683
Total comprehensive income for the year	-	-	24,937	456	227	-	-		25,620	-	25,620
Transactions with owners, recorded directly in equity											
Purchase of treasury shares [ii]	(310)	-	-	-	-	-	-		(310)	-	(310)
Dividends to equity holders	-	-	(17,229)	-	-	-	-		(17,229)	-	(17,229)
Shares vested under the STIP and LTIP	310	-	-	-	-	(480)	-		(170)	-	(170)
Share based payments	-	-	-	-	-	239	-		239	-	239
Total contributions by and distributions to owners	-	-	(17,229)	-	-	(241)	-		(17,470)	-	(17,470)
Balance at 28 February 2018	**566,461**	**(104,664)**	**93,863**	**267**	**23**	**6,446**	**-**		**562,396**	**-**	**562,396**

(i) The profits reserve represents current year profits transferred to a reserve to preserve the characteristic as profit and not appropriate those profits against prior year accumulated losses. These profits will be available to enable payment of franked dividends in the future.

(ii) Shares were purchased on market and issued to the previous Managing Director for the vesting of the 2014 and 2015 STIP.

(iii) The 31 August 2018 balances have been restated due to measurement period adjustments with respect to business acquisitions. Refer to Note 10 and 11 for further details.

Notes to the Consolidated Statement of Changes in Equity are annexed.

INTERIM FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CASH FLOWS

	Half year ended 28 February	
In thousands of AUD	**2019**	**2018**
Cash flows from operating activities		
Cash receipts from customers (inclusive of GST)	2,198,571	2,285,522
Cash payments to suppliers and employees (inclusive of GST)	(2,261,775)	(2,262,702)
Cash inflow/(outflow) from operations	**(63,204)**	**22,820**
Interest received	310	102
Finance costs paid	(9,388)	(5,914)
Income taxes paid	(17,090)	(23,880)
Net cash outflows from operating activities	**(89,372)**	**(6,872)**
Cash flows from investing activities		
Proceeds from sale of stores, property, plant and equipment	1,204	-
Acquisition of property, plant and equipment and intangibles	(13,245)	(8,078)
Payments for financial assets at fair value through other comprehensive income	(85,901)	-
Dividends received	788	-
Net cash outflows from investing activities	**(97,154)**	**(8,078)**
Cash flows from financing activities		
Proceeds from borrowings	1,606,449	1,120,000
Repayment of borrowings	(1,420,827)	(1,099,680)
Payment of finance lease liabilities	(537)	(766)
Dividends paid	(19,701)	(17,229)
Net cash inflows from financing activities	**165,384**	**2,325**
Net decrease in cash and cash equivalents	(21,142)	(12,625)
Cash and cash equivalents at the beginning of the half year	35,948	39,776
Effect of exchange rate fluctuations on cash held	150	(57)
Cash and cash equivalents at the end of the half year	**14,956**	**27,094**

Notes to the Consolidated Statement of Cash Flows are annexed.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Australian Pharmaceutical Industries Limited (the 'Company') is a for-profit company domiciled in Australia. The Consolidated Interim Financial Report (the 'Financial Report') of the Company for the half year ended 28 February 2019 comprises the Company and its subsidiaries (together referred to as the 'Group').

a) Statement of compliance

This general purpose Consolidated Interim Financial Report has been prepared in accordance with the requirements of the applicable Australian Accounting Standards including AASB 134 Interim Financial Reporting, Australian Interpretations, Corporations Act 2001 and IAS 34 Interim Financial Reporting.

b) Basis of preparation

The Financial Report is presented in Australian dollars which is the functional currency of the Group. The Financial Report has been prepared on a historical cost basis, except for derivative financial instruments, employee defined benefit plans and financial assets at fair value through other comprehensive income which are stated at their fair value.

The Financial Report does not include all of the notes normally included in an annual Financial Report. Accordingly, this report is to be read in conjunction with the Group's Annual Financial Report for the year ended 31 August 2018, together with any public announcements made by the Company during or since the half year ended 28 February 2018 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

c) Estimates

The preparation of the Interim Financial Report 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.

In preparing the Financial Report the significant judgements made by management in applying the consolidated accounting policies and the key sources of estimation uncertainty are consistent with those applied in the most recent Annual Report for the year ended 31 August 2018.

d) New accounting standards and interpretations

The Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Refer to note 14 for further information relating to the impacts on adoption of these standards.

e) Accounting standards issued but not yet implemented

The Group has not early adopted any new or amended standards in preparing the consolidated financial statements. The Group's provisional assessment of the impact of these standards is summarised in note 14.

f) Rounding

The amounts shown in this Financial Report have been rounded off, except where otherwise stated, to the nearest thousand dollars as the Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016.

g) Comparatives

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

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SEGMENT REPORT

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the other segments. The operating segments are reported in a manner which is consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM) of the Group. The CODM has been identified as the Chief Executive Officer (CEO).

Segment information is presented to the CEO for the following segments:

Segment	Principal activities
Australia	Distribution of pharmaceutical, medical, health, beauty and lifestyle products to pharmacies, the purchase and sale of health, beauty and lifestyle products within the retail industry and provider of retail services to pharmacies. Also includes the Clearskincare business which specialises in non-invasive cosmetic products and procedures. The Group predominantly operates within Australia. Monthly management reports provided to the CEO report Australian reportable segment profit.
New Zealand	Manufacturer and owner of rights of pharmaceutical medicines and consumer toiletries. Products are sold in New Zealand and exported.

	Half year ended 28 February							
	Australia		New Zealand		Eliminations		Consolidated	
In thousands of AUD	2019	2018	2019	2018	2019	2018	2019	2018
Revenue								
External sales	1,873,273	1,914,227	26,416	24,266	-	-	1,899,689	1,938,493
External services	77,408	70,826	-	-	-	-	77,408	70,826
Inter-segment revenue[(i)]	-	-	7,636	3,955	(7,636)	(3,955)	-	-
Total segment revenue	1,950,681	1,985,053	34,052	28,221	(7,636)	(3,955)	1,977,097	2,009,319
Reportable segment gross profit	249,203	230,671	16,693	12,148	-	-	265,896	242,819
Reportable segment profit	**42,125**	**41,441**	**2,293**	**538**	**-**	**-**	**44,418**	**41,979**
Unallocated amounts								
Net financing costs							(8,079)	(6,022)
Profit before tax							**36,339**	**35,957**
Income tax expense							(11,349)	(11,020)
Profit for the half year							**24,990**	**24,937**
Attributable to:								
Ordinary shareholders of the Company							24,240	24,937
Non-controlling interest							750	-

(i) It is the Group's policy to conduct inter-segment sales on an arm's length basis

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE AND OTHER INCOME

	Half year ended 28 February	
In thousands of AUD	2019	2018
Revenue		
Sales revenue	1,899,689	1,938,493
Service revenue	77,408	70,826
Total revenue	**1,977,097**	**2,009,319**
Other income		
Gain on disposal of property, plant and equipment	253	-
Interest fee income	3,475	4,934
Net foreign exchange loss	(15)	(14)
Dividend income[i]	788	-
Total other income	**4,501**	**4,920**

(i) Refer to note 9 for accounting policy on the recognition of dividend income.

4. FINANCE INCOME AND COSTS

	Half year ended 28 February	
In thousands of AUD	2019	2018
Interest income on bank deposits	310	102
Finance Income	**310**	**102**
Interest expense	(4,533)	(2,909)
Borrowing costs	(1,423)	(773)
API rewards	(2,397)	(2,374)
Finance expense on leased assets	(36)	(68)
Finance expenses	**(8,389)**	**(6,124)**
Net finance costs	**(8,079)**	**(6,022)**

5. EARNINGS PER SHARE

	Half year ended 28 February	
In thousands of AUD	2019	2018
Profit attributable to shareholders of the Group	**24,240**	**24,937**
In thousands of shares		
Basic weighted average number of ordinary shares for the half year	492,498	491,514
Effect of potential ordinary shares on issue through conversion of performance rights	3,530	2,684
Diluted weighted average number of shares for the half year	**496,028**	**494,198**
In cents		
Basic earnings per share	4.9	5.1
Diluted earnings per share	4.9	5.0

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. INTANGIBLE ASSETS

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

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

	Australia		New Zealand		Clearskincare		Total	
In thousands of AUD	28 Feb 19	31 Aug 18	28 Feb 19	31 Aug 18	28 Feb 19	31 Aug 18 (restated)	28 Feb 19	31 Aug 18 (restated)
Soul Pattinson brand name	37,500	37,500	-	-	-	-	37,500	37,500
Priceline brand name	58,860	58,860	-	-	-	-	58,860	58,860
Clearskincare brand name	-	-	-	-	34,600	34,600	34,600	34,600
Brand names	**96,360**	**96,360**	**-**	**-**	**34,600**	**34,600**	**130,960**	**130,960**
Goodwill	**34,690**	**34,690**	**16,456**	**16,456**	**52,831**	**52,831**	**103,977**	**103,977**
Other intangible assets	**41,861**	**44,740**	**2,520**	**2,624**	**-**	**-**	**44,381**	**47,364**
Total intangible assets	**172,911**	**175,790**	**18,976**	**19,080**	**87,431**	**87,431**	**279,318**	**282,301**

The recoverable amount of each asset and CGU is determined based on a "value in use" calculation which uses cash flow projections based on earnings covering a five-year period. This calculation is completed at least annually, and more frequently if there is any indication that an asset may be impaired.

The Australia, New Zealand and Clearskincare CGUs were assessed for impairment indicators at reporting date and no indicators of impairment were present.

(b) Recognition of Clearskincare brand name

During the half year ended 28 February 2019 the Group continued to review the provisional accounting for the acquisition of the Clearskincare business. The Group appointed an independent valuations expert to identify and value the intangible assets. Brand names relating to Clearskincare Clinics and Products businesses were determined to hold material value.

The provisional accounting for the business acquisition has been restated from the acquisition date, as outlined within note 10.

(c) Accounting policies

Below are the accounting policies and criteria for recognition of the Clearskincare brand name.

Intangible asset	Capitalisation criteria	Useful life
Clearskincare brand name	Brand names acquired are recognised initially at fair value, using independent valuations obtained during the twelve-month measurement period following acquisition. Brand names are assessed to have indefinite useful lives. Brand names with indefinite useful lives are assessed for impairment at least on an annual basis.	Indefinite

The accounting policies for all other intangible assets remain consistent with those disclosed in the Annual Report dated 31 August 2018.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. CONTINGENCIES

Contingent liabilities

	As at	
In thousands of AUD	**28 Feb 19**	**31 Aug 18**
Financial guarantees to pharmacists	9,235	9,907

Financial guarantees of $9,235,000 (31 August 2018: $9,907,000) have been provided to financial institutions of individual debtors and debtor groups. The Group has strict controls over the approval of guarantees of pharmacy customers and takes security over the assets of the relevant pharmacy. The Directors are of the opinion that provisions are not required in respect of these guarantees, as it is not probable that the exposure is greater than the value of the security held over the assets.

8. LOANS AND BORROWINGS

	As at	
In thousands of AUD	**28 Feb 19**	**31 Aug 18**
Current liabilities		
Insurance premium funding	-	1,972
Finance lease liabilities	499	707
Cash advance facilities - secured	54,544	-
Total current liabilities	**55,043**	**2,679**
Non current liabilities		
Finance lease liabilities	372	701
Securitisation of trade receivables	97,098	18,000
Cash advance facilities - secured	59,466	5,513
Interest bearing loans	65,000	65,000
Total non current liabilities	**221,936**	**89,214**

The Group established a new $60.0m cash advance loan facility with an expiry date of December 2019 to fund the acquisition of shares in Sigma Healthcare Limited ('Sigma Healthcare') and associated transaction costs. The Group is currently reviewing its plans in relation to this holding. This loan facility is expected to be settled through operating cash flows or renegotiation to extend the facility. If necessary, the renegotiation to extend the facility will occur closer to the expiry date.

The Group also increased the limit of an existing cash advance loan facility by $35.0m to fund the acquisition of shares in Sigma Healthcare. The facility was extended to September 2020.

The Group increased the limit of an existing cash advance loan facility to $10.7m and extended the expiry date of the facility from May 2019 to May 2022.

The facilities are secured by way of a fixed and floating charge over the assets of the Group. Interest is based on the bank-bill reference rate plus a margin charged by the lender.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 14 December 2018 the Group submitted to the ASX a notice of initial substantial holder in Sigma Healthcare, advising that the Group held 137,264,592 shares or 12.95% of shares on issue. On the same day the Group issued a market update outlining a proposal which included plans to merge the Group and Sigma Healthcare and included an overview of a non-binding indicative offer previously made to Sigma Healthcare. On 13 March 2019 Sigma Healthcare announced it had rejected this non-binding offer. The Group is currently reviewing its plans in relation to this holding.

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

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

(b) Financial assets at fair value through other comprehensive income

Financial assets at FVOCI comprise the following individual investments:

	As at	
In thousands of AUD	28 Feb 19	31 Aug 18
Non-current assets		
Sigma Healthcare Limited - Listed securities	84,418	-
Total financial assets at fair value through other comprehensive income	**84,418**	**-**

On disposal of these financial assets, any related balance within the fair value reserve is reclassified to retained earnings.

At 28 February 2019 these financial assets have been classified as non-current whilst the Group continues to review its plan in relation to the holding.

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

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

	Half year ended 28 February	
In thousands of AUD	2019	2018
Changes in the fair value of financial assets at FVOCI	(1,483)	-
Dividend from financial assets at FVOCI recognised in profit or loss	788	-

(d) Dividend income

Dividends are received from financial assets at FVOCI. Dividends are recognised as income in the profit or loss when the right to receive payment is established.

(e) Risk exposure

Equity price risks refers to the risk that the value of a financial instrument or its associated cash flows will fluctuate due to changes in the underlying share prices. The Group has exposure to equity price risk arising from its holding of listed equity securities.

The following table demonstrates the impact on the Consolidated Statement of Comprehensive Income of the Group if equity prices at 28 February 2019 had been 10% per cent higher or lower, with all other variables held constant.

	Half year ended 28 February 2019		
In thousands of AUD	Profit for the half year	Total comprehensive income	Total equity
If share prices were 10% higher with other variables held constant	-	8,442	8,442
If share prices were 10% lower with other variables held constant	-	(8,442)	(8,442)

There were no holdings of financial assets at FVOCI at 28 February 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. BUSINESS ACQUISITIONS

There were no acquisitions in the half year ended 28 February 2019.

During the half year ended 28 February 2019 the Group continued to review the provisional accounting for the acquisition of the Clearskincare Clinics and Products businesses. This included the identification and valuation of intangible assets. See note 6 for further details on brand names recognised.

Details of the purchase consideration, and updated values of the net assets acquired and goodwill at 31 July 2018, the date of acquisition, are as follows:

In thousands of AUD	Fair value	Adjustments	Fair value (Restated)
(a) Purchase consideration	**70,205**	**-**	**70,205**
(b) Net identifiable assets/(liabilities) acquired based on fair values at the date of acquisition:			
Net identifiable assets/(liabilities) acquired	(2,773)	34,600	31,827
Less: interest retained by non-controlling shareholders	2,129	(16,582)	(14,453)
Provisional net identifiable assets/(liabilities) acquired, net of non-controlling interest	**(644)**	**18,018**	**17,374**
Provisional goodwill on acquisition (a) - (b)	**70,849**	**18,018**	**52,831**

The adjustments represent the recognition of the Clearskincare brand name of $34,600,000 and consequent restatement of the interest retained by non-controlling shareholders at the proportional share of restated net identifiable assets acquired.

The goodwill recognised relates to the value of expected synergy benefits from the business combination, future earnings prospects, skills and technical talent of the acquired business.

As of the date of this report the accounting for the net identifiable assets is provisional and has not been finalised. Therefore, the amounts recognised may be subject to change. Finalisation is expected no later than 31 July 2019.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. COMPARATIVE BALANCES

Comparative balances have been restated to reflect the update to provisional figures reported at 31 August 2018 for the accounting of the Clearskincare business. The following table illustrates the quantum of the adjustments recognised during the half year period and the impact on the prior year comparative year figures presented in this half year report. For further information on the changes refer to notes 6 and 10.

In thousands of AUD	As at 31 Aug 18 (reported)	31 Aug 18 (restated)
Current assets		
Cash and cash equivalents	35,948	35,948
Trade and other receivables	654,661	654,661
Inventories	395,219	395,219
Total current assets	**1,085,828**	**1,085,828**
Non-current assets		
Trade and other receivables	28,279	28,279
Deferred tax assets	21,916	21,916
Property, plant and equipment	101,015	101,015
Intangible assets	265,718	282,301
Total non-current assets	**416,928**	**433,511**
Total assets	**1,502,756**	**1,519,339**
Current liabilities		
Trade and other payables	774,920	774,920
Loans and borrowings	2,679	2,679
Provisions	29,851	29,851
Income tax payable	7,141	7,141
Total current liabilities	**814,591**	**814,591**
Non-current liabilities		
Trade and other payables	97,826	97,826
Deferred tax liabilities	292	292
Loans and borrowings	89,214	89,214
Provisions	5,637	5,637
Total non-current liabilities	**192,969**	**192,969**
Total liabilities	**1,007,560**	**1,007,560**
Net assets	**495,196**	**511,779**
Equity		
Share capital	566,461	566,461
Reserves	46,987	46,987
Accumulated losses	(104,664)	(104,664)
Total equity attributable to members of the Company	**508,784**	**508,784**
Non-controlling interest in controlled entities	**(13,588)**	**2,995**
Total equity	**495,196**	**511,779**

The adjustments represent the recognition of the Clearskincare brand name of $34,600,000 and consequent restatement of the interest retained by non-controlling shareholders at the proportional share of restated net identifiable assets acquired. Refer to Note 10 for further information regarding these restatements.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. CAPITAL AND RESERVES

Share capital

	As at	
In thousands of shares	**28 Feb 19**	**31 Aug 18**
Shares on issue at beginning of the period - fully paid	492,428	489,800
Ordinary shares issued during the period pursuant to the Company's Long Term Incentive Plan	105	2,336
Ordinary shares issued during the period pursuant to the Company's Short Term Incentive Plan	-	292
Shares on issue at the end of the period - fully paid	**492,533**	**492,428**

Equity item	Description and accounting policy
Ordinary shares	The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid and are recognised at the fair value of the consideration received by the Company, net of post-tax share issue costs. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of a winding up of the Company, ordinary shareholders rank after all other creditors and are fully entitled to any proceeds of liquidation.
Translation reserve	The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where the functional currency is different to the presentation currency of the Company.
Equity reserve	The equity reserve relates to share-based payment transactions measured at fair value.
Hedging reserve	The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.
Control reserve	The control reserve represents additional consideration to be paid for the acquisition of non-controlling shareholders' interests in Clearskincare Clinics.
Non-controlling interest	Represents the non-controlling interest in the Clearskincare Clinics business that is held by other minority shareholders. The Group recognises the non-controlling interest at the non-controlling interest's proportionate share of Clearskincare Clinic's net identifiable assets.
Fair value reserve	The net change in the fair value of financial assets measured at fair value through other comprehensive income is shown in this reserve and will not be subsequently reclassified to profit or loss.

13. FAIR VALUE MEASUREMENTS

Financial assets at FVOCI are Level 1 financial instruments as the measurement is derived from quoted prices that are directly observable on the ASX. Cash flow hedges are Level 2 financial instruments because, unlike Level 1 financial instruments, the measurement is derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices). The fair values cash flow hedges have been obtained from third party valuations derived from forward interest rates at the balance sheet date. The employee defined benefit plan financial asset is measured using Level 3 inputs, being an independent actuarial valuation performed on an annual basis.

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

At 28 February 2019 the fair value of the financial assets at FVOCI was $84,417,724 (31 August 2018: asset of $Nil), the cash flow hedges were a liability of $53,510 (31 August 2018: asset of $67,887) and the employee defined benefit plan an asset of $812,000 (31 August 2018: asset of $812,000) respectively.

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate the fair values of these financial assets and financial liabilities.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. NEW ACCOUNTING STANDARDS

a) New accounting standards and interpretations

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

Reference	Title	Adoption Date
AASB 9	Financial Instruments	1 September 2018
AASB 15	Revenue from Contract with Customers	1 September 2018
AASB 2016-5	Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions	1 September 2018
AASB 2018-1	Amendments to Australian Accounting Standards - Annual improvements 2015-2017 cycle	1 September 2018
AASB 2018-5	Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 September 2018

Refer below for the impacts of adopting AASB 9 and AASB 15 on the Group. The adoption of all other amending standards above did not have any material impact on the disclosures or amounts recognised in the consolidated financial report for the half year ended 28 February 2019.

The Group adopted AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments on 1 September 2018, using the cumulative effect transition method, with the cumulative effect of initial application being recognised as an adjustment against the opening Profit Reserves with no restatements for comparative periods.

The impacts of application are shown below:

In thousands of AUD ($)	Reported as at 31 Aug 18	AASB 15 impact	AASB 9 impact	Opening balance as at 1 Sep18
Trade and other receivables – current	654,661	6,572	(8,917)	652,316
Net deferred tax assets	21,916	(307)	2,675	24,284
Total assets impact	**-**	**6,265**	**(6,242)**	**23**
Trade and other payables – current	(774,920)	(670)	-	(775,590)
Provisions	(29,851)	(4,878)	-	(34,729)
Total liabilities impact	**-**	**(5,548)**	**-**	**(5,548)**
Profit reserves	99,811	717	(6,242)	94,286
Total equity impact	**-**	**717**	**(6,242)**	**(5,525)**

AASB 15 Revenue from contracts with customers

AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces the guidance in AASB 118 Revenue and AASB 111 Construction Contracts and related interpretations.

The fifth step of AASB 15 requires that revenue is either recognised at a point in time or over time depending on when performance obligations are satisfied.

For each revenue stream the Group has assessed the timing of revenue recognition. The changes in recognition through the application of AASB 15 were as follows:

- The Group receives upfront fees from franchisees at the commencement of a franchise agreement. The revenue from these fees is now recognised over time instead of upfront, as performance obligations are satisfied.
- Brand fee income received from franchisees includes fixed incremental increases over the term of the contract. The Group has assessed that there are no significant variations in the performance obligations undertaken by the Group over the term of the contract, therefore revenue is recognised evenly over time as these performance obligations are satisfied. Under the previous standard, the revenue for fixed incremental increases was recognised in the year of the increase.
- The Group has recognised a liability on the balance sheet for the estimate of probable returns of goods from its customers, which represents variable consideration of the transaction price. A corresponding asset has been recognised where the Group has estimated that it will be able to either return the goods to its suppliers, or subsequently sell the returned goods to customers.

Overall the application of AASB 15 had an impact of increasing the opening profit reserves by $0.7 million.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. NEW ACCOUNTING STANDARDS (CONTINUED)

A summary of the accounting policies and the timing of revenue earned by stream is summarised below:

Revenue stream	Description	Performance obligation	Timing recognition
Sale of goods	Sale of goods to customers, including an allowance for product returns during a certain time period. Revenue is recognised at the agreed sale price, net of returns, allowances, trade discounts and volume rebates.	Delivery of goods to customers	Point in time
Loyalty program	Under the loyalty card programme deferred revenue is recognised as a reduction in sales revenue when the products or services are sold. The deferred revenue liability is recognised based on historical loyalty card redemption data and a weighting of possible outcomes against the associated probabilities. Revenue is earned when loyalty card awards are redeemed.	Redemption of loyalty points	Over time
Membership and brand fees	Fees received in return for access to the brand names from Priceline, Soul Pattinson and Pharmacist advice stores.	Access to brand names over the term of the franchise agreement	Over time
Franchise service fees	Income received from franchisees for operational services including store development, lease negotiation, human resource and information technology assistance.	Completion of services to be rendered	Point in time
Marketing income	Income received from suppliers for promotional and marketing services rendered.	Completion of services to be rendered	Point in time
Community Service Obligation (CSO)	Income received from the Federal Government in recognition for the Group providing the Australian community access to full range of PBS medicines to their local pharmacies within a short timeframe.	CSO income is recognised when the Group has complied with the conditions attached to the obligation	Over time

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. NEW ACCOUNTING STANDARDS (*CONTINUED*)

Presentation and classification

The application of AASB 15 required the Group to review the presentation and classification of its rebate arrangements. As a result of the adoption, amounts have been reclassified between revenue, cost of sales and marketing and sales expenses in the current period, with no impact to the reported profits reserves.

As the Group has applied the cumulative effect transition method, there have been no restatements for comparative periods. The transition impact on the Consolidated Income Statement for the half year ended 28 February 2019 is presented below:

In thousands of AUD ($)	Half year ended 28 Feb 19 (before reclassification)	AASB 15 classification adjustment	Half year ended 28 Feb 19 (reported)
Revenue	1,993,718	(16,621)	1,977,097
Cost of sales	(1,722,903)	11,702	(1,711,201)
Gross profit	270,815	(4,919)	265,896
Marketing and sales expenses	(112,411)	4,919	(107,492)
Profit for the half year	-	-	-

AASB 9 Financial Instruments

AASB 9 replaced the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement and prescribes revised guidance on the classification and measurement of financial instruments. This includes a new expected credit loss ('ECL') model for calculating impairment on financial assets, and new general hedge accounting requirements.

<u>Trade receivables – expected credit losses</u>

The implementation of AASB 9 resulted in a change to the methodology the Group used to determine the provision for doubtful debts. AASB 9 replaced the 'incurred loss' model in AASB 139 with a forward-looking ECL model.

The Group adopted the simplified approach to measuring ECL, which uses lifetime expected credit losses for trade receivables with reference to the historical credit loss rates across the trade receivables portfolio, adjusted for forward looking observable macroeconomic data that may impact on the Group's future credit risk.

Forward looking observable data used to determine Lifetime ECLs included:

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

The requirements of AASB 9 were adopted on 1 September 2018 and applied to the Group's trade receivables on that date. Total trade receivables were disaggregated into groups deemed to share credit risk characteristics.

The initial impact on adoption was as follows:

- Provision for expected credit losses of $8.9 million was recognised
- Net deferred tax assets on the increase in provision of $2.7 million was recognised
- Profit reserves decreased by $6.2 million

The provision for expected credit losses at 28 February 2019 have been determined in a manner consistent with the methodology adopted on 1 September 2018.

<u>Hedge accounting</u>

The Group applied the new general hedge accounting model of AASB 9 which aligns hedge accounting with the Group's risk management policies and objectives and applies a qualitative and forward-looking approach to assessing hedge effectiveness.

The Group has elected to adopt the transitional arrangements of AASB 9 for all continuing hedge relationships as at 1 September 2018. Therefore, the adoption of AASB 9 had no impact on the hedging arrangements of the Group.

All new hedge arrangements entered into subsequent to 1 September 2018 have met the requirements of AASB 9.

INTERIM FINANCIAL REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. NEW ACCOUNTING STANDARDS (*CONTINUED*)

Financial assets and liabilities

There have been no changes to the classification of financial assets and financial liabilities from adoption of AASB 9.

b) Accounting standards issued but not yet implemented

The Group has not early adopted any new or amended standards in preparing the consolidated financial statements. The Group's provisional assessment of the impact of these standards on the financial statements for the year ending 31 August 2020 is set out below.

AASB 16 Leases – to be adopted on 1 September 2019

AASB 16 replaces the existing guidance on leases and introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing the lessee's right to use the underlying asset and a lease liability representing its obligation to make lease payments. The ROU asset is depreciated over the term of the lease and finance charges are recognised on the lease liabilities. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains unchanged by the current standard with lessors continuing to classify leases as finance leases or operating leases.

As at 28 February 2019, the Group's future minimum lease payments under non-cancellable operating leases amounted to $135 million. AASB 117 Leases does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in the financial report. The initial impact assessment indicates that these arrangements will meet the definition of a lease under AASB 16 and that the Group will recognise new assets and liabilities for the operating leases held by the Group.

The Group is continuing to assess the impact of adopting the standard. It is expected that the Group's balance sheet will recognise material ROU assets and lease liabilities, with the difference impacting net assets. In turn, key financial ratios will be impacted.

The Group has established a project team to continue the assessment and implementation of the standard comprising representatives from the Finance, Treasury, and Property functions. The project team is in the process of progressing the implementation plan, identifying system, data and control changes required.

The Group intends to adopt a modified retrospective approach for the adoption of AASB 16 where the Group will assess on a lease-by-lease basis the value of the ROU asset and lease liability.

A reliable estimate of the quantitative impact of this standard cannot yet be provided due to unresolved matters, including:

- Determination of the lease term for certain leases with extension option periods; and
- Conclusion on appropriate discount rates.

The Group expects to disclose the outcome of the provisional assessment of the impact of this accounting standard in the financial statements for the year ending 31 August 2019.

There are no other standards that are not yet effective that are expected to have a material impact on the Group based upon a preliminary analysis of potential impacts.

15. SUBSEQUENT EVENTS

On 16 April 2019, an interim fully franked dividend of 3.75 cents per share was declared to be paid on 31 May 2019.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 28 February 2019, that has affected or may affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years, which has not been covered in this report.

DIRECTORS' DECLARATION

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

(a) the consolidated financial statements and notes set out on pages 7 to 24 are in accordance with the *Corporations Act 2001* including:

(i) giving a true and fair view of the financial position of the Company and its subsidiaries as at 28 February 2018 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 Melbourne this 16th day of April 2019.

Signed in accordance with a resolution of the Directors:

Mark G Smith

Mark Smith
Chairman

Independent Auditor's Review Report

To the shareholders of Australian Pharmaceutical Industries Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Australian Pharmaceutical Industries Limited.

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:

- Giving a true and fair view of the ***Group's*** financial position as at 28 February 2019 and of its performance for the half-year ended on that date; and
- Complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Report*** comprises:

- Consolidated balance sheet as at 28 February 2019;
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date;
- Notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises Australian Pharmaceutical Industries Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half-year.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;* and
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year 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 Half-year 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 2019 and its performance for the half-year 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 a Half-year 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.

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

KPMG

KPMG

Tony Romeo
Partner

Melbourne
16 April 2019

Mithra Villanelo
Partner

Melbourne
16 April 2019