



Australian Pharmaceutical Industries Limited



Annual Report 2019

# api

Enriching life as the most inspirational choice for health, beauty and wellbeing.

## Glossary

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

Abbreviation	Definition
AASB	Australian Accounting Standards Board
CAGR	Compound Annual Growth Rate
CEO	Chief Executive Officer
CODB	Underlying Cost of Doing Business includes total operating expenses excluding cost of sales, depreciation, amortisation and excluding one-off charges as a percentage of total revenues for the year
CSC	Clear Skincare business
EBITDA	Earnings Before Interest, Tax Depreciation and Amortisation
EBIT	Earnings Before Tax
EPS	Earnings Per Share
FBT	Fringe Benefits Tax
FY17	Financial Year ended 31 August 2017
FY18	Financial Year ended 31 August 2018
FY19	Financial Year ended 31 August 2019
GRI	Global Reporting Initiative
IFRS	International Financial Reporting Standards
KMP	Key Management Personnel
LTI	Lost Time Injury
LTIFR	Lost Time Injury Frequency Rate
LTIP	Long Term Incentive Plan
MTI	Medical Treatment Injury
MTIFR	Medical treatment Injury Frequency Rate
NPAT	Net Profit After Tax
PBS	Pharmaceutical Benefits Scheme
ROCE	Return on Capital Employed
ROE	Return on Equity
ROIC	Return on Invested Capital
STIP	Short Term Incentive Plan
TRIFR	Total Recordable Injury Frequency Rate
TSR	Total Shareholder Return
VWAP	Volume Weighted Average Closing Price

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## 2019 Annual Report

The Directors present their report together with the financial report of Australian Pharmaceutical Industries Limited (the Company or API) and its controlled entities (the Group) for the financial year ended 31 August 2019 and the Auditor's report.



**Mark G. Smith**  
Chairman

**Richard Vincent**  
Chief Executive Officer  
and Managing Director

## MESSAGE FROM THE CHAIRMAN AND CEO

The 2019 financial year saw continued growth across the Group and the expansion of API's business portfolio. By continuing to improve its customer offer and continually innovating while driving costs down, notwithstanding the challenging retail environment, the Group has achieved pleasing steady growth and solidified its position in the market.

The growth arms of API's Group, Clear Skincare and Consumer Brands, demonstrated strong revenue gains, while Priceline Pharmacy and Pharmacy Distribution performed to expectations despite headwinds in their respective markets.

The Group recorded strong operational performance and remains well positioned to leverage its healthcare and retailing capability to provide long term benefits to shareholders.

Our successful strategy continues to optimise the Group's complementary assets in the health and beauty market by leveraging existing strong brands, infrastructure, market expertise and financial strength to build organic returns for shareholders.

The Group has taken advantage of positive trends in health, personal wellbeing and beauty services, with ongoing upside expected. Our move into Clear Skincare complements the Priceline Pharmacy and Consumer Brands business units that help ensure API is a strong player in these markets, with Clear Skincare growing its network during the year.

These strategies have assisted the Group to maintain its position in the market, notwithstanding the current low-growth domestic economy, fluctuating consumer sentiment and sluggish retail demand.

API is an important contributor to the implementation of the Pharmaceutical Benefits Scheme which continues to benefit consumers and pharmacists. API is currently involved in negotiations with the Department of Health for the next round of funding for the Community Service Obligation (CSO). API, as a major CSO wholesaler has, over many years, found ways to maintain and deliver important services to support community pharmacies, despite reduced Government funding in real terms and has helped deliver significant savings and benefits to the community. We look forward to the CSO system continuing to enable API to provide Australian consumers - regardless of where they live - with equal access to medicines.



### Total Revenue

↑ **4.1%**

excluding the impact of PBS reform and Hepatitis C Medicine

The Group is well-positioned for the future with a suite of complementary businesses that we expect will provide long term growth.

### Operational Performance

The Group's total revenue, excluding the impact of PBS reforms and Hepatitis C Medicine, was \$4.0 billion, representing a 4.1 per cent increase on the prior corresponding period (pcp). The other key financial highlights were:

- reported net profit after tax (NPAT) of \$56.6 million, up 17.4 per cent on the pcp; underlying NPAT (also \$56.6 million) up 3.2 per cent on the pcp;
- reported earnings before interest and tax (EBIT) of \$94 million, up 14.1 per cent on the pcp; underlying EBIT (also \$94 million) was up 3.9 per cent on the pcp;

### Underlying NPAT

↑ **3.2%**

- Pharmacy Distribution revenue (excluding the impacts of PBS reform and Hepatitis C changes) was \$2.9 billion, up 4.2 per cent on the pcp;
- Priceline Pharmacy like-for-like sales up 0.7 per cent on the pcp;
- the Priceline Pharmacy store network finished the year with 488 stores, up a net 13 stores from the same time last year;
- underlying return on equity increased to 10.96 per cent, from 10.29 per cent in the pcp;
- a marginal reduction in underlying return on capital to 16.29 per cent, from 16.54 per cent in the pcp; and
- declaration of a fully franked final dividend of 4.0 cents per share, resulting in a full year dividend of 7.75 cents per share, which is a payout ratio for the full year of 70 per cent.

### Underlying EBIT

↑ **3.9%**

The Group ended the financial year with reported net debt of \$199.1 million, compared to \$55.9 million at the end of the 2018 financial year. The increase was driven primarily by the funding of API's shareholding in Sigma Healthcare, a planned investment in our Consumer Brands inventory and an increase in capital expenditure, primarily to fund the expansion of the Clear Skincare network.

It is worth noting that the financing costs of API's investment in Sigma have been fully offset by the dividends associated with those shares during the period.

Actual cash conversion days were at 21.1 for the year, compared to 20.4 in the pcp. After removing the impact of a significant increase in Consumer Brands inventory, which is a natural consequence of this business' growth, cash conversion days were almost on par with last year.

## MESSAGE FROM THE CHAIRMAN AND CEO

CONTINUED



The Group's underlying cost of doing business increased this year to 10.9 per cent. This was driven by the inclusion of a full year of Clear Skincare's operations and its associated costs in the Group's consolidated accounts. Clear Skincare has a different cost profile from the Group's other businesses; because it has low cost of goods sold but high staff and marketing costs. If Clear Skincare is excluded from the calculation, the Group's cost of doing business would have been the same as last year at 10.3 per cent, which is a credible result given there are input costs such as wages and rents that rise at a rate greater than CPI each year.

### Our businesses

Pharmacy Distribution remains a reliable, cash generating business. We continue to have a highly competitive offering for pharmacists. New merchandising and marketing initiatives, including the relaunch of our Club Premium program, drove an increase in membership of more than 5 per cent over the year. Overall, we now have more than 1,450 members in our retail pharmacy programs out of approximately 5,720 community pharmacies in Australia.

During March 2019, the Department of Health confirmed the funding for those wholesalers, including API, who deliver on the Government's CSO up until the end of June 2020. This provides us with increased certainty over cash flows during the 2020 financial year. While this certainty is welcome, it is becoming progressively more difficult for CSO wholesalers to fulfil the Government's promise of equal access to PBS medicines.

Through our industry association, the National Pharmaceutical Services Association (NPSA), we are actively engaged in discussions about funding beyond 2020 and how that will operate as part of the forthcoming 7th Community Pharmacy Agreement. We expect the CSO to remain in place and note the potential for it to provide industry funding so that API can expand the health services it offers to the community.

We are pleased that our Priceline Pharmacy result returned to like-for-like growth, with same store sales up 0.7 per cent for the year, thanks in part to a strong in-store offer and new and exclusive brands for customers. This positive growth is a pleasing performance in persistently challenging retail conditions.

Both the health and skincare categories, where we have built our offers to consumers, are showing growth. For example, we launched exclusively in Australia, the popular Revolution brand, which was well received and now ranks seventh in our cosmetics range by sales. We are also focused on distribution of Clear Skincare's proprietary skincare product range through the Priceline Pharmacy network. Skincare products have an increasing appeal to a very wide range of shoppers and both our Clear Skincare and Priceline businesses are working together to realise opportunities in this area.

The fact that we see ongoing strong growth in our Priceline Pharmacy franchise network – with 20 independent pharmacists joining during the year - speaks to the value of the Priceline brand and to the value of our Priceline Sister Club, whose members are loyal.

We increased the Priceline Pharmacy network by 13 stores after continuing our policy of closing company-owned stores which produce a return below our acceptable level (including closure of seven company-owned stores) during the financial year.

## OUR BRANDS



Our Consumer Brands division continues to go from strength to strength through expansion of our healthcare portfolio while building our personal care brands. For example, our "Only Good" brand has established a strong presence in major retail outlets in Australia and we have established a foothold in major overseas markets including the United Kingdom.

This is our first full year with Clear Skincare, a high margin business, included in the Group's portfolio. We opened eight new clinics during the year, taking the total network to 52. Our harsh climate means that Australians are amongst the highest per capital consumers of cosmetic medicine services in the world and the medium to long-term growth prospects for Clear Skincare are strong.

### Our community

Striving towards zero workplace injuries remains a key operational priority. API continues to strengthen its Safety Management System and has successfully maintained ISO45001:2018 Safety Management Standard accreditation this financial year.

We are also focussing on further improvement in engagement with, and caring for, our people – staff, customers, franchisees and other partners.

For the second time, our Annual Report includes our Sustainability Report, with progress shown in many areas, including product quality, waste management and employee engagement. We established a Sustainability Working Group during the year, which has a broad remit, including looking at continuous improvement in managing environmental issues (including assessing climate change risk) and modern slavery risk.

The Priceline Sisterhood Foundation had another excellent year. This year the Foundation's Patron, Ita Buttrose and the Priceline Sisters were joined by Merv Hughes and State-based champions including Dermott Brereton (Vic/Tas), Braith Anasta (NSW/ACT), Billy Moore (Qld), Tony Modra (SA/NT) and Glen Jakovich (WA). Together with the support of our API and Priceline staff, Priceline and Priceline Pharmacy franchise partners and customers, the 'Misterhood for the Sisterhood' campaign raised \$1.3 million in 2019. This takes the total that the Foundation has been able to distribute to its charity partners to over \$6 million since its inception.

This year's Sisterhood Foundation beneficiaries were Dementia Australia, the Children First Foundation, Look Good Feel Better, Perinatal Anxiety and Depression Australia and Bump Program (by the Raise Foundation).

On behalf of our Directors, our heartfelt thanks go to all concerned.

To all our people, we give our thanks for their hard work, dedication and success in delivering another solid result for the Group in a challenging environment.

**Mark G. Smith**  
Chairman

**Richard Vincent**  
Chief Executive Officer  
and Managing Director

# Priceline Sisterhood Foundation™

HELP US HELP WOMEN

MORE THAN  
**\$6,170,000**  
RAISED SO FAR

The Priceline Sisterhood Foundation has a Charity Partner Selection Criteria Policy that outlines the selection criteria and principles which must be met for "not for profit" organisations to be supported by the Foundation. The selection criteria includes, but is not limited to:

- alignment with the Foundation's Vision to enrich the lives of Australian women and their families;
- having Deductible Gift Recipient status and being registered with the Australian Charities and Not-for-profits Commission;
- being a "Real Need" charity, including being dependent on public fundraising and volunteer pro bono support;
- being committed to using funding from the Foundation to support long term sustainability of the organisation;
- having a national presence;
- having a willingness and capability to cross-promote mutual charitable objectives and share best practice learnings; and
  - being transparent with business plans, strategy and external funding sources.



More information about the Priceline Sisterhood Foundation can be found at <https://www.priceline.com.au/sisterhood>

## Who does the Foundation help?

The Foundation's Charity Partners help thousands of Australians every day.

### Dementia Australia

Dementia Australia manages a wide range of innovative national programs which provide information, support, counselling, training and education to people with dementia, their families and carers, as well as to professionals working in the dementia field. It also provides national policy and advocacy for the 447,115 Australians living with dementia and the almost 1.5 million Australians involved in their care. There are over 100 diseases that may cause dementia and we now know dementia is a disease symptom, not a normal part of ageing. The most common causes of dementia include Alzheimer's disease, vascular dementia and dementia with Lewy bodies.

### Children First Foundation

The Children First Foundation was established in 1999 to provide seriously injured or unwell children from developing countries with the opportunity to have lifesaving and life changing surgery in Australia. It's two programs support the belief that excellent medical care is a basic right of every child, regardless of where they are born:

- Miracle sMiles brings children from developing countries to Australia for profoundly life-changing or life-saving surgery that is not available in their country of birth; and
- the Children First Foundation Retreat provides a home away from home and security where children play, eat, sleep and heal while they are cared for.



### Look Good... Feel Better

Look Good... Feel Better (LGFB) is a free community service program dedicated to helping Australians living with cancer cope with the side effects of chemotherapy. By addressing hair loss and skin changes, using skin care, make-up, hats, turbans and wigs, they help to restore patients' appearance and self-image.

In Australia, more than 130,000 people have participated in the program, which now offers approximately 1,000 workshops nationwide in more than 180 venues.

The program is managed by a small team of staff and together with the support of 1,500 trained and certified cosmetic, beauty and hairdressing professionals who volunteer their time and expertise to help deliver workshops across Australia.

### Perinatal Anxiety & Depression Australia

Perinatal Anxiety and Depression Australia (PANDA) is committed to a community where post and antenatal mood disorders are recognised and the impact on women and their families is minimised through acknowledgement, support and education.

- Up to 1 in 10 women & 1 in 20 men struggle with antenatal depression.
- More than 1 in 7 new mums and up to 1 in 10 new dads experience postnatal depression each year in Australia.
- Anxiety is thought to be just as common and many parents experience anxiety and depression at the same time.

### Bump Program (by the Raise Foundation)

The Bump Program is run by Raise Foundation. Bump is a mentoring program for pregnant and parenting mums aged between 13 and 23. Bump is a fun way to meet other young mothers, have some much needed 'me' time, as well as gain the support of a mentor who is an experienced mother from the community. Bump offers weekly mentoring and themed interactive workshops, with activities such as cooking, arts & crafts and pamper sessions. Bump also offers skill building in budgeting, legal rights, education, employment and much more. Bump is free to attend, snacks are supplied, and on-site babysitting is provided.

### Further information on the charity partners and the services they provide is available from:

- **Dementia Australia** <https://www.dementia.org.au>
- **Children First Foundation** <http://childrenfirstfoundation.org.au>
- **Look Good Feel Better Foundation** <http://lgfb.org.au>
- **Perinatal Anxiety and Depression Australia** <http://www.panda.org.au>
- **Raise** <http://raise.org.au>

## DIRECTORS' REPORT

### BOARD OF DIRECTORS

#### DIRECTORS

The Directors of the Company during the financial year and up to the date of this Report are:



#### MR MARK G. SMITH

Dip Business (Marketing), FAICD, FIML, FAMI, CPM

Independent Non-executive Director appointed on 6 September 2017

Chairman of the Board appointed on 24 January 2018

Member (interim) Audit and Risk Committee from 6 September to 9 November 2017

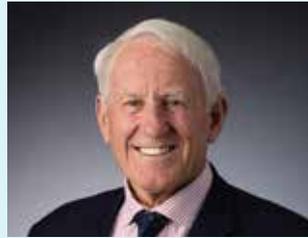
Mr Smith was previously the Chair of Patties Foods Limited for three years and a Non-executive Director of Toll Holdings Limited for eight years.

Mr Smith has extensive senior management experience in the fast moving consumer goods industry globally and was Managing Director of Cadbury Confectionery ANZ from 2001, Managing Director of Cadbury Schweppes Australia and New Zealand from 2003 to 2007, and a member of the Cadbury Schweppes Asia Pacific Regional Board.

Mr Smith also has a strong commitment to not-for-profit organisations as Chair of Enactus Australia and Chair of the Humour Foundation Ltd.

Other listed company directorships at any time during the last 3 years:

- GUD Holdings Limited (May, 2009 – current; Chairman since 2017)



#### MR ROBERT D. MILLNER

FAICD

Non-executive Director appointed on 5 May 2000

Member – Remuneration Committee appointed on 2 October 2007

Member – Nomination Committee appointed on 15 August 2012

Mr Millner has extensive management and public company experience across a number of industries.

Other listed company directorships at any time during the last 3 years:

- Brickworks Limited (1997 – current; Chairman since 1999)
- BKI Investment Company Limited (Chairman in October 2003)
- Milton Corporation Limited (1998 – current; Chairman since 2002)
- New Hope Corporation Limited (December 1995 - current)
- TPG Telecom Ltd (November 2001 - current)
- Washington H Soul Pattinson and Company Limited (1984 – current; Chairman for that time)



#### MS LEE AUSBURN

M.Pharm, B.Pharm, Dip.Hosp. Pharm, FAICD

Independent Non-executive Director appointed on 7 October 2008

Member – Audit and Risk Committee appointed on 7 October 2008

Chair – Nomination Committee appointed on 8 April 2015 and member since 15 August 2012

Ms Ausburn is a pharmacist with experience in retail and hospital pharmacy and in academia. She had a long career in the pharmaceutical industry with Merck Sharp & Dohme (Australia) Pty Ltd and was previously Vice President, Asia, for Merck & Co Inc with responsibility for the company's operations across Asia.

Ms Ausburn was President, Pharmacy Faculty Foundation, University of Sydney until December 2017.

Other listed company directorships at any time during the last 3 years:

- nib holdings limited (November 2013 - current)
- SomnoMed Limited (September 2011 - current)



#### MR GERARD J. MASTERS

Independent Non-executive Director appointed on 7 September 2010

Member – Nomination Committee appointed on 15 August 2012

Chairman – Remuneration Committee appointed on 30 January 2014

Member (interim) – Audit and Risk Committee from 1 March 2017 to 6 September 2017

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

## DIRECTORS' REPORT

CONTINUED



### MR KENNETH W. GUNDERSON-BRIGGS

B. Bus, FCA, MAICD, FIML

Director since 6 May 2014  
Senior Independent Non-Executive Director from 2 September 2015 until 29 January 2019

Chairman – Audit and Risk Committee appointed on 25 January 2017 and member since 6 May 2014  
Member – Remuneration Committee appointed on 8 April 2015

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

Mr Gunderson-Briggs finished his tenure as Chairman of Glenaeon Rudolf Steiner School Limited in May 2018, having been a Director since 2009 and Chair since 2013.

Other listed company directorships at any time during the last 3 years:

- Harvey Norman Holdings Limited (June 2003 - current)



### MS JENNIFER MACDONALD

B.Com, ACA, MEI, GAICD

Independent Non-executive Director appointed on 9 November 2017

Member – Audit and Risk Committee appointed on 9 November 2017

Ms Macdonald has a strong background in financial and general management roles across a range of industry sectors including fast moving consumer goods, travel and digital media.

Ms Macdonald was previously Chief Financial Officer and Interim Chief Executive Officer at Helloworld Travel and Chief Financial Officer and General Manager International at REA Group.

Ms Macdonald is currently a Non-executive Director of Property Guru Pte Ltd (based in Singapore).

Other listed company directorships at any time during the last 3 years:

- Redbubble Ltd (February 2018 - current)
- Bapcor Limited (September 2018 - current)
- Redflow Limited (December 2017 – September 2019)



### MR RICHARD VINCENT

B.Bus, (Accountancy), CPA

Executive Director

CEO and Managing Director appointed on 15 February 2017

Mr Vincent started his professional career in finance with Bridgestone before moving to Britax Rainsfords where he was CFO. He joined FH Faulding & Co Limited in 1998 and remained with that company until 2005, during which time he held a number of senior leadership roles, including responsibility for the pharmacy distribution, retail merchandise and generic pharmaceutical development.

Mr Vincent joined API in 2005 where he has held a number of general management roles that have included pharmacy distribution, strategy, supply chain, franchise recruitment, IT, manufacturing and mergers and acquisition.

Mr Vincent is the Deputy Chairman of the National Pharmaceutical Services Association and was also a Director of CH2 Holdings Pty Ltd from 2006 to 2015.

## DIRECTORS' REPORT

CONTINUED

### COMPANY SECRETARY

Mr Peter Sanguinetti retired as Company Secretary and General Counsel in July 2019. Ms Anne Mustow, B.Com., LLB, GAICD, Grad. Dip. Applied Finance, was appointed as his replacement with effect from 26 July 2019. Ms Mustow was admitted to legal practice in 1994, holds a current practising certificate, is a former Partner of Blake Dawson Waldron (now Ashurst), is the former General Counsel and Company Secretary of Bunnings Group and is a former Non-executive Director of Amaze (not for profit organisation).

### DIRECTORS' MEETINGS

The number of Board and Board Committee meetings held and attended by each of the Directors who are members of each committee during the financial year are listed below. In addition, Directors who are not members of Board Committees are invited and attend Committee meetings from time-to-time.

Director	Board		Audit and Risk		Remuneration		Nomination	
	Held <sup>(i)</sup>	Attended						
Mr Mark G. Smith <sup>(ii)</sup>	15	15	–	–	–	–	–	–
Mr Robert D. Millner	15	15	–	–	3	2	1	1
Ms Lee Ausburn	15	14	4	3	–	–	1	1
Mr Gerard J. Masters	15	15	–	–	3	3	1	1
Mr Kenneth W. Gunderson- Briggs	15	15	4	4	3	3	–	–
Ms Jennifer Macdonald	15	15	4	4	–	–	–	–
Mr Richard Vincent <sup>(ii)</sup>	15	15	–	–	–	–	–	–

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

(ii) The Chairman and the CEO and Managing Director attended most Committee meetings by invitation.

## DIRECTORS' REPORT

CONTINUED

### OPERATING AND FINANCIAL REVIEW

The Directors present the Operating Financial Review (OFR) of the Company having regard to ASIC Regulatory Guide 247 Effective Disclosure in an OFR (RG247), as follows:

The Group has included the following non-statutory measures which are used by the Chief Operating Decision Maker to measure the financial performance of the Group:

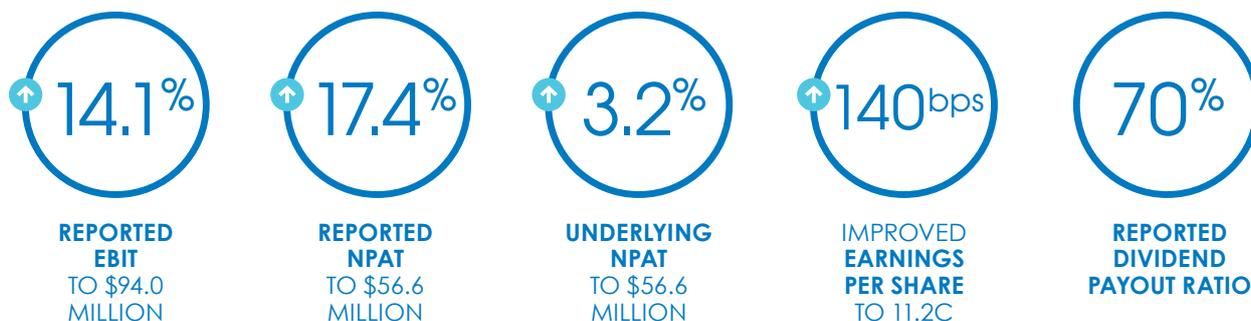
- Underlying NPAT,
- Underlying NPAT (attributable to API),
- Underlying NPAT CAGR,
- Underlying EBITDA,
- Total network register sales (including dispensary) growth,
- Revenue growth excluding Hepatitis C Medicine,
- Priceline and Priceline Pharmacy recorded register sales (including dispensary) growth,
- Underlying Cost of Doing Business (CODB),
- CODB (excluding Hepatitis C Medicine, and
- Revenue and Gross Profit reported on an ex Hepatitis C Medicine basis.

### PRINCIPAL ACTIVITIES

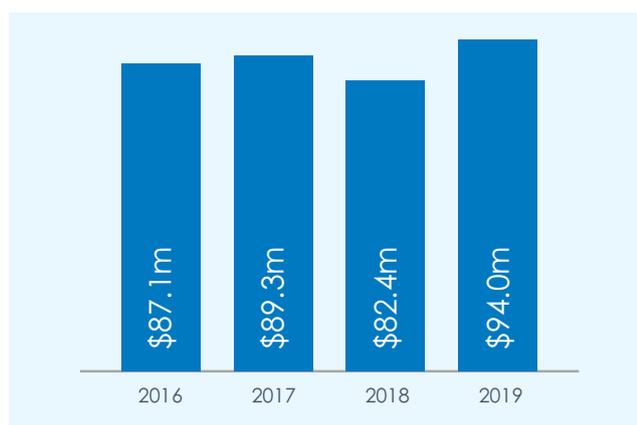
The principal activities of the Group were the wholesale distribution of pharmaceutical goods to pharmacies, and retail of health and beauty products to consumers through a network of Priceline and Priceline Pharmacy franchise stores and company owned Priceline stores in Australia. The Group also manufactures in New Zealand and distributes pharmaceutical and toiletry goods to the New Zealand, Australian, Asian and UK markets. There have been no significant changes in the nature of the principal activities during the year, other than the acquisition of the Clear Skincare businesses on 31 July 2018. The Clear Skincare businesses operate predominately in the Australian market with some operations in New Zealand.

### FINANCIAL PERFORMANCE

Financial highlights versus prior year



#### Strong reported EBIT



#### Growth to underlying NPAT



## DIRECTORS' REPORT

CONTINUED

### GROUP PERFORMANCE

Consolidated \$'000	FY2019	FY2018	Change (%)
Revenue*	3,878,859	3,753,884	3.3%
Gross Profit*	517,540	495,482	4.5%
Operating Expenses	451,784	423,203	6.8%
Reported EBITDA	123,115	110,573	11.3%
Underlying EBITDA	123,115	118,878	3.6%
Reported NPAT	56,577	48,202	17.4%
Underlying NPAT (attributable to API)	55,109	54,669	0.8%

\* Revenue and Gross profit reported on an ex Hepatitis C Medicine basis

#### Revenue Growth (A\$m excluding Hepatitis C Medicine)

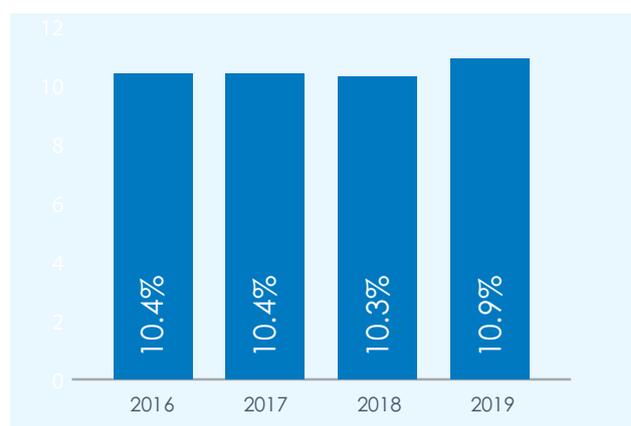


The Group's revenue excluding Hepatitis C Medicine<sup>(i)</sup> was \$3.9 billion representing a 3.3% increase on prior year. Revenue growth was primarily driven by Pharmacy Distribution revenue of \$2.8 billion (excluding Hepatitis C Medicine), up 3.3% on prior year, and the inclusion of the first full year of Clear Skincare revenue of \$45.6 million. Priceline and Priceline Pharmacy recorded register sales (including dispensary)<sup>(ii)</sup> growth of 1.5% on prior year. Priceline and Priceline Pharmacy network grew to 488 stores, adding 13 stores during the year.

(i) Hepatitis C medicine sales have varied materially between the 2018 and 2019 reporting periods due to the specific nature of the Government treatment program for patients which sees the disease successfully treated and demand decrease. Excluding the medicine class from reporting is relevant due to its very high cost and inconsequential profit contribution.

(ii) Register sales do not form part of the sales of the Group.

#### Underlying Cost of Doing Business (Excluding Hepatitis C Medicine)<sup>(iii)</sup>



The Group's CODB<sup>(i)</sup> has increased this year due to the addition of Clear Skincare to the consolidated group for a full year. Excluding Clear Skincare, CODB would have been 10.3%. When comparing the past four years excluding Clear Skincare CODB has remained consistently low, reflecting a strong focus on cost management. In FY19 we continued our focus in building a strong operating platform for future growth.

(iii) Depreciation is excluded from the CODB calculation

## DIRECTORS' REPORT

CONTINUED

### Priceline and Priceline Pharmacy

Priceline and Priceline Pharmacy recorded total network register sales (including dispensary) growth of 2.4% to \$2.2 billion. This revenue growth was achieved despite a challenging retail landscape, low consumer confidence, and a slow economic environment throughout the year. This result reflects our strong consumer offer and Priceline brand loyalty. It should be noted that 'register' sales made by franchisees do not form part of the financial results of the Group.

We continue to enhance our strong brand proposition to create demand for new stores from potential pharmacist franchise partners. This in turn drives store openings and contributes to network register sales growth. The Priceline Pharmacy network finished at 488 stores, up from 475 at 31 August 2018. Consumer engagement has always been a strong focus of the brand and we grow this by striving for a best in class store experience and first to market with new products and promotions. The Priceline Sister Club loyalty program remains one of the leading health and beauty membership programs and largest programs by membership in Australia.

### Pharmacy Distribution

Pharmacy Distribution revenue was \$2.9 billion, a 1.8% decrease on prior year. Excluding Hepatitis C Medicine, overall reported sales growth was 3.3%. Adding back Pharmaceutical Benefits Scheme (PBS) reforms, the underlying sales growth was 4.4%. The business grew independent accounts as well as a number of large pharmacy groups, demonstrating strong pharmacy support for API driven by the sales support API provides, and the support programs offered by API that are tailored to suit the individual business needs of our customers.

### New Zealand

New Zealand manufacturing segment revenue was \$77.5 million, a 30.7% increase on prior year and recorded an increase in EBIT of \$2.2 million (before eliminations). The business introduced a number of new product ranges including vitamins and generic over the counter medicines and continued its focus on profitable market segments which has resulted in winning new contracts in the healthcare range in Australia and New Zealand, as well as the personal care range in other export markets.

### Clear Skincare

Clear Skincare revenue was \$45.6 million, \$42.7 million higher than the contribution in prior year, noting that the contribution in prior year was for one month. Clear Skincare repositioned a number of its pre-existing clinics and its product range was added to the Priceline Pharmacy network during the year. At the end of the year Clear Skincare had 52 clinics across Australia and New Zealand, up from 44 at 31 August 2018.

### STRATEGIC SHAREHOLDING

API continues to hold 12.95% of shares on issue in Sigma Healthcare Limited (ASX code SIG). This investment was undertaken for strategic purposes and at reporting date we continue to hold the investment.

### FINANCIAL POSITION

The Group reported a net debt position of \$199.1 million, compared to \$55.9 million in prior year, partially reflecting: the payment for the 12.95% Sigma Healthcare Limited shareholding of \$85.9 million; an increase in capital expenditure from \$25.7 million in prior year to \$35.7 million reflecting expenditure on new Clear Skincare clinics; an increase in net finance costs from \$12.4 million in prior year to \$20.3 million relating to acquisitions of Clear Skincare and Sigma Healthcare Limited shares; a \$3.7 million increase in the dividend paid during the year compared to the prior year; and remaining additional inventory in our growing business, Consumer Brands. Net cash conversion days was 21 days reflecting a strong focus on working capital management. The Group is currently operating comfortably within the Group's debt finance facility limits and associated banking covenants.

The capital expenditure for the year was \$35.7 million, a \$14.1 million increase on prior year due to the rollout of eight new Clear Skincare clinics and cash generated from operations was \$58.2 million.

In line with the solid operational performance, the Group has declared a fully franked final dividend of 4.00 cents per share, bringing the full year dividend to 7.75 cents per share fully franked, an increase of 3.3% on the prior year dividend of 7.50 cents.

## DIRECTORS' REPORT

CONTINUED

### BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

The Group remains focused on leveraging its organisational, strategic and physical assets across Australia and New Zealand to drive continued value accretion for its shareholders.

To ensure the Group's business strategies remain relevant and market leading, the Group's Board performs an annual review of short and long term strategies to deal with the economic challenges faced by the Group. The Board reviews and approves the Group's strategic goals and supporting initiatives across all business units and functions.

The overall business strategies relevant to the Group's future financial position and performance are set out below.



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

- consistently deliver a differentiated and personalised experience for our customers, and continue to promote the Priceline Pharmacy franchise proposition to grow the store network;
- continue to operate Priceline Pharmacy to be a compelling proposition for pharmacists who wish to offset the impact of PBS reform, leverage retail and pharmacy expertise and drive further growth from integrated dispensary and retail programs;
- build loyalty and increase engagement of the Priceline Sister Club loyalty program and promote increased customer engagement through all channels including the Priceline website and social media;
- optimise the size and value of the store network for all brands;
- deliver superior value and service to independent pharmacy customers;
- provide consistent, valued and measurable service improvement to all customers and suppliers;
- grow the Clear Skincare offer to customers, both through opening clinics and offering new products and services;
- optimise the value of the business portfolio through investment, divestment and acquisition;
- be at the forefront of health, beauty and wellbeing industry trends, insights and innovation and use customer insight to drive connectivity of health and beauty offerings;
- enrich the community through active support of our Sisterhood Foundation;
- enhance the employee value proposition and create an environment to generate, prioritise and execute innovation; and
- increase lead indicator safety performance.

### MATERIAL BUSINESS RISKS

The Group's activities expose it to a number of economic and business risks. The Group addresses these risks through a risk management framework that is aligned with the strategic planning process and integrated into all areas of the business.

The risk management process involves examining the risk profile of the Group, identifying the risk universe and documenting those factors which contribute to the risk environment. An annual review is performed by management, along with a refresh at half year which includes assessing the effectiveness of current controls in place to manage the identified risks.

## DIRECTORS' REPORT

CONTINUED

The results of these reviews are provided to the Audit and Risk Committee for its consideration and recommendation to the Board. The most recent update in respect of risk profile and risk management plans was completed in August 2019.

The following is a summary of the most material and significant risks facing the Group and how the Group addresses them.

Risk	How the risk is addressed by the Group
<b>Structural reforms within the Australian Community Pharmacy sector</b>	
This relates to the risk of continued Government PBS reforms, changes in Government initiatives, regulation and legislation.	The Group works with Government to minimise commercial impacts while monitoring the changes to PBS medicines, and it responds, where appropriate, with a combination of reduced discounts to pharmacy customers and operational adjustments. The Group also closely monitors costs associated with the Community Service Obligation.
<b>Continued competitor threats</b>	
There is a risk that the Group is exposed to significant existing or new competitors in the Australian pharmacy, retail, health and beauty markets.	The Group continues to focus on the customer value proposition to leverage the differentiated market leading Priceline offering, including further personalisation of offers to Priceline Sister Club members as well as offering new and exclusive ranges and continuing to ensure it provides market leading service to our customers.
<b>Execution of Retail Pharmacy strategy with associated growth of Priceline Pharmacy stores</b>	
There is a risk that the expansion of the Priceline Pharmacy franchise network is unsuccessful or the growth in the next five years is slower than planned.	Existing key business processes and responses to mitigate this risk include the continuation of dedicated Retail Network Development teams and the inclusion of landlords, banks and industry accountants in pharmacist familiarisation and recruitment forums. Measures to monitor and track growth rates are reported to the Managing Director and the Board on a monthly basis.
<b>Cyber security and IT systems failure</b>	
There is a risk that the Group's IT systems are compromised by threat actors, including customer privacy breaches, or there are major IT system failures that adversely impact the business.	The Group performs regular reviews of all security configurations aligned with current industry standards. There is regular security testing and protocols in place for regular monitoring and reporting.
<b>Financial Risk</b>	
The Group is exposed to a number of financial risks including customer payment defaults, financial guarantees supporting pharmacy customers, and general retail trading conditions.	The Group adopts a financial risk management program which seeks to minimise potential adverse impacts on the financial performance of the Group.
<b>Professional Services and Products</b>	
There is a risk that the governance, oversight and compliance structures across the Group lack scale and maturity, exposing customers to inappropriate treatments, service delivery or unsafe products.	The Group has corporate governance and compliance management structures and standards in place which aim for continuous improvement. The supporting business frameworks and processes are subject to regular management risk assessment and internal audit review with strategic oversight provided by the Audit and Risk Committee.

**DIRECTORS' REPORT**  
CONTINUED

# Sustainability Report



## DIRECTORS' REPORT

CONTINUED

**The Group is pleased to present the following report on sustainability in its business. The Group's commitment to sustainability spans the entire business with a focus on:**

- Confidence in our products;
  - Engaging and caring for our employees;
  - Serving and sharing with our customers and community;
  - Selecting partners that share our values; and
  - Protecting our reputation,
- all of which are underpinned by the financial sustainability of the Group.

Selected standards from the Global Reporting Initiative (GRI) were taken into account to inform the content and scope of this report. The Group intends to continue to improve its sustainability reporting over time, referring to the GRI standards.

The following diagram illustrates the Group's sustainability model:



### Financial Sustainability

Sustainability issues encompassing environment, social and governance aspects (ESG) are overseen by the Audit and Risk Committee of the Board.

During the year, the Group established a sustainability working group comprising senior representatives from across the Group's business operations, including retail operations, franchise operations, wholesaling and distribution, supply chain, finance, risk management, information technology, people and legal. The sustainability working group has commenced its overview of various ESG issues affecting the Group and has contributed to this report. The sustainability working group meets on a periodic basis to review sustainability issues.

The Audit and Risk Committee receives regular presentations by executives on key risks, including sustainability risks, as appropriate.

When the Group acquires new businesses, such as the acquisition of the Clear Skincare business, any new sustainability issues are considered for inclusion in Group sustainability management processes.

### Material sustainability issues and focus

From the risk assessment described above, the material ESG issues impacting on the Group's business are identified. With reference to the Global Reporting Initiative (GRI) materiality dimensions, the sustainability working group has considered these issues against two metrics, being:

- influence on stakeholder assessments and decisions; and
- significance of economic, environmental and social impacts.

## DIRECTORS' REPORT

CONTINUED



# Confidence in our products

### Product Quality and Compliance

The Group works closely with its suppliers to source and develop high quality products, complying with current Good Manufacturing Practice principles and striving to deliver fit for purpose, safe products to customers. The Group aims to adhere to all applicable product regulatory standards in all jurisdictions and investigates any regulatory concerns which may arise.

Dedicated compliance and Consumer Brands healthcare teams oversee compliance with legal and regulatory requirements applicable to products. They take a continuous improvement, full compliance approach, provide training programs and work closely with manufacturers to ensure that products are manufactured in compliance with all legal and regulatory requirements. The Group recognises that product compliance is of the utmost importance and aims to ensure quality products are provided to consumers.

In preparation for the Therapeutic Goods Advertising Code (No. 2) 2018 taking effect on 1 January 2019, the Group undertook a review of all its advertising of therapeutic goods (including online and catalogues), executed a supplier re-certification process and updated processes and communications to provide suppliers and stakeholders, including franchisees, with information about the new requirements. The Group is continuing to monitor the new advertising framework closely to ensure ongoing compliance.

During the year, the Group also undertook a comprehensive review and as a result, updated a number of internal policies and procedures in relation to product quality and compliance.

The Group evaluates its product quality assurance and compliance processes, with the results, actions and recommendations from those evaluations informing its product quality assurance and compliance strategy. It tracks all customer complaints to provide an early warning system of quality and safety trends.

### Supply Chain

The Group is committed to sourcing merchandise that is produced in safe and fair working conditions, where the human rights of workers are respected and impacts on the environment are minimised.

In October 2019, the Group introduced a Supplier Code of Conduct which has re-affirmed and consolidated The Group's expectations of suppliers, to ensure that products are sourced in an ethical and responsible manner. The Supplier Code of Conduct addresses health and safety, governance and legal compliance, ethical conduct, modern slavery, environmental considerations, animal welfare and quality and product safety issues. It has been sent to all product suppliers and is published on the Group's website.

The Group is taking steps to understand the risk of, and mitigate the impacts of, modern slavery in its operations and supply chain.

### Waste

During the year, the Group's five major distribution sites in Melbourne, Sydney, Brisbane, Perth & Adelaide introduced a reusable corflute tote (totes are used for despatching orders in metropolitan areas). The tote is made from recycled plastics. At the end of their useful life, the totes are recycled by the manufacturer to produce corflute board. These totes reduce the demand for large cardboard totes and thereby reduce waste.

During the year, Priceline and Priceline Pharmacy eliminated the use of approximately 20 million plastic bags per year by introducing a paper bag alternative. The paper bags are recyclable, compostable, bio-degradable and are designed to be used more than once. Use of inks and adhesives are minimised - water-based inks are used as an environmentally friendly alternative to solvent-based inks.

The Group also has an arrangement with one of its IT hardware suppliers to reuse and recycle IT hardware when no longer required.



## DIRECTORS' REPORT

CONTINUED



# Engaging and caring for our people

### Employee engagement

The Group's culture is well defined through its Vision and Values and the expected behaviour of all our people to align with its Vision and Values.

### Vision and Values

**ENRICHING  
LIFE**

AS THE MOST  
**INSPIRATIONAL CHOICE**  
FOR  
**HEALTH, BEAUTY  
& WELL BEING**

**RESPECT**

**INITIATIVE**

**UNITY**

**EXCELLENCE**

- Communicates openly, honestly & with positive intent
- Understands personal impact on others
- Seeks to understand
- Remains open to a range of ideas
- Takes ownership of personal development
- Coaches others
- Innovates to create new value
- Creates energy & momentum for change
- Proactively helps other achieve
- Collaborates to achieve outcomes
- Champions high standards
- Puts the customer at the heart of decisions
- Drives accountability

Since the Group's last employee engagement survey (when engagement was measured at 63%), the Group has invested in leadership development and career planning with employees. The Group has developed five levels of leadership training, from first time leader courses to senior management training.

The Group has implemented an on-line Learning platform which allows all employees to have access to an extensive library of training courses to assist in improving their skills and personal development.

The Group aggregates the 360 feedback data obtained from all employees who undertake its leadership programs. This data is collated from line managers, their managers, peers and direct reports and gives another point of reference for behaviour, engagement and culture. The average of the ratings for each of 13 behaviours across the four Company Values, exceeded the expectations of the raters, indicating a strong and healthy culture.

The Group is planning another Engagement survey in 2020.

### Employee recognition

The Group has a "We Love Your Work" award program. Employees are encouraged to nominate their colleagues for outstanding demonstration of the Group Values and for Safety. Outstanding nominations are recognised quarterly and at the annual awards night held each year.

### Safety

The Group has a strong commitment to ongoing improvements in its safety performance and has sought to continuously improve and strengthen its safety management system. The Group became accredited in the International Standard for safety management, ISO 45001, during 2018.

The Group's safety management system focuses on:

- **Leadership** - to develop a culture of independent, sustainable safety, health and welfare practices focusing on risk management, consultation, communication, and reporting;
- **Process** - focusing on policies, standards, safe work processes, training, induction, and emergency preparedness; and
- **Workplace** - focusing on incident management and reporting, injury management, contractor management and auditing.

# DIRECTORS' REPORT

CONTINUED

## Safety, Health & Wellbeing Framework

Legislative Requirements

All of us. All the time. A safer place to work every day

Organisational Strategy

### SH&W Management System

(Compliant with ISO 45001:2018)

#### Leadership

Supporting **every day leaders** to develop a culture of interdependence and working towards sustainable SH&W practices. Strong **safety leadership** involves active participation of Team Members and embedding API values into the day to day.

#### Process

Continually improving our SH&W Management System to build intelligent processes and effective risk mitigation strategies. This involves intentional planning **activities** aimed at ensuring that operating processes are aligned with SH&W **policies and standards**.

#### Workplace

All of us, all the time are working toward creating a safe workplace through proactive activities and collaboration with our SH&W Committees. Both the **implementation and monitoring** of processes are essential to maintaining a safe working environment.

#### Risk Management



Risk Management is the cornerstone of our SH&W management system. It involves identifying and understanding workplace SH&W hazards, risks and opportunities and implementing controls to prevent injuries and incidents. Emphasis is placed understanding the needs and expectations of interested parties. This includes considering external and internal contexts, how work is organised, the social and human factors present, routine and non-routine activities and past incidents. Risk is assessed for both actual and proposed changes in the workplace. *Example: Hazard Identification, Risk Assessments, Incident Investigations, Trend Analysis*

#### Leadership & Culture



Leaders and Managers have overall responsibility and accountability for the SH&W. Top management support and active involvement is integral for promoting a culture which supports SH&W objectives. This includes supporting continual SH&W improvement and ensuring resources are allocated to achieve intended outcomes. *Example: Leadership and Culture Standard, Safety Business Plans, SH&W Responsibilities outlined in Job Descriptions*

#### Consultation & Communication



Effective consultation and communication is essential for cultivating openness, respect and trust. By drawing on the knowledge and experience of Team Members, better decisions can be made to reduce the risk of injuries and incidents. This facilitated through the sharing and exchange of information, ensuring that the views and concerns of stakeholders are taken in account for SH&W activities. Stakeholders are provided with timely access to clear, understandable and relevant information about the SH&W Management System. *Example: SH&W Committees Meetings, Team Talks, SH&W Alerts, SH&W03 Consultation and Communication Standard*

#### Policies & Standards



These documents display API's commitment and organisational objectives for SH&W. They are developed through a consultative process and establish the standards and expectations for our people, processes and workplace. *Example: SH&W Policy, Drug & Alcohol Policy, Risk Management Standard*

#### Safe Work Processes



Across the organisation we continuously develop and follow safe work processes to ensure work tasks are performed safely. SH&W is integrated into business processes rather than treated as a separate entity. *Example: Standard Operating Procedures for work tasks, ensuring the procurement of goods conform with SH&W Management System requirements.*

#### Training, Induction & Onboarding



Through training, induction and onboarding we ensure that our Team Members have the right knowledge, qualifications, capabilities and competencies to perform tasks safely. *Example: SH&W Induction & SOP training, Competency Checking*

#### Emergency Preparedness



Planning, training and practising responses to emergency situations and enhancing the readiness of our Team Members to respond in actual emergencies. *Example: Emergency Risk Assessment, Evacuation Plans & Exercises, accredited and nationally recognised training for Emergency Control Organisation.*

#### SH&W Performance Reporting



SH&W performance is regularly reported to operational and senior leadership teams. This drives accountability and responsibility for achievement of SH&W objectives. *Example: monthly SH&W Reports, Incident Reporting, sharing SH&W Audit results and progress of initiatives*

#### Incident Management



We learn from incidents by identifying root causes and relevant corrective actions to be implemented to prevent similar incidents occurring in the future. *Example: Incident Reporting and Incident Investigations*

#### Injury Management



Our commitment to supporting Team Members in early return to work, and early recovery from injury is demonstrated through Early Intervention. Returning to work sooner is an important part of the recovery process; with care, concern and communication key in achieving results. *Example: Return to Work Plans, Care Program Policy, Early Intervention Guideline, Injury PAK (First Response Resource Tool)*

#### Interested Parties



Our SH&W duties and responsibilities extend to Interested Parties impacted by our undertakings. This includes contractors, sub-contractors, suppliers, visitors and members of the general public. The same level of care and due diligence is required; legislative requirements must be taken into account and outsourced processes are controlled. *Example: Contractor Management System, Risk Assessments completed in consultation with and consideration of Interested Parties, and obligatory requirements.*

#### Auditing



External and internal audits are conducted to measure the effectiveness of our SH&W Management System. At set intervals we examine if the processes perform as intended, and set corrective actions to address any identified gaps. To ensure continuous improvement occurs, components of the system are reviewed and updated, and obsolete/redundant processes are removed. *Example: Self-assessments, Internal Audits, Surveillance Audits*

A safer place to work every day

## DIRECTORS' REPORT

CONTINUED

The Group measures safety through both leading and lagging indicators, tailored to each business area to create a meaningful and proactive approach to controlling the risks in each workplace.

Since 2016, the number of injuries has significantly reduced with:

- 62% reduction in Medical Treatment Injuries (MTI); and
- 45% reduction in Lost Time Injuries (LTI)

This result is attributed to a systematic approach to safety, using targeted programs to better control high risk activities and support injured persons return to work. The safety health and wellbeing operations plan is updated on an annual basis, considering incident trends and business changes to pre-emptively minimise the risk to the Group's people.

### Wellbeing

During the year, the Group launched a "Mental Health Partners" initiative and accredited mental health first aid training to key people leaders within the business. This compliments the Employee Assistance Program and aligns with our Wellbeing Framework, which supports a holistic sense of wellbeing within the workforce, by focusing on 5 key pillars:

- Vitality (Physical wellbeing)
- Confidence (Personal, Career and Financial)
- Curiosity (Learning)
- Calm (Mental & Emotional Wellbeing)
- Connectedness (Family, Friends and Community)



### Diversity and Gender

The Group sees gender diversity as a key driver of growth and is committed to ensuring diversity across the entire Group. The Group has a diversity policy that sets out its commitment to an inclusive workplace that embraces and promotes diversity including, but not limited to, gender, age, race, ethnicity, disability and cultural background.

The Board establishes and reviews measurable objectives for achieving diversity. Further information is provided in the Group's Corporate Governance Statement.

Women currently make up 65.6% of total managers, with 86% of promotions being women in the 2019 financial year, a large increase on the prior year.

The Group is committed to improving gender diversity on its Board, which currently sits at 28.6%. The Board has two female Directors and five male Directors, including the Chief Executive Officer and Managing Director. As vacancies arise, the Board is committed to increasing female representation on the Board. In this context, the Board has committed to the objectives of the 30% Club and the Australian Institute of Company Directors' target for 30% female directors.



## DIRECTORS' REPORT

CONTINUED

The following table is a summary of the Group's progress in achieving female diversity in its workforce and on its Board.

	FY15	FY16	FY17	FY18	FY19
Women on the Board	28.6%	28.6%	28.6%	28.6%	28.6%
Women in senior leadership team	37.5%	20.0%	22.2%	20.0%	27.3%
Women in management positions	59.4%	59.4%	68.5%	63.5%	65.5%
Women in workforce	77.1%	77.1%	81.7%	78.6%	77.2%
Promotions – women	NA	80.5%	50.0%	52.0%	86.0%
Manager promotions – women	NA	82.6%	43.5%	48.5%	80.0%



## Serving and sharing with our customers and community

### Engagement

During the year, the Priceline Sisterhood Foundation fundraising activities involved customers who purchased scratch cards, in-store donations and events, supported by the Priceline Sisterhood Ambassadors.

During the year, the Group provided to customers more than 1.7 million health checks through its health stations which are located in a number of Priceline Pharmacy stores.

### Loyalty

The Priceline Sister Club program rewards loyal members with exclusive offers, voucher rewards based on purchases and quarterly rewards for highest tier of members. During the year the Group has increased its focus on providing improved communication to its Sister Club member base and providing non-monetary rewards to gain broad appeal.

A customer feedback tool has recently been implemented in all Priceline stores to gain customer feedback on a set of consistent questions. During the year, the Group also implemented a dashboard of key metrics to track and monitor real-time customer feedback. This data will provide a store and a national view of customer insights to drive improved customer focus.

### Climate Change and Environment

The Group has considered the impact of climate change related risks and is committed to mitigating their impacts. While the Group's Scope 1 and 2 emissions fall well below the National Greenhouse and Energy (NGER) reporting threshold, it continues to assess and monitor impacts that relate to both its operations and its supply chain.

The Group's operations are subject to environmental regulation under Commonwealth, State and New Zealand legislation in relation to its manufacture of pharmaceutical products, retail stores and pharmaceutical distribution facilities. The Group has adequate systems in place for the management of its environmental requirements and is not aware of any significant breach of the environmental regulations as applied to the Group.

The Group's New Zealand manufacturing plants endeavour to minimise their influence on the environment and on their immediate surroundings. This relates to a wide range of environmental aspects encompassing noise, water, air and energy. These aspects are also considered when designing new facilities and services. Improvements in energy and logistics efficiency (while maintaining high product quality standards) are a regular focus.

During the year, the Group's Melbourne Distribution Centre has reduced its impact on the environment by upgrading the warehouse lighting to more efficient LED lighting with movement sensors and daylight harvesters, minimising unnecessary power consumption.

The Priceline business has achieved a significant reduction in report printing during the year and reuses existing fixtures & fittings where possible.

## DIRECTORS' REPORT

CONTINUED



# Selecting partners that share our values

### Franchisees

Franchisees are selected with care, focussing on commitment to the Group's values and on compliance.

Each year the Group uses an independent survey of its franchisees to gauge their level of engagement. The 2019 results confirm that Priceline franchise partners are happy to advocate the Priceline franchise to others, are committed to staying with Priceline for the long-term, and are enthusiastically engaging with Priceline initiatives. In 2019, franchise partner sentiment remained steady relative to the prior year and at a level that is significantly above the Franchise Institute Survey average.

### The Sisterhood Foundation



The Priceline Sisterhood Foundation was initiated in 2011 and was formally established in 2014, as an independent incorporated Foundation that can receive tax deductible donations. It has its own Board of Directors, with the Group Chief Executive Officer and Managing Director as its Chairman. The Sisterhood Foundation Board currently includes four independent Directors, one current Group executive and one former Group executive.

The Sisterhood Foundation has a Charity Partner Selection Criteria Policy which outlines the selection criteria/principles which must be met for "not for profit" organisations to be supported by the Foundation. The selection criteria includes, but is not limited to:

- alignment with the Foundation's Vision to enrich the lives of Australian women and their families;
- having DGR status and being registered with the ACNC;
- being a "Real Need" charity, including financial dependency on public fund raising, a volunteer pro bono support (with funding received from the Foundation likely to sustainability of the NFP organisation);
- preference being given to national charities;
- having a willingness and capability to cross-promote mutual charitable objectives and share best practice learnings; and
- being transparent with business plans, strategy, and external funding sources.

Based on these criteria, the Priceline Sisterhood Foundation recently added the Bump Program, run by the Raise Foundation. The Bump mentoring program supports pregnant and parenting young women aged between 13 and 23. Bump offers weekly mentoring and workshops, with activities such as cooking, art, pamper sessions, and assists young mums to work on personal goals, career and study aspirations, legal rights and gain the support of a mentor who is an experienced mum from the community. The other charities supported by the Priceline Sisterhood Foundation are Dementia Australia, Look Good Feel Better, PANDA and Children First Foundation.



# Protecting our reputation

### Ethics and whistleblowers

The Group has a Code of Conduct and Ethics that all individuals within the Group are required to comply with. The Code is published on the Group's intranet and website. A summary of the topics covered by the Code is set out in the Group's Corporate Governance Statement. All Group employees are required to undertake an e-learning module promptly following commencement of their employment to ensure that they are aware of and understand the requirements of the Code.

The Group has a Whistleblower Policy, which is published on the Group's intranet and website. The Group also has an independent hotline service which can be used by whistleblowers to report concerns, anonymously if they wish, which can be investigated as appropriate.

### Privacy, cybersecurity and fraud

The Group understands the importance of privacy and data protection. The Company has internal policies and procedures in place which highlight the importance of data protection within API. The Group has dedicated staff that can deal with any mandatory reporting of data breaches. There is a Privacy Policy and Group employees who have the need to deal with personal information in the course of their duties are required to undertake training, including an e-learning module, to ensure that they deal with personal information in accordance with applicable privacy laws.

The Group has a strong internal audit process in place with fraud controls regularly assessed.

## DIRECTORS' REPORT

CONTINUED

### OTHER MATTERS

#### INSURANCE AND INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the year, the Group paid a premium in respect of a contract insuring the Directors and officers against all liabilities to another person, other than the Company or a related body corporate, that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The contract of insurance insures any past, present or future director, secretary, executive officer or employee of the Group. Further details have not been included in this report due to confidentiality provisions in the contract of insurance.

Each Director and the Company Secretary is party to a Director's Access, Indemnity and Insurance Deed. In each case this Deed includes an indemnity in favour of the relevant officer, by the Company (subject to and to the fullest extent permitted by applicable law), summarised as follows:

- a. for any liability incurred by the Director or Company Secretary as an officer of the Company;
- b. for legal costs incurred by the Director or Company Secretary in defending proceedings for a liability incurred as an officer of the Company, or in seeking relief from that liability under applicable law; and
- c. for any liability for legal costs incurred by the Director or Company Secretary in connection with legal proceedings of a Government or Regulatory authority which is brought against the Director or Company Secretary because of their present or former capacity as an officer of the Company.

#### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the nature of the activities of the Group during the year, other than its investment in Sigma Healthcare Limited shares.

#### SUBSEQUENT EVENTS

Details of the final dividend declared since balance date is set out in Note 7 for the Financial Report.

No other matter or circumstance has arisen since the end of the financial year which may significantly affect the future operations or results of the Group or the future state of affairs of the Group.

#### DIVIDENDS

A dividend was paid by the Company during the year ended 31 August 2019 in respect of the year ended 31 August 2018 on 7 December 2018. The dividend was at the rate of 4.0 cents per share, fully franked and totalled \$19.7 million.

An interim dividend of 3.75 cents per share amounting to \$18.5 million, fully franked in respect of half year ended 28 February 2019 was paid by the Company out of profit reserves on 31 May 2019.

#### LIKELY DEVELOPMENTS

The Group will continue to pursue its policy of improving the profitability and market share of each of its major operating businesses during the next financial year, including delivering on the strategies and initiatives outlined in the operating and financial review.

Further information regarding the business strategies of the Group and the expected results of operations in future financial years have not been included in this report, as disclosure of this information would likely result in unreasonable prejudice to the Group.

## DIRECTORS' REPORT

CONTINUED

### NON-AUDIT SERVICES

During the year, KPMG, auditors of the Group, have performed certain services in relation to acquisition due diligence and other related services.

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

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group, or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out in Note 24 to the financial statements.

The Board reviews and approves any non-audit services provided by the auditor having regard to market benchmarks and to ensure that the provision of these services delivers value efficiencies for the benefit of shareholders and does not impact the independence of the audit.

### LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration is set out on page 38 and forms part of the Directors' Report.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that Instrument, amounts in the consolidated financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Sydney, 23 October 2019

Signed in accordance with a resolution of the Directors:



**Mark G. Smith**  
Chairman

## DIRECTORS' REPORT

CONTINUED

### REMUNERATION REPORT

The Board is responsible for the Company's remuneration policies and practices. To assist the Board with this, it has established the Remuneration Committee to review and make remuneration recommendations to the Board.

#### OVERVIEW OF REMUNERATION FOR FY19

A summary of the matters impacting the Group's remuneration structure and strategy for FY19 are:

- no changes to the Short Term Incentive Plan (STIP) or the Long Term Incentive Plan (LTIP) have been made during the financial year;
- the financial performance of the Group for FY19 did not meet the minimum requirement for any STIP payments. Accordingly, no member of the KMP will receive an STI award in respect of FY19;
- the three year performance period for the 2016 LTIP ended on 31 August 2019. Vesting was subject to an aggregate of the ROE hurdle and EPS CAGR. The performance conditions were tested and audited with the following outcomes:
  - actual aggregate ROE for the performance period was 29.45% for an achievement of 31.84% of half the grant;
  - actual CAGR EPS was 3.04% for an achievement of 0% of the other half of the grant; and
  - The combined achievement of the 2016 LTIP for the performance measured over a 3 year period resulted in 15.9% of the total grant vesting; and
- although there has been an adjustment to base Board fees to bridge the gap to market rates, fees remain considerably below market rates.

#### REMUNERATION SUMMARY – 'TAKE HOME PAY'

The table below shows the key elements of total reward received by each KMP for FY19. This includes the cash component elements paid to each executive for the year as well as the value of equity that has vested for services provided to 31 August 2019, and equity from previous years that vested in FY19 which was originally reported in accordance with the accounting standards in the year the rights were granted.

Executive In AUD (\$)	Fixed Remuneration	STI paid in FY19		LTI vested <sup>(i)</sup>	Total Remuneration Received
		Cash STI	Deferred STI		
<b>Mr R Vincent – CEO and Managing Director</b>	1,092,650	–	–	26,820	1,119,470
<b>Mr P Mendo – Chief Financial Officer</b>	499,443	–	–	20,393	519,836

(i) Consists of the total cash value of the Performance Rights vested and delivered during FY19. These related to the 2015 grant, for which 17,083 shares were issued to Mr Vincent and 12,989 shares issued to Mr Mendo on 7 November 2018. The share price on the grant date was \$1.57. This does not represent the statutory expense recognised in the profit and loss statement. The expense was recognised over a three year period in accordance with AASB 2 Share-Based Payments.

A full breakdown of executive remuneration details has been prepared in accordance with statutory requirements and accounting standards. This detailed disclosure including statutory tables is included in section 2 of the Remuneration Report.

## DIRECTORS' REPORT

CONTINUED

### REMUNERATION REPORT - AUDITED

This report details the processes used in remuneration decisions and their outcomes for KMP for the 2019 financial year (FY19) and is prepared in accordance with Section 300A of the *Corporations Act 2001* (as amended) for the Company and its subsidiaries.

### KEY MANAGEMENT PERSONNEL

As defined under AASB 124, KMP have the authority and responsibility for planning, directing and controlling the activities of the Group, and comprise:

1. the Non-executive Directors;
2. the CEO and Managing Director; and
3. the Chief Financial Officer.

#### NON-EXECUTIVE DIRECTOR KEY MANAGEMENT PERSONNEL

Mark G. Smith	Chairman
Lee Ausburn	Director
Gerard Masters	Director
Robert Millner	Director
Kenneth Gunderson-Briggs	Director
Jennifer Macdonald	Director

#### EXECUTIVE KEY MANAGEMENT PERSONNEL

Richard Vincent	CEO and Managing Director
Peter Mendo	Chief Financial Officer

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

Ultimately, the Board is responsible for the Group's remuneration policies and practices. To assist the Board with this, it has established the Remuneration Committee to review and make remuneration recommendations to the Board. The Remuneration Committee is governed by its Charter (available on [www.api.net.au](http://www.api.net.au)) which has been prepared taking into account the ASX Corporate Governance Principles and Recommendations. The Charter specifies the purpose, authority, membership and activities of the Remuneration Committee and the Charter is annually reviewed by the Committee to ensure it remains consistent with regulatory requirements.

Membership of the Remuneration Committee consists of Non-executive Directors. During the year members of the Remuneration Committee were Mr Gerard Masters (Chair), Mr Robert Millner and Mr Kenneth Gunderson-Briggs.

This Remuneration Report is in sections as follows:

#### Section 1 Non-executive Director KMP Remuneration

- A. Policy and Principles
- B. Remuneration of Non-executive Director KMP

#### Section 2 Executive KMP Remuneration including the CEO and Managing Director

- A. Policy and Principles
- B. Remuneration Structure
- C. STIP
- D. LTIP
- E. Employment Contracts
- F. Remuneration of Executives including the CEO and Managing Director

## DIRECTORS' REPORT

CONTINUED

### Section 3 Other matters required by Section 300A Corporations Act 2001

- A. Movement in shares held by the KMP
- B. Comments on Remuneration Report at the most recent Annual General Meeting (AGM) of the Company
- C. Engagement of Remuneration Consultant
- D. Related party transactions

### SECTION 1 NON-EXECUTIVE DIRECTOR KMP REMUNERATION

#### A Policy and Principles

Non-executive Directors' fees are determined within an aggregate fee pool limit. An annual total fee pool of \$1,200,000 was approved by shareholders at the 25 January 2017 Annual General Meeting. Total Non-executive Directors remuneration including Board Committee fees, non-monetary benefits and superannuation paid at the statutory rate for the year ended 31 August 2019 was \$873,481.

The remuneration of Non-executive Directors is determined having regard to non-executive director remuneration benchmarking data (which the Group procures bi-annually), the need to attract and retain appropriately qualified Directors, fee levels applied in similarly sized companies, and Board judgement as to whether any adjustments are appropriate. Non-executive Directors do not receive performance related remuneration.

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

Annual Board fees (including superannuation) were structured as follows, with effect from 1 January 2019:

Role	Annual Fee Structure
Board Chairman	\$256,315
Board Member	\$107,532
Audit and Risk Committee Chair	\$35,000
Audit and Risk Committee Member	\$8,487
Remuneration Committee Chair	\$16,974
Remuneration Committee Member	\$8,487
Nomination Committee Chair	(no fee)
Nomination Committee Member	(no fee)
Senior Independent Director	\$15,450

The Board Chairman does not receive Committee fees.

## DIRECTORS' REPORT

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### B Remuneration of Directors (excluding the CEO and Managing Director) <sup>(i)</sup>

Name	Year	Short term benefits (\$)		Post-employment benefits (\$)	Total remuneration (\$)
		Director fees	Project remuneration	Superannuation benefits	
Mark G. Smith <sup>(i)</sup>	2019	223,034	–	20,021	243,055
	2018	153,640	–	14,409	168,049
Robert D. Millner	2019	101,363	–	9,630	110,993
	2018	91,288	–	8,672	99,960
Lee Ausburn	2019	101,363	–	9,630	110,993
	2018	91,288	–	8,672	99,960
Gerard J. Masters	2019	109,019	–	10,359	119,377
	2018	98,700	–	9,380	108,080
Ken Gunderson-Briggs <sup>(iii)</sup>	2019	162,620	–	15,449	178,069
	2018	134,788	16,393	14,362	165,543
Jennifer Macdonald <sup>(i)</sup>	2019	101,363	–	9,630	110,993
	2018	74,337	–	7,063	81,400

(i) Commenced during 2018.

(ii) There were no termination or retirement benefits paid or payable in either the previous or current financial year.

(iii) Ceased holding the position of Senior Independent Director on 29 January 2019.

## SECTION 2 EXECUTIVE KMP REMUNERATION INCLUDING THE CEO AND MANAGING DIRECTOR

### A Policy and Principles

The remuneration strategy of the Group for Executive KMP is to:

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

Executive KMP remuneration is set having regard to the size and nature of the position with reference to benchmarking data and the performance of the individual.

The total remuneration of each Executive KMP incorporates variable “at risk” elements to:

- link reward with the achievement of business objectives and financial performance of the Group; and
- ensure total remuneration is competitive by market standards.

The role of the Remuneration Committee includes reviewing and making recommendations to the Board on Executive KMP remuneration. The Remuneration Committee may seek independent advice on the appropriateness of remuneration levels.

## DIRECTORS' REPORT

CONTINUED

### B Remuneration Structure

The Executive remuneration framework as it applies to the Executive KMP comprises:

- fixed remuneration; and
- performance linked remuneration in the form of STIP and LTIP opportunities.

#### Fixed Remuneration

Fixed remuneration is a guaranteed salary inclusive of any FBT, charges related to employee benefits (including motor vehicles) and employer contributions to superannuation funds.

Fixed remuneration levels are reviewed annually and set with regard to each position and the median market level for comparable roles. Any adjustment needs to consider individual segment results and overall performance of the Group. In addition, external consultants provide data and analysis to ensure that executive remuneration is appropriate in the context of market practice and stakeholder expectations.

#### Performance Linked Remuneration

Performance linked remuneration includes both short term and long term incentives and is designed to reward Executive KMP and other executives for meeting or exceeding their financial and non-financial objectives. The short term incentive is in the form of a cash payment and deferred rights to acquire shares ("STIP Performance Rights") while the long term incentive is in the form of deferred rights to acquire shares ("LTIP Performance Rights"). Performance Rights will only vest subject to meeting the relevant performance and service conditions.

The Group has a policy prohibiting recipients of share-based payments from entering into arrangements to hedge their exposure to losses arising from share price decreases. Entering into such arrangements has been prohibited by law since 1 July 2011.

### C Short Term Incentive Plan

The STIP is an annual incentive plan for Executives and certain other senior employees. The STIP is designed to motivate performance in the following areas:

- Group NPAT performance
- business unit financial performance; and
- individual achievement of performance goals linked to the Group's strategic objectives and demonstration of values & behaviours.

The objectives of the STIP are to:

- provide a clear link between individual and organisational performance and executive reward;
- reinforce the link between individual, team and Group performance;

- reinforce the interdependencies between business units and functions;
- align the interests of Executives who are most able to positively impact profitability; and
- drive a high performance leadership culture.

Prior to the start of the financial year the Board approves the maximum STIP pool.

Actual STIP awards depend on meeting certain criteria; however the Board retains discretion as to application of the criteria and the making of STIP awards.

The determination of STIP awards is informed by:

- for each eligible individual, a target incentive, which is set at the beginning of the financial year (as a percentage of salary) (**Target Incentive**);
- a minimum gateway requirement of Group Net Profit After Tax (NPAT) set by the Board (**Group Performance Gateway**); and
- for each eligible individual, whether he or she has satisfied the relevant weighted financial and non-financial eligibility criteria.

The STIP structure reflects the Board's view that multiple measures of performance help to diversify risk.

Each year, the Board establishes the Group Performance Gateway by reference to Group NPAT levels at which threshold, target and maximum STIP entitlements will be payable. The current practice is that the minimum STIP pool is established at 90% of the Group Performance Gateway, the target STIP pool is established if the Group Performance Gateway is achieved and the maximum STIP pool is achieved at 110% of the Group Performance Gateway.

Fifty percent of any STIP awarded to the executive is paid in cash and fifty percent is deferred for 12 months in the form of STIP Performance Rights. STIP Performance Rights can be exercised for the holder to acquire fully paid shares for no consideration after the 12 months deferral period (the shares "vest").

The number of STIP Performance Rights awarded is determined by dividing the value of the deferred fifty percent component of the STIP award by the Volume Weighted Average Closing Price (VWAP) of API shares on the ASX in the 10-day period after announcement of full year results of the grant year.

In addition, executives who have been awarded STIP Performance Rights will be eligible to receive, at the time of vesting of shares upon exercise of those rights, a cash payment equal to the dividends paid on the shares during the 12 month deferral period prior to vesting.

## DIRECTORS' REPORT

CONTINUED

The deferred component of the STIP award is designed to manage risk by ensuring that decisions taken in the previous 12 months have resulted in sustainable Group benefit. The Board has the discretion to cancel any unvested STIP Performance Rights due to excessive risk taking, material misstatement of financial statements or fraudulent or gross misconduct.

### CEO and Managing Director

The CEO and Managing Director's STIP Target Incentive is equal to 32.5% of his fixed remuneration if 90% of NPAT Group Performance Gateway is achieved; 65% of his fixed remuneration if the NPAT Group Performance Gateway is achieved, and if 110% or more of NPAT Group Performance Gateway is achieved, a maximum payment of 100% of his fixed remuneration.

The CEO and Managing Director's eligibility criteria is determined by the Board each year and is drawn from financial measures such as NPAT, ROE and Return on Capital Employed (ROCE). Non-financial measures may include retail sales growth, Priceline Pharmacy network growth, pharmacy distribution market share and improvement targets relating to workplace safety.

The performance measures and weightings for FY19 for the CEO and Managing Director were:

Performance measure	Weighting
NPAT and ROCE	55%
Operational performance	30%
Safety performance (LTIFR)	5%
Succession	5%
Strategic projects	5%

The NPAT result for FY19 did not exceed 90% of the Group Performance Gateway and accordingly the Board did not approve a STIP award for the CEO and Managing Director.

### Other Executive KMP

The STIP award Target Incentive for Executive KMP other than the CEO and Managing Director ("other Executive KMP") is equal to 10% of fixed remuneration if 90% of Group Performance Gateway is achieved; 20% of fixed remuneration if the Group Performance Gateway is achieved, and if 110% or more of the Group Performance Gateway is achieved, a maximum payment of 40% of fixed remuneration.

For each other Executive KMP, STIP entitlement depends on the Executive's business unit meeting an EBIT measure (40% weighting of the entitlement), the Group meeting a ROCE measure (40% weighting of entitlement) and the individual meeting all of certain key performance indicators (20% weighting of entitlement) with the first two of these (the financial measures) having to be met before any STIP entitlement is achieved.

The following table summarises the basis of the calculation of the STIP award for other Executive KMP.

	NPAT gateway	Financial Measure 1 40% weighting	Financial Measure 2 40% weighting	Personal Measure 20% weighting
Target	90% of NPAT Target	Business unit EBIT	Company ROCE Target	Individual Targets

The NPAT result for FY19 did not exceed 90% of the Group Performance Gateway and accordingly the Board did not approve a STIP award for other Executive KMP.

## DIRECTORS' REPORT

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### D Long Term Incentive Plan

The LTIP provides for the grant of LTIP Performance Rights to eligible Executives to acquire fully paid ordinary shares in API for no consideration, subject to Performance Conditions being satisfied. The Board is responsible for awards granted under the LTIP and for overseeing administration of the LTIP.

The key features and implications of the LTIP are:

- LTIP Performance Rights are granted to the CEO and Managing Director (which are subject to shareholder approval at the Annual General Meeting) and to certain other Executives as soon as practicable after the full year results are announced. This ensures the allocation of LTIP Performance Rights reflects the best informed assessment by the market of Group value and share price;
- the target value of the 2019 LTIP is:
  - CEO and Managing Director: equal to 60% of Fixed Remuneration; and
  - other Executive KMPs: 30% of Fixed Remuneration;
- for the 2019 LTIP there are two Performance Conditions which each contribute 50% to an award of LTIP Performance Rights, being:
  - the Group's actual cumulative ROE over the Performance Period, compared with the targets set out below (which may be amended by the Board), in which case the award is as set out below:

Actual ROE during the Performance Period	% of LTIP Performance Rights subject to the ROE performance condition that will vest (being one half of the total Performance Rights granted)
Less than 32.96%	0%
Equal to 32.96%	20%
Between 32.96% and 53.56%	On a straight line basis between 20% and 100%
Greater than or equal to 53.96%	100%

- the Group's EPS CAGR over the Performance Period, compared with the targets set out below (which may be amended by the Board), in which case the award is as set out below:

EPS CAGR during the Performance Period	% of LTIP Performance Rights subject of the EPS performance condition that will vest (being one half of the total Performance Rights granted)
Less than 7.5%	0%
Equal to 7.5%	20%
Between 7.5% and 10%	On a straight line basis between 20% and 100%
Greater than or equal to 10%	100%

- if one of the Performance Conditions is satisfied but the other is not, then the total available LTIP award is halved;
- ROE is expressed as a percentage created by dividing NPAT for the relevant financial period by total shareholder equity for the relevant financial year. EPS is the basic earnings per share disclosed in the consolidated income statement of the Financial Statements. Target ROE and EPS are derived from the Group's corporate plan for the three years commencing at the beginning of the performance period;
- the number of LTIP Performance Rights granted is derived by dividing the participant's LTIP target amount by the 10-day VWAP of API shares immediately after announcement of full year results – that is, the 'face value' methodology;
- LTIP Performance Rights vest upon the Board confirming that the Performance Conditions have been met. The Performance Conditions are tested at the end of the Performance Period. Vested LTIP Performance Rights convert to API shares on a one-for-one basis. No dividends are received by Executives on unvested LTIP Performance Rights during the performance period but upon vesting, the recipient will receive a cash amount equivalent to the declared dividends paid during the Performance Period;

## DIRECTORS' REPORT

CONTINUED

- if the Performance Conditions are not fully met, the LTIP Performance Rights lapse proportionately to achievement;
- upon eligibility for LTIP Performance Rights to vest, the LTIP provides for shares to be purchased on market on behalf of the participant or for new shares issued by the Company;
- the Performance Conditions will be tested only once and any LTIP Performance Rights that do not meet the Performance Conditions will lapse and will not be re-tested;
- the Group has a policy prohibiting Directors and employees from dealing in financial products (e.g. hedges or derivatives) issued or created over or in respect of securities that have the effect of reducing or eliminating the risk associated with any equity incentives that may be offered from time to time;
- if an LTIP participant ceases to be employed before the end of the Performance Period for reasons other than redundancy, death, disability or illness, their LTIP Performance Rights will automatically lapse, subject to Board discretion. If a participant ceases to be employed before the end of the Performance Period and the date of employment ceasing is on or after the first anniversary date of grant and is due to redundancy, death, disability or illness, the number of LTIP Performance Rights will be reduced pro-rata to reflect the proportion of the Performance Period for which the participant was employed;
- the LTIP provides for the clawback of an award if, during the 12 month period after the award is made, issues relating to performance of a participant arise which, if they had been known at the time of the award, would have resulted in no award being made;
- more broadly, the Board retains absolute discretion over all awards made under the incentive award plans, including the LTIP; and
- in determining whether LTIP Performance Rights will vest the Board will have regard to a range of factors to ensure alignment with long-term overall Group performance and:
  - strategic business drivers; and
  - long term shareholder return.

Subject to commercial sensitivity, the Board intends to provide details of performance against specified hurdles upon those conditions being tested and upon vesting of the relevant LTIP Performance Rights.

### 2016 LTIP grant

On 1 February 2017, LTIP Performance Rights were granted with a Performance Period commencing on 1 September 2016 and ending 31 August 2019 (the "2016 Grant").

Shareholder approval for 2016 LTIP Performance Rights to be offered to Mr Vincent in the role of CEO and Managing Director was given at the January 2017 Annual General Meeting.

The ROE and EPS CAGR Performance Conditions for the exercise of those LTIP Performance Rights were assessed after the results for the Performance Period were finalised, with the following outcomes:

- actual aggregate ROE for the performance period was 29.45% resulting in 31.84% of this tranche vesting; and
- actual EPS CAGR was 3.04% resulting in 0% of this tranche vesting.
- The combined achievement of the 2016 LTIP has resulted in 15.9% of the maximum opportunity vesting.

### 2017 LTIP grant

On 29 January 2018, LTIP Performance Rights were granted with a Performance Period commencing on 1 September 2017 and ending 31 August 2020 (the "2017 Grant").

Shareholder approval for 2017 LTIP Performance Rights offered to Mr Vincent in the role of CEO and Managing Director was given at the January 2018 Annual General Meeting.

The ROE and EPS CAGR Performance Conditions for the exercise of LTIP Performance Rights will be assessed after 31 August 2020 once the Group financial results are finalised.

The ROE Performance Condition has the effect that:

- if a cumulative ROE of 24.32% is achieved for the three year period, 20% of the LTIP Performance Rights subject to the ROE Performance Condition will vest;
- if a cumulative ROE of 39.52% is achieved for the three year period, 100% of the LTIP Performance Rights subject to the ROE Performance Condition will vest; and
- if the cumulative ROE is between these two levels, the number of LTIP Performance Rights that vest will be calculated on a straight line proportional basis.

## DIRECTORS' REPORT

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The EPS CAGR Performance Condition has the effect that:

- if CAGR of 7.5% is achieved for the three year period, 20% of the LTIP Performance Rights subject to the CAGR Performance Condition will vest;
- if a CAGR of 10.0% is achieved for the three year period, 100% of the LTIP Performance Rights subject to the CAGR Performance Condition will vest; and
- if the CAGR is between these two levels, the number of LTIP Performance Rights that vest will be calculated on a straight line proportional basis.

### 2018 LTIP grant

On 10 December 2018, LTIP Performance Rights were granted with a Performance Period commencing on 1 September 2018 and ending 31 August 2021 (the "2018 Grant").

Shareholder approval for 2018 LTIP Performance Rights offered to Mr Vincent in the role of CEO and Managing Director was given at the January 2019 AGM.

The ROE and EPS CAGR Performance Conditions for the exercise of LTIP Performance Rights will be assessed after 31 August 2021 once the Group financial results are finalised.

The ROE Performance Condition has the effect that:

- if a cumulative ROE of 32.96% is achieved for the three year period, 20% of the LTIP Performance Rights subject to the ROE Performance Condition will vest;
- if a cumulative ROE of 53.56% is achieved for the three year period, 100% of the LTIP Performance Rights subject to the ROE Performance Condition will vest; and
- if the cumulative ROE is between these two levels, the number of LTIP Performance Rights that vest will be calculated on a straight line proportional basis.

The EPS CAGR Performance Condition has the effect that:

- if CAGR of 7.5% is achieved for the three year period, 20% of the LTIP Performance Rights subject to the CAGR Performance Condition will vest;
- if a CAGR of 10.0% is achieved for the three year period, 100% of the LTIP Performance Rights subject to the CAGR Performance Condition will vest; and
- if the CAGR is between these two levels, the number of LTIP Performance Rights that vest will be calculated on a straight line proportional basis.

### E Employment Contracts

The Company has entered into Executive Service Agreements ("Agreements") with Executive KMP. These Agreements outline the components of remuneration to be paid. Remuneration levels are reviewed each year to take into account any change in the scope of the role performed, and any other changes required to meet the principles of the Remuneration Policy.

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

- Mr Vincent may resign from the Company by giving three months written notice. The Company may terminate Mr Vincent's Agreement without cause by providing twelve months written notice, or making a payment in lieu of the notice period. The Agreement provides for a non-compete restriction of up to twelve months after cessation of employment; and
- Mr Mendo may resign from the Company by giving six months written notice. The Company may terminate Mr Mendo's Agreement without cause by providing six months written notice or by making a payment in lieu of the notice period. The Agreement provides for a non-compete restriction of up to six months after cessation of employment.

The Company may summarily terminate the Executive KMP's employment in specified circumstances with immediate effect and no termination benefits will apply other than accrued entitlements.

## DIRECTORS' REPORT

CONTINUED

### Remuneration of Executive KMP including the CEO and Managing Director <sup>(i)</sup>

Details of the nature and amount of each major element of remuneration of each of the Executive KMP of the Group (including the CEO and Managing Director) are as follows:

Year ended	Short Term										
	Salary & Fees <sup>(i)</sup>	Cash - Short-term incentives	Total	Post-employment Superannuation contributions	Long Service Leave	Final benefits	Equity value of Performance Rights granted under STIP <sup>(ii)</sup>	Equity value of Performance Rights granted under LTIP <sup>(ii)</sup>	Total Remuneration	Proportion of remuneration performance related	Value of rights as proportion of remuneration (%)
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Mr R Vincent – CEO and Managing Director</b>											
31 August 2019	1,072,040	–	<b>1,072,040</b>	20,610	28,778	–	–	(152,809)	<b>968,619</b>	(15.8)	(15.8)
31 August 2018	1,041,537	3,085	<b>1,044,622</b>	20,129	25,780	–	–	124,330	<b>1,214,861</b>	10.5	10.2
<b>Mr P Mendo – Chief Financial Officer</b>											
31 August 2019	478,833	–	<b>478,833</b>	20,610	12,459	–	–	(42,669)	<b>469,233</b>	(9.1)	(9.1)
31 August 2018	463,161	2,345	<b>465,506</b>	20,129	1,270	–	–	(17,362)	<b>469,543</b>	(3.2)	(3.7)

(i) Salary & Fees is inclusive of annual leave entitlements.

(ii) The Equity Value reflects the fair value of each performance right, and for some of these, an adjustment to reflect the actual and/or likely number that will vest based upon the assessment of non-market based performance vesting conditions. An adjustment may result in a negative value to reflect the change from the prior period of the number estimated to vest.

### Analysis of Performance Rights over Equity Instruments granted as Compensation

Details of the Performance Rights awarded as remuneration to each Executive KMP are below.

Executive	Tranche	Number	Fair Value per share \$	Total Value \$	Included in FY19 remuneration \$	As at the date of this report	
						Vested %	Forfeited <sup>(i)</sup> %
<b>Richard Vincent</b>							
	2016 LTIP - in previous Role	44,877	1.68	75,393	(19,059)	15.9%	84.1%
	2016 LTIP - as CEO and Managing Director	177,895	1.81	321,990	(81,399)	15.9%	84.1%
	2017 LTIP	402,264	1.36	547,079	(93,003)	0.0%	0.0%
	2018 LTIP	416,954	1.17	487,836	40,652	0.0%	0.0%
<b>Peter Mendo</b>							
	2016 LTIP	75,000	1.68	126,000	(31,853)	15.9%	84.1%
	2017 LTIP	92,311	1.32	121,851	(20,715)	0.0%	0.0%
	2018 LTIP	95,218	1.26	119,975	9,899	0.0%	0.0%

(i) The % forfeited in the year represents the reduction from the maximum number of Performance Rights available to vest due to the performance criteria not being achieved.

## DIRECTORS' REPORT

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### LTIP summary

- LTIP Performance Rights were granted on 1 February 2017 with a Performance Period commencing on 1 September 2016 and ending 31 August 2019 (the 2016 grant). The Performance Conditions for the exercise of LTIP Performance Rights were assessed resulting in 15.9% of the grant vesting. The fair value of the LTIP Performance Rights is dependent upon the ROE and EPS Performance Conditions for the entire grant and is \$1.68 per share.
- LTIP Performance Rights were granted on 29 January 2018 with a Performance Period commencing on 1 September 2017 and ending 31 August 2020 (the 2017 grant). The Performance Conditions for the exercise of LTIP Performance Rights will be assessed shortly on or after the year ending 31 August 2020. The fair value of the LTIP Performance Rights is dependent upon the ROE and EPS Performance Conditions for the entire grant and is \$1.32 per share.
- LTIP Performance Rights were granted on 10 December 2018 with a Performance Period commencing on 1 September 2018 and ending 31 August 2021 (the 2018 grant). The Performance Conditions for the exercise of LTIP Performance Rights will be assessed shortly on or after the year ending 31 August 2021. The fair value of the LTIP Performance Rights is dependent upon the ROE and EPS Performance Conditions for the entire grant and is \$1.263 per share.

### STIP summary

No STIP awards were approved for FY18 or FY19 and therefore no STIP Performance Rights have been issued in relation to the STIP program for those financial years.

### Performance rights over equity instruments

The movement during the reporting period in the number of Performance Rights held directly or beneficially by each Executive KMP, including their related parties, is as follows:

Executive	Number of performance rights				Held at the end of the year
	Held at the beginning of the year	Granted as compensation <sup>(i)</sup>	Vested during the year	Other changes <sup>(ii)</sup>	
<b>Financial year 2019</b>					
Richard Vincent	724,216	416,954	(17,083)	(82,097)	1,041,990
Peter Mendo	242,721	95,218	(12,989)	(62,421)	262,529

(i) Total KMP grants of 512,172 rights during the period over new issue shares were equal to 0.1% of common shares outstanding.

(ii) Other changes represent Performance Rights that expired or were forfeited during the year.

At the end of the year, no Performance Rights held by Executive KMP have become vested but not exercisable.

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

### A Movements in shares held by the KMP

The movement during the year in the number of ordinary shares of the Company, held directly, indirectly or beneficially by each Executive and Non-executive KMP, including their personally related parties is as follows:

KMP	Number of shares			Held at the end of the year
	Held at the beginning of the year	Purchases or issues	Sale of shares	
<b>Financial year 2019</b>				
Mark G. Smith	170,000	135,000	–	305,000
Robert D. Millner	1,755,620	–	–	1,755,620
Lee Ausburn	83,334	–	–	83,334
Gerard J. Masters	218,000	–	–	218,000
Ken Gunderson-Briggs	20,000	10,000	–	30,000
Jennifer Macdonald	35,000	–	–	35,000
Richard Vincent	429,285	17,083 <sup>(i)</sup>	–	446,368
Peter Mendo	33,507	12,989 <sup>(i)</sup>	–	46,496

(i) Issued in November 2018 pursuant to the LTIP for the year ended 31 August 2015.

## DIRECTORS' REPORT

CONTINUED

### Consequences of Performance on Shareholders' Wealth

In considering the performance of the Group and the benefits for shareholder wealth, the Board has regard to a range of indicators in respect of senior executive remuneration and have linked these to the previously described short and long term incentives.

The following table presents these indicators over the past 5 financial years, taking into account dividend payments, share price changes and returns of capital during the financial years:

Year ended	31 August 2019	31 August 2018	31 August 2017	31 August 2016	31 August 2015
Net profit/(loss) (\$'000)	56,577	48,202	52,371	51,670	43,126
Dividends declared – (cents per share)	7.75	7.5	7.0	6.0	4.5
Share price as at end of year (\$)	1.32	1.85	1.47	1.77	1.62

### B Comments on Remuneration Report at the most recent AGM of the Company

The Company's previous AGM was held on 23 January 2019. At this meeting:

- no comments were made on the Remuneration Report which was considered at that AGM;
- in relation to the resolution that the Remuneration Report be adopted at the meeting, at least 75% of the votes cast were in favour of adoption of that report.

### C Engagement of Remuneration Consultant

While the Remuneration Committee seeks external advice from advisers who are independent of management or remuneration matters, it did not receive a remuneration recommendation as defined under Section 9B of the *Corporations Act 2001* during the year ended 31 August 2019.

### D Related Party Transactions

Transactions with Related Parties are set out in Note 20. The Company has not entered into any loan arrangements.

**THE REMUNERATION REPORT CONCLUDES AT THIS POINT.**

## LEAD AUDITOR'S INDEPENDENCE DECLARATION



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

To the Directors of Australian Pharmaceutical Industries Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Pharmaceutical Industries Limited for the financial year ended 31 August 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

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

KPMG

A handwritten signature in blue ink that reads 'Tony Romeo'.

Tony Romeo

*Partner*

Melbourne

23 October 2019

## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2019

<i>In thousands of AUD</i>	Note	Year ended 31 August 2019	Year ended 31 August 2018
Revenue	3	4,010,725	4,026,302
Cost of sales		(3,492,420)	(3,529,592)
<b>Gross profit</b>		<b>518,305</b>	<b>496,710</b>
Other income	3	27,525	8,890
Warehousing and distribution expenses		(141,557)	(140,056)
Marketing and sales expenses		(217,934)	(190,098)
Administration and general expenses		(92,293)	(93,049)
<b>Profit from operating activities (EBIT)</b>		<b>94,046</b>	<b>82,397</b>
Finance income		395	181
Finance expenses	4	(20,701)	(12,551)
<b>Net finance costs</b>		<b>(20,306)</b>	<b>(12,370)</b>
<b>Profit before tax</b>		<b>73,740</b>	<b>70,027</b>
Income tax expense	5	(17,163)	(21,825)
<b>Profit for the year</b>		<b>56,577</b>	<b>48,202</b>
<b>Attributable to:</b>			
Ordinary shareholders of the Company		55,109	48,056
Non-controlling interest		1,468	146
<b>Profit for the year</b>		<b>56,577</b>	<b>48,202</b>
<b>Earnings per share for profit attributable to the ordinary shareholders of the Company:</b>		<b>cents</b>	<b>cents</b>
Basic earnings per share	6	11.2	9.8
Diluted earnings per share	6	11.1	9.7

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST 2019

<i>In thousands of AUD</i>	Note	Year ended 31 August 2019	Year ended 31 August 2018
<b>Profit for the year</b>		<b>56,577</b>	<b>48,202</b>
<b>Other comprehensive income/(loss)</b>			
<b>Items that will not be reclassified subsequently to the consolidated income statement</b>			
Remeasurements of the defined benefit asset (post tax)		(93)	64
Changes in the fair value of financial assets at fair value through other comprehensive income (post tax)	13	1,364	–
<b>Total items that will not be reclassified</b>		<b>1,271</b>	<b>64</b>
<b>Items that may be reclassified subsequently to the consolidated income statement</b>			
Exchange fluctuations on translation of foreign operations (post tax)		621	926
Effective portion of changes in fair value of cash flow hedges (post tax)		(207)	272
<b>Total items that may be reclassified</b>		<b>414</b>	<b>1,198</b>
<b>Total other comprehensive income for the year</b>		<b>1,685</b>	<b>1,262</b>
<b>Total comprehensive income for the year</b>		<b>58,262</b>	<b>49,464</b>
<b>Attributable to:</b>			
Ordinary shareholders of the Company		56,794	49,318
Non-controlling interest		1,468	146
<b>Total comprehensive income</b>		<b>58,262</b>	<b>49,464</b>

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

**CONSOLIDATED BALANCE SHEET**

AS AT 31 AUGUST 2019

<i>In thousands of AUD</i>	Note	As at 31 August 2019	As at 31 August 2018 (restated) <sup>(i)</sup>
<b>Current assets</b>			
Cash and cash equivalents	27	30,181	35,948
Trade and other receivables	8	657,932	654,661
Inventories	8	413,258	395,219
<b>Total current assets</b>		<b>1,101,371</b>	<b>1,085,828</b>
<b>Non-current assets</b>			
Trade and other receivables	8	57,544	28,279
Financial assets at fair value through other comprehensive income	13	87,849	–
Deferred tax assets	5	31,049	22,838
Property, plant and equipment	9	107,130	101,015
Intangible assets	11	280,271	283,383
<b>Total non-current assets</b>		<b>563,843</b>	<b>435,515</b>
<b>Total assets</b>		<b>1,665,214</b>	<b>1,521,343</b>
<b>Current liabilities</b>			
Trade and other payables	8	790,270	777,996
Loans and borrowings	14	59,596	2,679
Provisions	12	35,235	29,851
Income tax payable	5	2,380	7,141
<b>Total current liabilities</b>		<b>887,481</b>	<b>817,667</b>
<b>Non-current liabilities</b>			
Trade and other payables	8	80,079	97,826
Deferred tax liabilities	5	–	292
Loans and borrowings	14	169,683	89,214
Provisions	12	5,663	5,637
<b>Total non-current liabilities</b>		<b>255,425</b>	<b>192,969</b>
<b>Total liabilities</b>		<b>1,142,906</b>	<b>1,010,636</b>
<b>Net assets</b>		<b>522,308</b>	<b>510,707</b>
<b>Equity</b>			
Share capital		566,461	566,461
Reserves		62,645	46,987
Accumulated losses		(110,189)	(104,664)
<b>Total equity attributable to members of the Company</b>		<b>518,917</b>	<b>508,784</b>
<b>Non-controlling interest in controlled entities</b>		<b>3,391</b>	<b>1,923</b>
<b>Total equity</b>		<b>522,308</b>	<b>510,707</b>

(i) The 31 August 2018 balances have been restated due to measurement period adjustments with respect to business acquisitions. Refer to Note 11, 21 and 28 for further details.

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2019

### Attributable to ordinary shareholders of API Limited

In thousands of AUD	Share Capital	Accumulated Losses	Profits <sup>(i)</sup> Reserve	Trans-lation Reserve	Hedging Reserve	Equity Reserve	Control Reserve	Fair Value Reserve	Total	Non-controlling interest <sup>(iii)</sup>	Total Equity <sup>(ii)</sup>
<b>Balance at 31 August 2018</b>	566,461	(104,664)	99,811	737	68	6,271	(59,900)	-	508,784	1,923	510,707
Adjustment on Adoption of AASB 9	-	(6,242)	-	-	-	-	-	-	(6,242)	-	(6,242)
Adjustment on Adoption of AASB 15	-	717	-	-	-	-	-	-	717	-	717
<b>Balance at 1 September 2018</b>	<b>566,461</b>	<b>(110,189)</b>	<b>99,811</b>	<b>737</b>	<b>68</b>	<b>6,271</b>	<b>(59,900)</b>	<b>-</b>	<b>503,259</b>	<b>1,923</b>	<b>505,182</b>
Profit after tax	-	-	55,109	-	-	-	-	-	55,109	1,468	56,577
Total other comprehensive income/(loss)	-	-	(93)	621	(207)	-	-	1,364	1,685	-	1,685
Total comprehensive income for the year	-	-	55,016	621	(207)	-	-	1,364	56,794	1,468	58,262
<b>Transactions with owners, recorded directly in equity</b>											
Dividends to equity holders	-	-	(38,171)	-	-	-	-	-	(38,171)	-	(38,171)
Unwinding of discount on put and call option	-	-	-	-	-	-	(2,411)	-	(2,411)	-	(2,411)
Share based payments	-	-	-	-	-	(554)	-	-	(554)	-	(554)
Total contributions by and distributions to owners	-	-	(38,171)	-	-	(554)	(2,411)	-	(41,136)	-	(41,136)
<b>Balance at 31 August 2019</b>	<b>566,461</b>	<b>(110,189)</b>	<b>116,656</b>	<b>1,358</b>	<b>(139)</b>	<b>5,717</b>	<b>(62,311)</b>	<b>1,364</b>	<b>518,917</b>	<b>3,391</b>	<b>522,308</b>
<b>Balance at 1 September 2017</b>	<b>566,461</b>	<b>(104,664)</b>	<b>86,155</b>	<b>(189)</b>	<b>(204)</b>	<b>6,687</b>	<b>-</b>	<b>-</b>	<b>554,246</b>	<b>-</b>	<b>554,246</b>
Profit after tax	-	-	48,056	-	-	-	-	-	48,056	146	48,202
Total other comprehensive income/(loss)	-	-	64	926	272	-	-	-	1,262	-	1,262
Total comprehensive income for the year	-	-	48,120	926	272	-	-	-	49,318	146	49,464
<b>Transactions with owners, recorded directly in equity</b>											
Purchase of treasury shares <sup>(ii)</sup>	(362)	-	-	-	-	-	-	-	(362)	-	(362)
Dividends to equity holders	-	-	(34,464)	-	-	-	-	-	(34,464)	-	(34,464)
Consideration payable to non-controlling interests	-	-	-	-	-	-	(59,900)	-	(59,900)	(11,605)	(71,505)
Proportionate share of business assets acquired	-	-	-	-	-	-	-	-	-	13,382	13,382
Shares vested under the STIP and LTIP	362	-	-	-	-	(532)	-	-	(170)	-	(170)
Share based payments	-	-	-	-	-	116	-	-	116	-	116
Total contributions by and distributions to owners	-	-	(34,464)	-	-	(416)	(59,900)	-	(94,780)	1,777	(93,003)
<b>Balance at 31 August 2018</b>	<b>566,461</b>	<b>(104,664)</b>	<b>99,811</b>	<b>737</b>	<b>68</b>	<b>6,271</b>	<b>(59,900)</b>	<b>-</b>	<b>508,784</b>	<b>1,923</b>	<b>510,707</b>

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

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

(iii) The 31 August 2018 balances have been restated due to measurement period adjustments with respect to business acquisitions. Refer to Note 11, 21 and 28 for further details.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes

**CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31 AUGUST 2019

<i>In thousands of AUD</i>	Note	Year ended 31 August 2019	Year ended 31 August 2018
<b>Cash flows from operating activities</b>			
Cash receipts from customers (inclusive of GST)		4,359,494	4,446,366
Cash payments to suppliers and employees (inclusive of GST)		(4,301,329)	(4,347,655)
<b>Cash inflow from operations</b>		<b>58,165</b>	<b>98,711</b>
Interest received		396	181
Finance costs paid		(19,502)	(12,397)
Income taxes paid		(27,450)	(32,844)
<b>Net cash inflows from operating activities</b>		<b>11,609</b>	<b>53,651</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		1,533	–
Payments for property, plant and equipment and intangibles		(35,704)	(25,698)
Payments for financial assets at fair value through other comprehensive income		(85,901)	–
Payment for business acquired, net of cash acquired		–	(56,608)
Dividends received		3,533	–
<b>Net cash outflows from investing activities</b>		<b>(116,539)</b>	<b>(82,306)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		2,722,269	2,720,235
Repayment of borrowings		(2,585,935)	(2,660,000)
Payment of finance lease liabilities		(891)	(941)
Dividends paid		(38,171)	(34,464)
<b>Net cash inflows from financing activities</b>		<b>97,272</b>	<b>24,830</b>
Net decrease in cash and cash equivalents		(7,658)	(3,825)
Cash and cash equivalents at the beginning of the year		35,948	39,776
Effect of exchange rate fluctuations on cash held		(53)	(3)
<b>Cash and cash equivalents at the end of the year<sup>(i)</sup></b>	27	<b>28,237</b>	<b>35,948</b>

(i) Cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

<i>In thousands of AUD</i>	Year ended 31 August 2019	Year ended 31 August 2018
<b>Cash and cash equivalents in the Consolidated balance sheet</b>	<b>30,181</b>	<b>35,948</b>
Bank overdrafts repayable on demand and used for cash management purposes	(1,944)	–
<b>Cash and cash equivalents in the Consolidated statement of cash flows</b>	<b>28,237</b>	<b>35,948</b>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## 1. ABOUT THIS REPORT

Australian Pharmaceutical Industries Limited (the 'Company') is a for-profit public company limited by shares incorporated and domiciled in Australia. The financial report was authorised for issue by the Directors on 23 October 2019.

Significant accounting policies adopted in preparing the financial report have been consistently applied to all the years presented, unless otherwise stated and are described in the note to which they relate. Accounting policies relevant to understanding the financial report as a whole are set out below.

### a. Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards adopted by the AASB including Australian Interpretations and the *Corporations Act 2001*. The financial report also complies with IFRS and interpretations adopted by the International Accounting Standards Board.

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

### b. Consolidation

The financial report of the Company comprises the Company and its subsidiaries (together referred to as the 'Group'). Subsidiaries are all entities over which the Group has control as defined in AASB 10 Consolidated Financial Statements. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the power, directly or indirectly, to affect those returns. Detail of controlled subsidiaries are set out in Note 17.

The financial report includes information and results of each subsidiary from the date on which the Group obtains control until such time as the Group ceases to control the entity. In preparing the financial report, all intercompany balances, transactions and unrealised profits arising within the Group are eliminated in full. Accounting policies of the Company and all subsidiaries in the Group are consistently applied.

### c. Foreign currency

Translation of foreign currencies into Australian dollars is as follows:

- Transactions in foreign currency are translated at the exchange rate at the date of the transactions.
- Financial assets and liabilities are translated at the exchange rate on balance date.
- Non-financial assets and liabilities are translated at historical rates at the date of the transaction.
- Exchange gains and losses on translation are recognised in the income statement, unless they relate to qualifying cash flow hedges which are deferred in equity and recognised in other comprehensive income.

Assets and liabilities, including goodwill and fair value adjustments on consolidation, of foreign subsidiaries are translated to Australian dollars at the exchange rate on balance date. Foreign exchange differences on translation are recognised in other comprehensive income and foreign currency translation reserve.

### d. Key estimates and judgements

Preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial reports. The estimates and judgements are continually evaluated and reviewed based on historical experience and other factors, including reasonable expectations of future events. Changes in the assumptions underlying the estimates may result in a significant impact on the financial statements. Management believes the estimates used in preparing the financial statements are reasonable and in accordance with the accounting standards.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 1. ABOUT THIS REPORT (continued)

Key assumptions and judgements that have the most significant impact on the amount recognised in the financial report are set out in the following notes:

Note	Judgement area
<b>Note 8 Working Capital</b>	Carrying value of trade receivables Carrying value of inventories Carrying value of financial liabilities payable to non-controlling shareholders
<b>Note 11 Intangible assets</b>	Impairment assessment for cash generating units with indefinite life intangible assets
<b>Note 12 Provisions and Contingencies</b>	Determination of exposure under financial guarantee contingent liabilities

#### e. Notes to the financial statements

The notes include information that is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- The amount to which the information relates is significant because of its size or nature;
- The information is important for understanding the results of the Group;
- It helps to explain the impact of significant changes in the Group's operations; or
- It relates to an aspect of the Group's operations that is important to its future performance.

The notes have been organised in five separate sections based on their nature. The beginning of each section describes the information presented.

#### f. Rounding

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## FINANCIAL PERFORMANCE

This section provides information about the Group's financial performance during the year including performance of its operating segments and the Group's financial results including revenue and other income, expenses, earnings per share, taxation and dividends.

### 2. SEGMENT REPORT

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the other segments. AASB 8 Operating Segments requires disclosure of segment information on the same basis as that used for internal reporting provided to the Chief Operating Decision Maker (CODM) of the Group. The CODM has been identified as the CEO.

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

Segment	Principal activities
<b>Australia</b>	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 Clear Skincare 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.
<b>New Zealand</b>	Manufacturer and owner of rights of pharmaceutical medicines and consumer toiletries. Products are sold in both New Zealand and exported.

In thousands of AUD	Year ended 31 August							
	Australia		New Zealand		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Revenue</b>								
External sales	3,793,776	3,828,323	52,713	48,358	–	–	3,846,489	3,876,681
External services	164,236	149,621	–	–	–	–	164,236	149,621
Inter-segment revenue <sup>(i)</sup>	–	–	24,782	10,935	(24,782)	(10,935)	–	–
<b>Total segment revenue</b>	<b>3,958,012</b>	<b>3,977,944</b>	<b>77,495</b>	<b>59,293</b>	<b>(24,782)</b>	<b>(10,935)</b>	<b>4,010,725</b>	<b>4,026,302</b>
Reportable segment gross profit	491,169	469,970	33,276	26,740	(6,141)	–	518,305	496,710
<b>Reportable segment profit</b>	<b>95,171</b>	<b>79,587</b>	<b>5,016</b>	<b>2,810</b>	<b>(6,141)</b>	<b>–</b>	<b>94,046</b>	<b>82,397</b>
<b>Unallocated amounts</b>								
Net financing costs							(20,306)	(12,370)
<b>Profit before tax</b>							<b>73,740</b>	<b>70,027</b>
Income tax expense							(17,163)	(21,825)
<b>Profit for the year</b>							<b>56,577</b>	<b>48,202</b>

(i) All inter-segment sales are on arm's length basis

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 2. SEGMENT REPORT (continued)

In thousands of AUD	Year ended 31 August							
	Australia		New Zealand		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Attributable to:</b>								
Ordinary shareholders of the Company							55,109	48,056
Non-controlling interest							1,468	146
<b>Other segment information:</b>								
Depreciation and amortisation	27,301	26,614	1,768	1,562	–	–	29,069	28,176
Additions of property, plant and equipment and intangible assets (restated)	31,354	122,005	4,350	3,055	–	–	35,704	125,060

### 3. REVENUE AND OTHER INCOME

In thousands of AUD	Year ended 31 August 2019	Year ended 31 August 2018
<b>Revenue</b>		
Sales revenue	3,846,489	3,876,681
Service revenue	164,236	149,621
<b>Total revenue</b>	<b>4,010,725</b>	<b>4,026,302</b>
<b>Other income</b>		
Gain on disposal of property, plant and equipment	253	–
Interest fee income	5,765	8,887
Net foreign exchange (loss)/gain	(60)	3
Dividend income	3,533	–
Changes in the fair value of financial liabilities	18,034	–
<b>Total other income</b>	<b>27,525</b>	<b>8,890</b>

#### Accounting policies – Revenue from contracts with customers

Revenue stream	Description	Performance obligation	Timing of recognition
Sales revenue	<b>Sale of goods</b> Sale of goods to customers, including an allowance for product returns during a certain time period. Revenue is recognised at the agreed sale price, net of returns, allowances, trade discounts and volume rebates.	Delivery of goods to customers E.g. Over the counter sales or at delivery to a pharmacy	Point in time
	<b>Community Service Obligation (CSO)</b> 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 3. REVENUE AND OTHER INCOME (continued)

#### Accounting policies – Revenue from contracts with customers

Revenue stream	Description	Performance obligation	Timing of recognition	
<b>Service revenue</b>	<b>Service revenue</b>	Income received from services provided to customers, including clinical treatments. Revenue is recognised at agreed sales price net of allowances and trade discounts.	Completion of services to be rendered	Point in time
	<b>Loyalty program</b>	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
	<b>Marketing income</b>	Income received from suppliers for promotional and marketing services rendered.	Completion of services to be rendered	Over time
	<b>Membership and brand fees</b>	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
	<b>Franchise service fees</b>	Income received from franchisees for operational services including store development, lease negotiation, human resource and information technology assistance.	Completion of services to be rendered	Over time

#### Accounting policies – Other income

Revenue stream	Recognition policy
<b>Interest fee income</b>	Interest fee revenue includes interest charges on overdue debtors and is recognised on an accrual basis.
<b>Dividend income</b>	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.
<b>Changes in the fair value of financial liabilities</b>	Changes in the fair value of financial liabilities include changes in the fair value of contingent consideration and changes in the fair value of mandatory distribution of profits to non-controlling shareholders. Financial liabilities payable to non-controlling shareholders held at fair value are reassessed each reporting period. Refer to Note 8 for further information on the accounting policies for financial liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 4. EXPENSES

<i>In thousands of AUD</i>	Year ended 31 August 2019	Year ended 31 August 2018
Wages and salaries expense	192,278	187,329
Superannuation expense	15,407	14,206
Share based payments expense	(554)	116
Other employee expenses	19,024	18,656
<b>Employee benefits expense</b>	<b>226,155</b>	<b>220,307</b>
Interest expense	15,676	7,731
API rewards	4,973	4,710
Finance expense on leased assets	52	110
<b>Finance expenses</b>	<b>20,701</b>	<b>12,551</b>
Depreciation and amortisation	29,069	28,176

#### Accounting policies

<b>Employee benefits</b>	Employee benefits includes wages, salaries, superannuation benefits, personal leave, annual leave, long service leave and any non-monetary benefits paid to employees in consideration of services rendered. These are expensed as incurred. Refer to Note 12 for details on calculation of employee benefits provisions. Refer to Note 23 for accounting policies on share based payments.
<b>Finance expenses</b>	<p>Finance expenses are recognised as expenses in the period as incurred and include:</p> <ul style="list-style-type: none"> <li>– Interest on bank overdrafts, short-term and long-term borrowings;</li> <li>– Interest payable on securitisation programs;</li> <li>– Interest charges on finance leases;</li> <li>– Amortisation of ancillary costs incurred in connection with the arrangement of borrowings;</li> <li>– Net interest charges on the API rewards programme; and</li> <li>– Discount unwind on financial liabilities held at fair value.</li> </ul>

### 5. TAXATION

<i>In thousands of AUD</i>	Year ended 31 August 2019	Year ended 31 August 2018
<b>a. Income tax expense recognised in the income statement</b>		
Current tax expense	23,905	23,637
Deferred tax expense	(6,858)	(1,617)
Adjustments in current year tax relating to prior year	116	(195)
<b>Total income tax expense</b>	<b>17,163</b>	<b>21,825</b>
<b>Reconciliation of prima facie tax expense to income tax expense</b>		
Profit before income tax	73,740	70,027
Prima facie income tax at 30%	22,122	21,008
<b>Tax effect of items which increase/(decrease) tax expense:</b>		
Share based payments expense	(167)	(52)
Entertainment and other sundry expense	221	111
Fair value movement of financial liabilities	(5,410)	–
Other	282	952
Adjustment for prior years	115	(194)
<b>Income tax expense</b>	<b>17,163</b>	<b>21,825</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**5. TAXATION (continued)**

<i>In thousands of AUD</i>	As at 31 August 2019	As at 31 August 2018 (restated) <sup>(ii)</sup>
<b>b. Current tax liability<sup>(i)</sup></b>	<b>2,380</b>	<b>7,141</b>
<b>c. Deferred tax assets/(liabilities)</b>		
Employee benefits	7,494	6,982
Provision for impairment losses	12,323	9,130
Other provisions	6,541	2,429
Property, plant and equipment	(3,642)	(5,635)
Other	8,333	9,640
<b>Net deferred tax asset</b>	<b>31,049</b>	<b>22,546</b>
<b>Comprised of:</b>		
Entities incorporated in Australia - net deferred tax asset	31,031	22,838
Entities incorporated in New Zealand - net deferred tax asset/(liability)	18	(292)
<b>Net deferred tax asset</b>	<b>31,049</b>	<b>22,546</b>
<b>Movements in deferred tax</b>		
Balance at 1 September	22,546	19,846
Expense recognised in the income statement	6,858	1,617
Deferred tax recognised directly in equity	(723)	(119)
Deferred tax recognised on business acquisition	–	1,202
Deferred tax recognised on adoption of new accounting standards	2,368	–
<b>Balance at 31 August</b>	<b>31,049</b>	<b>22,546</b>

(i) Represents income taxes payable in respect of current and prior financial years.

(ii) The 31 August 2018 balances have been restated due to measurement period adjustments with respect to business acquisitions. Refer to Note 11, 21 and 28 for further details.

<i>In thousands of AUD</i>	Year ended 31 August 2019	Year ended 31 August 2018
<b>(d) Deferred tax recognised directly in equity</b>		
Remeasurements of the defined benefit asset	(38)	29
Changes in the fair value of financial assets at fair value through other comprehensive income	584	–
Exchange fluctuations on translation of foreign operations	266	(27)
Effective portion of changes in fair value of cash flow hedges	(89)	117
<b>Total deferred tax recognised directly in equity</b>	<b>723</b>	<b>119</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 5. TAXATION (continued)

#### Accounting policies

<b>Income tax expense</b>	Income tax on the profit or loss for the year comprises of current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.
<b>Current tax liability</b>	Current tax liability is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years less any payments made during the year.
<b>Deferred tax</b>	<p>Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No temporary differences are recognised on goodwill or differences arising from the initial recognition of assets or liabilities (unless in a business combination) in a transaction that affects neither accounting nor taxable profit at the time of the transaction.</p> <p>The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred income tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that the sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.</p> <p>If certain criteria are met deferred tax assets and liabilities are offset in the financial statements.</p>
<b>Tax consolidation</b>	<p>Australian Pharmaceutical Industries Limited is the head entity of the Australian tax consolidated group. The head entity and the members of the Australian tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members in respect of tax amounts. The head entity recognises the tax effects of its own transactions and the current tax liabilities and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the subsidiaries. Members of the tax consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.</p> <p>The entities that formed part of the Clear Skincare Clinics business acquired in July 2018 are not part of the API tax consolidated group as they are not 100% owned subsidiaries. Subsequent wholly-owned new Clinic entities are however part of the API tax consolidated group.</p>

### 6. EARNINGS PER SHARE

<i>In thousands of AUD</i>	<b>Year ended 31 August 2019</b>	<b>Year ended 31 August 2018</b>
<b>Profit attributable to shareholders of the Group</b>	<b>55,109</b>	<b>48,056</b>
<b><i>In thousands of shares</i></b>		
Basic weighted average number of ordinary shares for the year	492,516	491,975
Effect of potential ordinary shares on issue through conversion of performance rights	3,530	2,684
<b>Diluted weighted average number of shares for the year</b>	<b>496,046</b>	<b>494,659</b>
<b><i>In cents</i></b>		
Basic earnings per share	11.2	9.8
Diluted earnings per share	11.1	9.7

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 7. DIVIDENDS

<i>In thousands of AUD</i>	<b>Year ended 31 August 2019</b>	<b>Year ended 31 August 2018</b>
<b>Dividends paid during the year</b>		
Final dividend for 2018 financial year of 4.00 cents per share fully franked (2017: Final dividend of 3.5 cents per share fully franked)	19,701	17,229
Interim dividend for 2019 financial year of 3.75 cents per share fully franked (2018: Interim dividend of 3.5 cents per share fully franked)	18,470	17,235
<b>Total dividends paid during the year</b>	<b>38,171</b>	<b>34,464</b>
<b>Dividend franking account</b>		
Franking credits available to shareholders for subsequent financial years based on tax rate of 30% <sup>(i)</sup>	66,931	53,867

(i) The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The future reduction in the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability at balance date is \$8,443,431 (31 August 2018: \$8,441,632).

#### Accounting policies

Dividends are recognised as a liability when an obligation to pay a dividend arises. The obligation arises following declaration of the dividend by the Board.

#### Dividends declared after balance date

On 23 October 2019, the Directors declared that a final dividend of 4.00 cents per share amounting to \$19,701,339 will be paid in respect of the 2019 financial year. The dividend will be payable out of the Profits Reserve and will be fully franked to be paid on 12 December 2019. The financial effect of this dividend is not included in the financial statements for the year ended 31 August 2019 and will be recognised in the financial statements for the year ended 31 August 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### OPERATING ASSETS AND LIABILITIES

This section provides information about the Group's operating assets and liabilities, including working capital, tangible and intangible assets, provisions and commitments.

#### 8. WORKING CAPITAL

<i>In thousands of AUD</i>	As at 31 August 2019	As at 31 August 2018 (restated)
<b>Current</b>		
Trade and other receivables	698,214	683,775
Provision for impairment losses (a)	(40,282)	(29,114)
<b>Net trade and other receivables</b>	<b>657,932</b>	<b>654,661</b>
Inventories		
Raw materials and consumables	7,990	5,846
Finished goods	409,719	395,730
Provision for obsolescence and shrinkage	(4,451)	(6,357)
<b>Net inventories</b>	<b>413,258</b>	<b>395,219</b>
Trade and other payables	(790,270)	(777,996)
<b>Net working capital – current</b>	<b>280,920</b>	<b>271,884</b>
<b>Non-current</b>		
Non-current trade receivables	65,462	27,467
Provision for impairment losses (a)	(8,600)	–
Defined benefit plan asset	682	812
<b>Net non-current trade and other receivables</b>	<b>57,544</b>	<b>28,279</b>
Lease payable	(7,246)	(8,114)
Financial liabilities payable to non-controlling shareholders	(72,833)	(89,712)
<b>Total non-current</b>	<b>(22,535)</b>	<b>(69,547)</b>
<b>a. Movement in provision for impairment losses</b>		
Balance at beginning of the year	(29,114)	(26,835)
Adjustment on adoption of AASB 9	(8,917)	–
Amounts provided for during the year	(18,432)	(9,869)
Amounts written off during the year	7,581	7,590
<b>Balance at end of the year</b>	<b>(48,882)</b>	<b>(29,114)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

**8. WORKING CAPITAL (continued)****Accounting Policies**

**Inventories** Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price less estimated selling expenses.

Inventories are recognised on the weighted average cost basis including the purchase price of inventories and associated costs, net of rebates and trade discounts. Cost of manufactured goods includes direct labour, direct material and overhead expenses based on normal operating capacity.

**Key accounting estimate and judgement – carrying value of inventories**

Management judgement is applied to determine the net realisable value of inventories. Provisions are established for all obsolete or slow moving inventories, taking into consideration the ageing profile of inventories, discontinued lines, sales trends and forecast sales.

**Trade payables** Liabilities are recognised as amounts to be paid in the future for goods or services received or provided prior to the end of the reporting period. Trade accounts payable are normally settled within 30-60 days of the invoice date, being the agreed trading terms with the vendor.

**Trade receivables** Trade and other receivables are initially recognised at transaction price (invoice value) and subsequently measured at amortised cost, less allowance for impairment losses (expected credit loss). The majority of trade receivables are settled within 30-120 days of the invoice date. Trade receivables are presented as current assets unless collection is not expected for more than 12 months after the reporting date, in which case they are recognised at their present value, discounted using the appropriate interest rate. Securitised receivables are recognised on the balance sheet as the Group assumes the risks and rewards of these receivables.

**Key accounting estimate and judgement – carrying value of trade receivables**

The Group measures the expected credit loss (ECL) using the simplified approach, which uses lifetime expected credit losses on trade receivables. Management judgement is applied in assessing the lifetime expected credit losses.

Lifetime expected credit losses are determined with reference to the historical credit loss rates across the trade receivables portfolio, adjusted for forward looking observable data.

Forward looking observable data used to determine lifetime ECLs includes:

- 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.

Management judgement is applied to assess the recoverability of trade receivables on an ongoing basis and at each reporting period. Recoverability of specific counterparties is assessed with reference to the customer's ability to repay amounts due, which includes an assessment of:

- The anticipated cash flows of the customer;
- The estimated security valued held by the Group over the customer's property and assets;
- Estimated value of other security held such as retention of title of inventory and;
- The ranking of the Group's debt compared to other creditors of the customer.

The provision for expected credit losses at 31 August 2019 have been determined in a manner consistent with the methodology applied on adoption.

Any provision for impairment for trade receivables is recognised against profit during the reporting period within 'Marketing and sales expenses', with the exception of the adjustment on adoption of AASB 9 which has been recognised through profits reserve. Trade receivables that are deemed uncollectible are written off.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 8. WORKING CAPITAL (continued)

#### Accounting Policies

#### Financial liabilities payable to non-controlling shareholders

Contingent consideration: Contingent consideration, subject to certain performance hurdles being met, has been recognised by the Group as a financial liability at fair value.

Put and call option: A symmetrical put and call option with a fixed \$32,900,000 payable on each of 1 September 2020 and 1 September 2021 for the Group to acquire the remaining 49.8% of Clear Skincare Clinics shares not initially acquired. The Group has assessed that the put and call option is virtually certain to be exercised. In accordance with AASB 132 requirements, this liability has been measured at the present value, discounted using a risk adjusted discount rate, of the exercise price of the option which is a fixed amount.

Other liabilities: Financial liabilities relating to the mandatory distribution of profits to the non- controlling shareholders have been recognised at the discounted present value of the amount that may become payable.

#### Key accounting estimate and judgement – carrying value of financial liabilities payable to non-controlling shareholders

The Group has assessed these liabilities as Level 3 financial instruments as there are no observable market inputs. The Group has determined fair value using the present value technique based on the probability weighted expected cash outflows, discounted using an appropriate risk adjusted discount rate.

Probability assessment includes estimating the likelihood of performance hurdles being met for the payment of contingent consideration, and the expected level of future profitability of the CSC Clinic entities acquired for the payment of mandatory dividends.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

**9. PROPERTY, PLANT AND EQUIPMENT**

<i>In thousands of AUD</i>	As at 31 August				Total
	Land and buildings	Plant and equipment	Finance leases	Capital work in progress	
<b>Financial year 2019</b>					
Cost	10,606	236,255	7,405	16,405	270,671
Accumulated depreciation and impairment	(6,216)	(150,043)	(7,283)	–	(163,542)
<b>Net book value</b>	<b>4,391</b>	<b>86,212</b>	<b>122</b>	<b>16,405</b>	<b>107,130</b>
Balance 1 September 2018	4,564	88,201	690	7,560	101,015
Additions	–	2,905	–	32,338	35,243
Disposals	–	(4,185)	(53)	–	(4,238)
Depreciation expense for the year	(273)	(16,727)	(515)	–	(17,515)
Impairment loss	–	(55)	–	–	(55)
Reclassification of assets	21	15,981	–	(16,002)	–
Transfer of assets to intangibles	–	–	–	(7,496)	(7,496)
Foreign currency exchange differences	79	91	–	5	175
<b>Balance at 31 August 2019</b>	<b>4,391</b>	<b>86,212</b>	<b>122</b>	<b>16,405</b>	<b>107,130</b>
<b>Financial year 2018</b>					
Cost	10,397	226,335	7,887	7,560	252,179
Accumulated depreciation and impairment	(5,833)	(138,134)	(7,197)	–	(151,164)
<b>Net book value</b>	<b>4,564</b>	<b>88,201</b>	<b>690</b>	<b>7,560</b>	<b>101,015</b>
Balance 1 September 2017	4,795	83,992	1,796	4,697	95,280
Additions	–	1,323	–	24,046	25,369
Additions from business acquisitions	–	10,160	–	–	10,160
Disposals	–	(2,047)	(52)	–	(2,099)
Depreciation expense for the year	(266)	(15,445)	(1,054)	–	(16,765)
Impairment gain	–	452	–	–	452
Reclassification of assets	–	9,729	–	(9,729)	–
Transfer of assets to intangibles	–	–	–	(11,469)	(11,469)
Foreign currency exchange differences	35	37	–	15	87
<b>Balance at 31 August 2018</b>	<b>4,564</b>	<b>88,201</b>	<b>690</b>	<b>7,560</b>	<b>101,015</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 9. PROPERTY, PLANT AND EQUIPMENT (continued)

#### Accounting policies

<b>Acquisitions and disposals</b>	<p>Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.</p> <p>Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be reliably measured. Assets under construction are not depreciated until ready for use.</p> <p>Profit and losses on disposal of property, plant and equipment are recognised in the income statement.</p> <p>Dismantling provisions relating to an obligation for site closure or restoration are recognised as part of the cost of the asset.</p>
<b>Depreciation</b>	<p>Property, plant and equipment, other than land, is depreciated on a straight-line basis over the estimated life of each asset to the Group. Estimated useful lives of each class of asset are as follows:</p> <ul style="list-style-type: none"> <li>– Buildings 40 years</li> <li>– Plant and equipment 3 to 15 years</li> <li>– Fixtures and fittings 10 years</li> </ul>
<b>Impairment of assets</b>	<p>The carrying amounts of tangible and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. Intangible assets with indefinite useful lives are formally assessed for impairment at least on an annual basis. If any such indication exists, the recoverable amount of the asset or the Cash Generating Unit (CGU) it belongs to is estimated. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised in the income statement. Impairment losses at the CGU level are allocated first to reduce the carrying amount of the goodwill allocated to that CGU.</p> <p>The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs of disposal and its value in use calculated as the estimate of future cash flows discounted to present value using a post-tax discount rate.</p> <p>An impairment loss is reversed, except impairment losses relating to goodwill, if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.</p>
<b>Leases</b>	<p>Leases on which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases. Finance lease assets are capitalised at the amount of the lower of fair value or the present value of the minimum lease payments and are recognised on a proportionate basis over the lease term. A finance lease liability is recognised as future rental obligations net of finance charges. Lease liabilities are reduced by payments of principal, with interest expenses recognised in the income statement as finance expenses.</p> <p>Operating leases are not capitalised. Payments are recognised as expenses as incurred, on a proportionate basis over the lease term, including any lease incentives received.</p>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 10. COMMITMENTS

<i>In thousands of AUD</i>	As at 31 August 2019	As at 31 August 2018
<b>Non-cancellable operating leases - Group as lessee</b>		
Less than one year	58,004	54,350
Between one and five years	122,457	105,926
More than five years	30,251	36,845
<b>Total non-cancellable operating leases</b>	<b>210,712</b>	<b>197,121</b>
<b>Non-cancellable operating leases - Group as lessor</b>	<b>(38,397)</b>	<b>(34,097)</b>
<b>Lease expense during the year</b>	<b>62,834</b>	<b>67,215</b>
<b>Capital expenditure contracted but not provided for or payable</b>	<b>886</b>	<b>786</b>

The Group leases property and plant under non-cancellable operating leases expiring from one to fifteen years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. With certain franchise arrangements, the Group holds the head lease and recharges the franchisee the rental charge on an arm's length basis, in advance, and offsets this against the rental charge on the head lease.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 11. INTANGIBLE ASSETS

<i>In thousands of AUD</i>	As at 31 August				
	Goodwill	Brand names	Software	Development costs	Total
<b>Financial year 2019</b>					
Cost	162,286	133,601	130,894	2,395	429,176
Accumulated amortisation	(56,360)	(2,640)	(88,488)	(1,417)	(148,905)
<b>Net book value</b>	<b>105,926</b>	<b>130,961</b>	<b>42,406</b>	<b>978</b>	<b>280,271</b>
Balance 1 September 2018	105,059	130,961	46,488	875	283,383
Transfer from property, plant and equipment	–	–	7,134	362	7,496
Additions	461	–	–	–	461
Amortisation expense for the year	–	–	(11,280)	(274)	(11,554)
Foreign currency exchange differences	406	–	64	15	485
<b>Balance at 31 August 2019</b>	<b>105,926</b>	<b>130,961</b>	<b>42,406</b>	<b>978</b>	<b>280,271</b>
<b>Financial year 2018</b>					
Cost (restated) <sup>(i)</sup>	161,419	133,601	123,728	1,996	420,744
Accumulated depreciation and impairment	(56,360)	(2,640)	(77,240)	(1,121)	(137,361)
<b>Net book value</b>	<b>105,059</b>	<b>130,961</b>	<b>46,488</b>	<b>875</b>	<b>283,383</b>
Balance 1 September 2017	50,019	96,360	46,929	351	193,659
Transfer from property, plant and equipment	–	–	10,711	758	11,469
Additions from business acquisitions (restated) <sup>(i)</sup>	53,913	34,601	–	–	88,514
Additions from stores acquired	1,017	–	–	–	1,017
Disposals	–	–	(2)	–	(2)
Amortisation expense for the year	–	–	(11,171)	(239)	(11,410)
Foreign currency exchange differences	110	–	21	5	136
<b>Balance at 31 August 2018</b>	<b>105,059</b>	<b>130,961</b>	<b>46,488</b>	<b>875</b>	<b>283,383</b>

(i) The 31 August 2018 balances have been restated due to measurement period adjustments with respect to business acquisitions. Refer to Note 21 and 28 for further details.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

**11. INTANGIBLE ASSETS (continued)****a. Assets with indefinite useful lives**

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

<i>In thousands of AUD</i>	As at 31 August							
	Australia		New Zealand		Clear Skincare		Total	
	2019	2018	2019	2018	2019	2018 (restated)	2019	2018 (restated)
<b>Brand names</b>								
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	–	–	–	–	34,601	34,601	34,601	34,601
<b>Brand names</b>	<b>96,360</b>	<b>96,360</b>	<b>–</b>	<b>–</b>	<b>34,601</b>	<b>34,601</b>	<b>130,961</b>	<b>130,961</b>
<b>Goodwill</b>	<b>35,151</b>	<b>34,690</b>	<b>16,862</b>	<b>16,456</b>	<b>53,913</b>	<b>53,913</b>	<b>105,926</b>	<b>105,059</b>
<b>Other intangible assets</b>	<b>39,912</b>	<b>44,739</b>	<b>3,472</b>	<b>2,624</b>	<b>–</b>	<b>–</b>	<b>43,384</b>	<b>47,363</b>
<b>Total intangible assets</b>	<b>171,423</b>	<b>175,789</b>	<b>20,334</b>	<b>19,080</b>	<b>88,514</b>	<b>88,514</b>	<b>280,271</b>	<b>283,383</b>

During the year ended 31 August 2019 the Group finalised the accounting for the acquisition of the Clear Skincare business. The Group appointed an independent valuations expert to identify and value the intangible assets. Brand names relating to Clear Skincare Clinics and Products businesses were determined to hold material value.

The accounting for the business acquisition has been restated from the acquisition date, as outlined within Note 21.

**b. Accounting policies**

Identifiable intangible assets are recognised at cost less accumulated amortisation and impairment losses where applicable. Intangible assets acquired separately are capitalised at cost or, if arising from a business combination, at fair value as at the date of acquisition.

Unidentified intangible assets are recognised as goodwill when the fair value of the consideration paid for a business acquisition exceeds the fair value of the identifiable net assets acquired.

Below are the key accounting policies and criteria for recognition of each category of intangible assets.

Intangible asset	Capitalisation criteria	Useful life
<b>Goodwill</b>	<p>Business combinations are accounted for by applying the acquisition method. Goodwill represents the excess of the consideration transferred over the fair value of the net identifiable assets acquired. Acquisition-related costs are recognised in the income statement as incurred.</p> <p>Goodwill is tested for impairment on an annual basis and is stated at cost less any accumulated impairment losses. An impairment loss recognised for goodwill cannot be reversed in subsequent periods.</p>	Indefinite
<b>Brand names</b>	<p>Brand names acquired are recognised initially at fair value, using independent valuations obtained during the twelve-month measurement period following acquisition.</p> <p>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.</p>	Indefinite

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 11. INTANGIBLE ASSETS (continued)

Intangible asset	Capitalisation criteria	Useful life
<b>Research and development</b>	<p>Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as an expense as incurred.</p> <p>Expenditure on development activities, where research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and appropriate proportion of overheads. Other development expenditure is recognised against profit as an expense as incurred.</p>	1 to 4 years
<b>Software</b>	Capitalised software are initially recorded at cost and amortised on a straight line basis over the estimated useful lives but not greater than a period of 7 years.	1 to 7 years

#### c. Impairment assessment for cash generating units (CGU) with indefinite life intangible assets

Indefinite life intangible assets are tested for impairment at least annually by calculating the recoverable amount of the CGU to which they belong. They are then compared to the carrying value of that CGU. Refer to Note 9 for accounting policies and determination of recoverable amount.

##### Key accounting estimate and judgement – carrying value of indefinite life intangibles

Management judgement is applied to identify the CGUs and determine the recoverable amounts, as outlined in Note 9, using a value in use calculation for the Australia and New Zealand CGUs and a fair value less cost of disposal assessment for the Clear Skincare CGU.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset or CGU in its present form and its eventual disposal.

Fair value less cost of disposal is an estimate of the amount that a market participant would pay for an asset or CGU, less the cost of disposal. The fair value less cost of disposal calculation is estimated using discounted cash flows and considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

Management judgements include establishing forecasts of future financial performance, as well as the assessment of earnings growth rates, discount rates and terminal growth rates based on past experience and expectations for the future. The cash flow projections are based on a maximum of five-year Board approved budgets and strategic plan. The forecasts use management estimates to determine revenue, expenses, working capital movements, capital expenditure and associated cash flows for each CGU.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 11. INTANGIBLE ASSETS (continued)

The key assumptions for impairment assessment of each of the Australian, New Zealand and Clear Skincare CGU's are as follows:

Key assumption	Australia CGU	New Zealand CGU	Clear Skincare CGU
<b>Budgeted EBITDA growth for the next five years</b>	<p>Based on budgets and five year strategic plans approved by the Board and includes:</p> <p>Pharmaceutical distribution business growth reflects the Board approved financial plan and is based on recent history.</p> <p>New franchise store rollout estimates derived from the analysis by management of the likely net annual increase in franchise stores in the five-year forecast period, based on recent past history, applications from prospective franchisees currently under consideration and the potential pool of new franchisees, after adjusting for the risks associated with execution of the strategic plan and the potential for loss of existing franchisees. The cash flow contribution from new franchise stores is based on the estimates by management of net contribution from individual stores, including working capital, marketing and supply chain costs.</p> <p>Like-for-like store sales growth is based on management estimates and recent history for the period in FY20 to FY24</p>	<p>Based on budgets and five year strategic plans approved by the Board and includes:</p> <p>Contracts entered into with new local and international customers, that will provide annual sales increases.</p> <p>Leveraging and increasing synergies with the Australian business to achieve growth within the supply business.</p>	<p>Based on budgets and five year strategic plans approved by the Board and uses estimates made from the perspective of a market participant including:</p> <p>New clinic rollout estimates derived from the analysis by management of the likely net annual increase in clinics in the five-year forecast period, based on recent past history and current industry trends, after adjusting for the risks associated with execution of the strategic plan.</p> <p>The cash flow contribution from new clinics is based on the estimates by management of net contribution from individual stores, including working capital, marketing and supply chain costs.</p> <p>Product sales growth through CSC Clinics and Priceline stores.</p>
<b>Discount rate</b>	Pre-tax nominal discount rate of 11.4%, based on a market- determined, risk adjusted post-tax discount rate of 8.0%, representing the post-tax weighted average cost of capital (WACC) including specific risks relating to the CGU.	Pre-tax nominal discount rate of 15.3%, based on a market- determined, risk adjusted post-tax discount rate of 11.0%, representing the post-tax weighted average cost of capital (WACC) including specific risks relating to the CGU.	Pre-tax nominal discount rate of 17.1%, based on a market- determined, risk adjusted post-tax discount rate of 12.0%, representing the post-tax weighted average cost of capital (WACC) including specific risks relating to the CGU.
<b>Terminal long term growth rate</b>	The terminal growth rate of 2.5% (Australia & New Zealand) and 3.5% (Clear Skincare) represents the growth rate applied to extrapolate cash flows beyond the five year forecast period. The terminal growth rate is based on management expectations of the CGUs' long term performance after considering current conditions and available external market data.		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 12. PROVISIONS AND CONTINGENCIES

<i>In thousands of AUD</i>	As at 31 August 2019	As at 31 August 2018
<b>Current provisions</b>		
Employee benefits	22,490	21,608
Other provisions	12,745	8,243
<b>Total current provisions</b>	<b>35,235</b>	<b>29,851</b>
<b>Non current provisions</b>		
Employee benefits	2,886	2,374
Other provisions	2,777	3,263
<b>Total non current provisions</b>	<b>5,663</b>	<b>5,637</b>

#### As at 31 August

<i>In thousands of AUD</i>	Directors' retirement scheme	Provision for goods return	Provision for dismantling costs	Provision for loyalty programs	Total other provisions
<b>Financial year 2019</b>					
Balance 1 September 2018	146	–	4,467	6,893	11,506
Adjustment on adoption of AASB 15	–	4,878	–	–	4,878
Provisions made during the year, net of writeback	–	1,781	(422)	7,637	8,996
Provisions used during the year	–	(2,350)	(197)	(7,451)	(9,998)
Unwinding of discount	–	–	140	–	140
<b>Balance at 31 August 2019</b>	<b>146</b>	<b>4,309</b>	<b>3,988</b>	<b>7,079</b>	<b>15,522</b>

#### Contingent liabilities

<i>In thousands of AUD</i>	As at 31 August 2019	As at 31 August 2018
Financial guarantees to pharmacists	9,175	9,907

Financial guarantees of \$9,175,000 (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 or pharmacy group.

#### Key accounting estimate and judgement – financial guarantee contingent liabilities

Management judgement is applied to assess likely net exposures relating to financial guarantees provided in respect of pharmacy customers. These assessments take into account total amounts owed by pharmacy customers to third-party financiers and trade debts owed to API. In addition, pharmacy valuations and the assessed value of any security offered by pharmacy customers to API is included in determining whether a net exposure to API is likely. The Group only recognises a provision if an event has occurred that gives rise to a present obligation and it is probable that a loss will eventuate.

At balance date, the Directors are of the opinion that provisions are not required in respect of these guarantees, as it is not probable that the exposure is greater than the value of the security held over the assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 31 August 2019 the Group held 137,264,592 shares or 12.95% of shares on issue in Sigma Healthcare Limited. The Group continues to review its plans in relation to this shareholding.

#### 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:

<i>In thousands of AUD</i>	As at 31 August 2019	As at 31 August 2018
<b>Non-current assets</b>		
Sigma Healthcare Limited - Listed securities	87,849	–
<b>Total financial assets at fair value through other comprehensive income</b>	<b>87,849</b>	<b>–</b>

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

At 31 August 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.

<i>In thousands of AUD</i>	Year ended 31 August 2019	Year ended 31 August 2018
Changes in the fair value of financial assets at FVOCI recognised in other comprehensive income	1,364	–
Dividend from financial assets at FVOCI recognised in profit or loss	3,533	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### CAPITAL AND RISK MANAGEMENT

This section provides information about the Group's capital structure, funding arrangements, exposure to financial risks and how the Group manages these risks.

#### 14. LOANS AND BORROWINGS

<i>In thousands of AUD</i>	<b>As at 31 August 2019</b>	<b>As at 31 August 2018</b>
<b>Current liabilities</b>		
Insurance premium funding	2,822	1,972
Finance lease liabilities	286	707
Cash advance facilities - secured	54,544	–
Bank overdraft	1,944	–
<b>Total current liabilities</b>	<b>59,596</b>	<b>2,679</b>
<b>Non current liabilities</b>		
Finance lease liabilities	230	701
Securitisation of trade receivables	63,817	18,000
Cash advance facilities - secured	40,636	5,513
Interest bearing loans	65,000	65,000
<b>Total non current liabilities</b>	<b>169,683</b>	<b>89,214</b>

#### Accounting policies

##### Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the term of the liabilities on an effective interest method basis.

Amortised cost is calculated by taking into account any issue costs and any discount or premium on issuance. Gains and losses are recognised in the income statement in the event that the liabilities are derecognised.

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

Foreign currency denominated interest bearing liabilities are translated to AUD at the applicable exchange rate at year end with the gain or loss attributable to exchange rate movements recognised in the Statement of Comprehensive Income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 14. LOANS AND BORROWINGS (continued)

#### Financing facilities

<i>In thousands of AUD</i>	As at 31 August		
	Facilities utilised <sup>(i)</sup>	Facilities unutilised <sup>(ii)</sup>	Total facilities
<b>Financial year 2019</b>			
Bank overdraft	1,944	25,874	27,818
Cash advance facilities	95,180	33,462	128,642
Securitisation of trade receivables	63,817	211,183	275,000
Interest bearing loans	65,000	–	65,000
<b>Total at 31 August 2019</b>	<b>225,941</b>	<b>270,519</b>	<b>496,460</b>
<b>Financial year 2018</b>			
Bank overdraft	–	8,749	8,749
Cash advance facilities	5,513	22,506	28,019
Securitisation of trade receivables	18,000	257,000	275,000
Interest bearing loans	65,000	–	65,000
<b>Total at 31 August 2018</b>	<b>88,513</b>	<b>288,255</b>	<b>376,768</b>

(i) Average used facilities during the year, excluding interest bearing loans relating to the Clear Skincare acquisition and cash advance facilities for purchase of listed securities in Sigma Healthcare Limited, was \$245,643,260 (2018: \$187,298,010).

(ii) Average unused facilities during the year was \$65,965,182 (2018: \$123,573,348).

#### Financing facilities

<b>Bank overdraft</b>	The Company is a guarantor to a bank facility agreement which provides a total overdraft facility of \$27,817,960 (31 August 2018: \$8,749,000) to entities within the Group. The facility is subject to set of arrangements between companies within the Group. Interest on bank overdrafts is charged at prevailing market rates. The bank overdraft is repayable on demand and subject to annual review.
<b>Finance leases</b>	The lease liabilities of the Group are secured by the leased assets. In the event of default, the assets revert the lessor.
<b>Cash advances</b>	The consolidated cash advance facilities of \$128,641,920 (31 August 2018: \$28,019,000) are secured by fixed and floating charge over the assets of the Group. Interest is based on the bank-bill reference rate plus margin charged by the lender.
<b>Securitisation</b>	<p>The Group has access to funds through the securitisation of current trade receivables provided the receivables meet certain criteria. The securitisation facility of \$275,000,000 consists of a daily redraw overdraft facility of \$130,000,000 and a term facility of \$145,000,000. The facilities are interest bearing, based on a variable interest plus margin.</p> <p>The funds available under the securitisation facility are capped at the amount of the qualifying trade receivables. The trade receivables are collateralised in full against amounts drawn.</p> <p>The facility imposes rights and obligations on the Group with respect to the quality and maintenance of the receivables, collection of receivables, settlement and reporting to the financier. The Group has complied with its obligations under the facility throughout the financial year.</p>
<b>Interest bearing loans</b>	The interest bearing loan facilities are in respect of the acquisition of the Clear Skincare business and are revolving loan facilities with an expiry of 30 July 2021. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 15. FINANCIAL RISK MANAGEMENT

The Group has exposure to various financial risks as part of its operating activities. The Group's risk management program seeks to mitigate these risks and reduce the volatility of the Group's financial performance through use of various financial instruments.

The Board has overall responsibility for the establishment and oversight of the risk management framework of the Group. The Audit and Risk Committee ("Committee") of the Board is responsible for assessing and monitoring the risk management program and making recommendations to the Board.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the activities of the Group.

The Committee oversees the monitoring of compliance with the risk management policies and procedures by management and reviews the adequacy of the risk management framework in relation to the risks, with assistance from the internal audit function.

The Group has exposure to the following principal financial risks:

#### (i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Group's receivables from customer sales and financial guarantees the Group has provided for certain trade debtors. The maximum exposure to credit risk is the carrying value of trade receivables.

The Group has established credit policies that ensure new customers are subject to credit worthiness verification including review of external credit ratings, financial position, past experience and industry reputation. Purchase limits are established for each customer. Customers that fail to meet the benchmark credit worthiness transact with the Group on a prepaid basis. In monitoring customer credit risk, customers are grouped by state and reviewed monthly. "High risk" customers are placed on "credit hold", with orders manually released as appropriate. All goods sold are subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim in respect of the goods sold.

The ageing profile of current and non-current trade receivables, including provision of impairment assessment at balance date is set out below:

<i>In thousands of AUD</i>	<b>As at 31 August 2019</b>	<b>As at 31 August 2018</b>
Not past due	588,421	559,261
Past due 0 - 30 days	31,444	28,456
Past due 31+ days	143,811	123,525
<b>Total trade receivables</b>	<b>763,676</b>	<b>711,242</b>
Provision for impairment losses	(48,882)	(29,114)
<b>Net trade receivables</b>	<b>714,794</b>	<b>682,128</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 15. FINANCIAL RISK MANAGEMENT (continued)

#### (ii) Liquidity risk

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

The Group has varying borrowing levels based on seasonal requirements of the business. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements.

<i>In thousands of AUD</i>	Carrying Amount	Contractual cash flows	As at 31 August			
			0 - 1 year	1 - 2 years	2-5 years	More than 5 years
<b>Financial year 2019</b>						
Finance lease liabilities	516	516	286	230	–	–
Insurance premium funding	2,822	2,822	2,822	–	–	–
Trade and other payables	796,273	796,273	789,535	1,056	3,765	1,917
Cash advance facility	95,180	95,180	54,544	40,636	–	–
Securitisation of trade receivables	63,817	63,817	–	63,817	–	–
Interest bearing loans	65,000	65,000	–	65,000	–	–
Payable to Non-controlling interest	74,076	81,924	4,530	34,494	42,900	–
<b>Balance at 31 August 2019</b>	<b>1,097,684</b>	<b>1,105,532</b>	<b>851,717</b>	<b>205,233</b>	<b>46,665</b>	<b>1,917</b>
<b>Financial year 2018</b>						
Finance lease liabilities	1,408	1,478	1,137	341	–	–
Insurance premium funding	1,972	1,972	1,972	–	–	–
Trade and other payables	783,034	783,034	774,920	1,151	4,024	2,939
Cash advance facility	5,513	5,513	–	5,513	–	–
Securitisation of trade receivables	18,000	18,000	–	18,000	–	–
Interest bearing loans	65,000	65,000	–	–	65,000	–
Payable to Non-controlling interest	89,712	98,213	4,518	5,099	88,596	–
<b>Balance at 31 August 2018</b>	<b>964,639</b>	<b>973,210</b>	<b>782,547</b>	<b>30,104</b>	<b>157,620</b>	<b>2,939</b>

#### (iii) Market risk

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

##### a. Currency risk

The Group had no material exposure to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the entities within the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 15. FINANCIAL RISK MANAGEMENT (continued)

#### b. Interest rate risk

The Group is exposed to interest rate risk on its financing facilities. The Group adopts a hedging policy to limit its exposure to the changes in interest rates on its variable rate borrowings. At 31 August 2019, the Group had interest rate swaps with a notional contract amount of \$50,000,000, with a maturity date of September 2020 and weighted rate of 2.01%.

The Group classifies interest rate swaps as cash flow hedges. The notional contracted interest cash flows are consistent with highly probable forecast interest cash flows to August 2019 based on the forecast of used interest-bearing financing liabilities

#### Effective interest rates

The following table shows the effective interest rates for the financial assets and interest bearing financial liabilities at reporting date.

<i>In thousands of AUD</i>	Effective interest rate	Carrying amount
<b>Financial year 2019</b>		
Financial assets <sup>(i)</sup>	3.83%	95,643
Financial liabilities - fixed rate	3.62%	(50,516)
Financial liabilities - variable rate	2.68%	(178,824)
<b>Balance at 31 August 2019</b>		<b>(133,697)</b>
<b>Financial year 2018</b>		
Financial assets <sup>(i)</sup>	3.15%	63,415
Financial liabilities - fixed rate	3.71%	(37,408)
Financial liabilities - variable rate	3.66%	(54,485)
<b>Balance at 31 August 2018</b>		<b>(28,478)</b>

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

#### c. Equity price risk

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 31 August 2019 had been 10% per cent higher or lower, with all other variables held constant.

<i>In thousands of AUD</i>	Year ended 31 August 2019		
	Profit for the year	Total comprehensive income	Total equity
If share prices were 10% higher with other variables held constant	–	8,785	8,785
If share prices were 10% lower with other variables held constant	–	(8,785)	(8,785)

There were no holdings of financial instruments with equity price risk at 31 August 2018

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 15. FINANCIAL RISK MANAGEMENT (continued)

#### (iv) Financial instruments at fair value

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 year.

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.

The following table indicates the periods in which the cash flows and profit and loss impact associated with derivatives that were designated as cash flow hedges existing as at balance date are expected to occur.

As at 31 August <i>In thousands of AUD</i>	Fair value	Expected cash flows	0-1 year	1-2 years	2-5 years	More than 5 years
<b>Financial year 2019</b>						
Interest rate swap	(295)	(295)	(39)	(256)	–	–
Foreign exchange forward	97	97	97	–	–	–
<b>Net asset/(liability)</b>	<b>(198)</b>	<b>(198)</b>	<b>58</b>	<b>(256)</b>	<b>–</b>	<b>–</b>
<b>Financial year 2018</b>						
Interest rate swap	34	34	–	34	–	–
Foreign exchange forward	63	63	63	–	–	–
<b>Net asset/(liability)</b>	<b>97</b>	<b>97</b>	<b>63</b>	<b>34</b>	<b>–</b>	<b>–</b>

#### Sensitivity analysis

A strengthening by 100 basis points in interest rates at balance date would have had the following impact:

<i>In thousands of AUD</i>	As at 31 August 2019			As at 31 August 2018		
	Impact on profit/(loss)	Impact on equity	Impact on cash flows	Impact on profit/(loss)	Impact on equity	Impact on cash flows
Interest rate swap - 100bp increase	–	649	649	–	51	51
Interest rate swap - 100bp decrease	–	(1,241)	(1,241)	–	(51)	(51)

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. A change in interest rate would not have a cash flow impact on the underlying hedged item, unless terminated early or varied.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 15. FINANCIAL RISK MANAGEMENT (continued)

#### (v) Fair value estimation

The carrying amounts and estimated fair values of the financial instruments recognised in the Group's financial statements are materially the same. The methods and assumptions used to estimate the fair values are:

	Financial instruments	Fair value technique
<b>Carrying value approximates fair value</b>	Loans and borrowings	Calculated based on discounted expected future principal and interest cash flows using market rates of interest.
	Finance lease liabilities	Present value of future cash flows, discounted at market interest rates
	Put and call option liability	The put and call option liability recognised on the acquisition of Clear Skincare business (Note 8) has been measured at the present value, discounted using a risk adjusted discount rate, of the exercise price of the option which is a fixed amount.
	Trade receivables/ payables	For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect fair value. All other receivables / payables are discounted at market interest rates to determine the fair value.
<b>Measured at fair value</b>	Interest rate swaps	Determined using present value of estimated future cash flows based on observable yield curves and marked implied volatility.
	Foreign exchange forwards	Fair value is determined using prevailing forward exchange rates.
	Other financial liabilities (Amounts payable to non-controlling interests)	The amounts payable include liabilities relating to the mandatory dividend payments and contingent consideration payable to non-controlling shareholders of CSC (Note 8). The Group has assessed these liabilities as Level 3 financial instruments as there are no observable market inputs. The Group has determined fair value using the present value technique based on the probability weighted expected cash outflows, discounted using an appropriate risk adjusted discount rate. Probability assessment includes estimating the likelihood of performance hurdles being met for the payment of contingent consideration, and the expected level of future profitability of the CSC business for the payment of mandatory dividends.
	Financial assets at fair value through other comprehensive income (FVOCI)	Financial assets at FVOCI comprise of equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. Financial assets at FVOCI are Level 1 financial instruments as the measurement is derived from quoted prices that are directly observable on the ASX.

#### Capital Management

The policy of the Board is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the approach of the Group to capital management during the year. The details of the various financing facilities the Group uses to manage its debt facilities are set out in Note 14.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 16. CAPITAL AND RESERVES

#### Share capital

<i>In thousands of shares</i>	As at 31 August 2019	As at 31 August 2018
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
<b>Shares on issue at the end of the period - fully paid</b>	<b>492,533</b>	<b>492,428</b>

<b>Equity item</b>	<b>Description and accounting policy</b>
<b>Ordinary shares</b>	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.
<b>Translation reserve</b>	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.
<b>Equity reserve</b>	The equity reserve relates to share-based payment transactions measured at fair value.
<b>Hedging reserve</b>	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.
<b>Control reserve</b>	The control reserve represents additional consideration to be paid for the acquisition of non-controlling shareholders' interests in Clear Skincare Clinics.
<b>Non-controlling interest</b>	Represents the non-controlling interest in the Clear Skincare Clinics business that is held by minority shareholders. The Group recognises the non-controlling interest at the non-controlling interest's proportionate share of Clear Skincare Clinic's net identifiable assets.
<b>Fair value reserve</b>	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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### GROUP STRUCTURE

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

#### 17. SUBSIDIARIES

The Group's financial statements include the consolidated information on assets, liabilities and results of the following subsidiaries.

Entity name	As at 31 August Ownership interest held by the group			Entity name	As at 31 August Ownership interest held by the group		
	2019	2018	Notes		2019	2018	Notes
API Services Australia Pty Ltd	100.0%	100.0%	(i)	Clearskincare Cockburn Gateway Pty Ltd	50.2%	50.2%	(v)
API Victoria Pty Ltd	100.0%	100.0%	(i) & (ii)	Clearskincare Parramatta Pty Ltd	50.2%	50.2%	(v)
Canberra Pharmaceutical Supplies Trust	100.0%	100.0%		Clearskincare Warringah Mall Pty Ltd	50.2%	50.2%	(v)
Pharma-Pack Pty Ltd	100.0%	100.0%	(i)	Clearskincare Clarence St Pty Ltd	50.2%	50.2%	(v)
API (Canberra) Pty Ltd	100.0%	100.0%	(i)	Clearskincare Miranda Pty Ltd	50.2%	50.2%	(v)
Making Life Easy - Mobility and Independent Living Superstores Pty Ltd	100.0%	100.0%	(i)	Clearskincare Cremorne Pty Ltd	50.2%	50.2%	(v)
API Healthcare Holdings (NZ) Ltd	100.0%	100.0%	(iii)	Clearskincare Leichhardt Pty Ltd	50.2%	50.2%	(v)
Garrett Investments Ltd	100.0%	100.0%	(iii)	Clearskincare Rockdale Pty Ltd	50.2%	50.2%	(v)
New Price Retail Services Pty Ltd	100.0%	100.0%	(i)	Clearskincare Toowong Pty Ltd	50.2%	50.2%	(v)
Soul Pattinson (Manufacturing) Pty Ltd	100.0%	100.0%	(i)	Clearskincare Canberra City Pty Ltd	50.2%	50.2%	(v)
API Financial Services Australia Pty Ltd	100.0%	100.0%	(i) & (ii)	Clearskincare Chatswood Pty Ltd	50.2%	50.2%	(v)
Priceline Unit Trust	100.0%	100.0%		Clearskincare Doncaster Pty Ltd	50.2%	50.2%	(v)
Priceline Proprietary Ltd	100.0%	100.0%	(i) & (ii)	Clearskincare Clinics Payroll Pty Ltd	50.2%	50.2%	(v)
MLE Unit Trust	100.0%	100.0%		Clearskincare Adelaide Street Pty Ltd	50.2%	50.2%	(v)
Priceline (NZ) Pty Ltd	100.0%	100.0%	(iii)	Clearskincare Collins St Pty Ltd	50.2%	50.2%	(v)
Second Priceline Unit Trust	100.0%	100.0%		Clearskincare South Yarra Pty Ltd	50.2%	50.2%	(v)
CSC Holdings Australia Pty Ltd	100.0%	100.0%	(i)	Clearskincare Macarthur Square Pty Ltd	50.2%	50.2%	(v)
CSC Products Pty Ltd	100.0%	100.0%	(i)	Clearskincare Southport Pty Ltd	50.2%	50.2%	(v)
Synapse Finance Pty Ltd	100.0%	100.0%	(i) & (ii)	Clearskincare Cronulla Pty Ltd	50.2%	50.2%	(v)
New Price Retail Finance Pty Ltd	100.0%	100.0%	(i) & (ii)	Clearskincare Brighton Pty Ltd	50.2%	50.2%	(v)
Australian Pharmaceutical Industries (Queensland) Pty Ltd	100.0%	100.0%	(i) & (ii)	Clearskincare Quentin Av e Pty Ltd	50.2%	50.2%	(v)
New Price Retail Pty Ltd	100.0%	100.0%	(i)	Clearskincare Moonee Ponds Pty Ltd	50.2%	50.2%	(v)
PSM Healthcare Ltd	100.0%	100.0%	(iii)	Clearskincare Sunshine Plaza Pty Ltd	50.2%	50.2%	(v)
API Leasing Pty Ltd	100.0%	N/A	(i) & (iv)	Clearskincare Fremantle Pty Ltd	50.2%	50.2%	(v)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**17. SUBSIDIARIES (continued)**

Entity name	As at 31 August Ownership interest held by the group			Entity name	As at 31 August Ownership interest held by the group		
	2019	2018	Notes		2019	2018	Notes
CSC Franchising Pty Ltd	100.0%	N/A	(i) & (iv)	Clearskincare QV Melbourne Pty Ltd	50.2%	50.2%	(v)
API Ownership Pty Ltd	100.0%	N/A	(i) & (iv)	Clearskincare Bondi Junction Pty Ltd	50.2%	50.2%	(v)
CSC Whitford Pty Ltd	100.0%	N/A	(iv)	Clearskincare Carousel Pty Ltd	50.2%	50.2%	(v)
CSC West Lakes Pty Ltd	100.0%	N/A	(iv)	Clearskincare Hurstville Pty Ltd	50.2%	50.2%	(v)
Stevens KMS Equities Ltd	100.0%	100.0%	(iii) & (vii)	Clearskincare Clinics Pty Ltd	50.2%	50.2%	(v)
CSC Ponsonby Limited	100.0%	N/A	(iii) & (iv)	Clearskincare Bendigo Pty Ltd	50.2%	50.2%	(v)
CSC Shared Services Pty Ltd	100.0%	N/A	(iv)	Clearskincare Carindale Pty Ltd	50.2%	50.2%	(v)
CSC Camberwell Pty Ltd	100.0%	N/A	(iv)	Clearskincare City Square Pty Ltd	50.2%	50.2%	(v)
CSC Port Melbourne Pty Ltd	100.0%	N/A	(iv)	Clearskincare Chermside Pty Ltd	50.2%	50.2%	(v)
CSC Mordialloc Pty Ltd	100.0%	N/A	(iv)	Clearskincare Macquarie Centre Pty Ltd	50.2%	50.2%	(v)
CSC North Sydney Pty Ltd	100.0%	N/A	(iv)	Clearskincare Norwood Pty Ltd	50.2%	50.2%	(v)
CSC Bayside Frankston Pty Ltd	100.0%	N/A	(iv)	Clearskincare South Australia Pty Ltd	50.2%	50.2%	(v)
CSC Ashfield Mall Pty Ltd	100.0%	N/A	(iv)	Clearskincare West End Pty Ltd	50.2%	50.2%	(v)
Pharmaceutical Sales and Marketing Ltd	N/A	100.0%	(iii) & (vi)	Clearskincare Claremont Pty Ltd	50.2%	50.2%	(v)
Healthcare Manufacturing Group Ltd	N/A	100.0%	(iii) & (vi)	Clearskincare Northland Pty Ltd	50.2%	50.2%	(v)
The Medicine Shoppe Ltd	N/A	100.0%	(iii) & (vi)	Clearskincare Southland Pty Ltd	50.2%	50.2%	(v)
PAF (New Zealand) Ltd	N/A	100.0%	(iii) & (vi)	Clearskincare Chirnside Park Pty Ltd	50.2%	50.2%	(v)
Clearskincare Clinics Australia Pty Ltd	50.2%	50.2%	(v)	Clearskincare Mt Lawley Pty Ltd	50.2%	50.2%	(v)
Clearskincare Bondi Beach Pty Ltd	50.2%	50.2%	(v)	Clearskincare Newmarket Ltd	25.6%	25.6%	(iii) & (v)
Clearskincare Robina Pty Ltd	50.2%	50.2%	(v)	Clearskincare Tokapuna Ltd	25.6%	25.6%	(iii) & (v)
				CSC Ventures Pty Ltd	50.2%	50.2%	(v)

(i) These controlled entities have entered into a Deed of Cross Guarantee with the parent entity for the year ended 31 August 2019, refer Note 18, in respect of relief granted from accounting and financial reporting requirements in accordance with the ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

(ii) These controlled entities entered into a Deed of Cross Guarantee with the parent entity for the year ended 31 August 2018.

(iii) Entities incorporated in New Zealand. All other entities are incorporated in Australia.

(iv) Entities were incorporated during the year ended 31 August 2019.

(v) Entities form part of NCI.

(vi) Entities deregistered during the current period.

(vii) During the current financial year Stevens KMS Equities Ltd changed its registered name to CSC Holdings New Zealand Ltd.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 18. DEED OF CROSS GUARANTEE

Entities which are party to the Deed of Cross Guarantee (Closed Group), entered into in accordance with ASIC Corporations (Wholly owned Companies) Instrument 2016/785, are disclosed in Note 17.

The summarised statement of comprehensive income, retained profits and reserves and the Statement of financial position of the Closed Group, after eliminating all transactions between members of the Closed Group, at 31 August 2019 is set out as follows:

#### a. Summarised statement of comprehensive income, retained profits and reserves

<i>In thousands of AUD</i>	Year ended 31 August 2019	Year ended 31 August 2018
Profit before tax	69,068	64,938
Income tax expense	(16,131)	(20,904)
<b>Profit after tax</b>	<b>52,937</b>	<b>44,034</b>
Other comprehensive income	786	336
<b>Total comprehensive income for the year</b>	<b>53,723</b>	<b>44,370</b>
<b>Movement in accumulated losses</b>		
Accumulated losses at the beginning of the year	(120,516)	(120,516)
Adjustment on adoption of AASB 9 and AASB 15	(5,525)	–
Profit after tax <sup>(i)</sup>	–	–
<b>Accumulated losses at the end of the year</b>	<b>(126,041)</b>	<b>(120,516)</b>
<b>Movement in Reserves</b>		
Reserves at the beginning of the year	169,075	41,544
Profit after tax for the year <sup>(i)</sup>	52,937	44,034
Dividends paid from profits reserve	(38,171)	(34,464)
Other comprehensive income	786	336
Share based payments expense, recorded in equity reserve	(554)	(416)
<b>Reserves at the end of the year</b>	<b>184,073</b>	<b>51,034</b>

(i) Profit after tax is recognised in the profits reserve which represents current year profits transferred to a reserve to preserve the characteristic as a profit and not appropriate those profits against prior year accumulated losses.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**18. DEED OF CROSS GUARANTEE (continued)****b. Statement of financial position<sup>(i)</sup>**

<i>In thousands of AUD</i>	<b>As at 31 August 2019</b>	<b>As at 31 August 2018</b>
<b>Current assets</b>		
Cash and cash equivalents	23,860	20,018
Trade and other receivables	701,958	711,281
Inventories	395,853	291,842
<b>Total current assets</b>	<b>1,121,671</b>	<b>1,023,141</b>
<b>Non-current assets</b>		
Trade and other receivables	55,655	26,396
Investments	201,933	133,530
Financial assets at fair value through other comprehensive income	87,849	–
Deferred tax assets	29,378	1,475
Property, plant and equipment	85,801	42,605
Intangible assets	158,269	111,260
<b>Total non-current assets</b>	<b>618,885</b>	<b>315,266</b>
<b>Total assets</b>	<b>1,740,556</b>	<b>1,338,407</b>
<b>Current liabilities</b>		
Trade and other payables	774,806	793,644
Loans and borrowings	57,652	1,833
Provisions	33,289	13,181
Income tax payable	1,957	5,188
<b>Total current liabilities</b>	<b>867,704</b>	<b>813,846</b>
<b>Non-current liabilities</b>		
Trade and other payables	80,045	5,895
Loans and borrowings	163,877	18,213
Provisions	4,437	3,474
<b>Total non-current liabilities</b>	<b>248,359</b>	<b>27,582</b>
<b>Total liabilities</b>	<b>1,116,063</b>	<b>841,428</b>
<b>Net assets</b>	<b>624,493</b>	<b>496,979</b>
<b>Equity</b>		
Share capital	566,461	566,461
Reserves	184,073	51,034
Accumulated losses	(126,041)	(120,516)
<b>Total equity</b>	<b>624,493</b>	<b>496,979</b>

(i) During the period there were changes to the entities included in the Closed Group. Refer to Note 17 for further details.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 19. PARENT ENTITY DISCLOSURES

#### a. Summarised statement of comprehensive income

<i>In thousands of AUD</i>	Year ended 31 August 2019	Year ended 31 August 2018
Profit after tax	34,539	50,201
Other comprehensive (loss)/income	1,271	64
<b>Total comprehensive income for the year</b>	<b>35,810</b>	<b>50,265</b>

#### b. Summarised balance sheet

<i>In thousands of AUD</i>	As at 31 August 2019	As at 31 August 2018
Current assets	222,096	186,914
Non-current assets	726,452	854,031
<b>Total assets</b>	<b>948,548</b>	<b>1,040,945</b>
Current liabilities	400,063	554,869
Non-current liabilities	103,833	23,083
<b>Total liabilities</b>	<b>503,896</b>	<b>577,952</b>
<b>Net assets</b>	<b>444,652</b>	<b>462,993</b>
<b>Equity</b>		
Share capital	566,461	566,461
Reserves	74,099	86,915
Accumulated losses	(195,908)	(190,383)
<b>Total equity</b>	<b>444,652</b>	<b>462,993</b>
<b>Capital commitments of the parent entity</b>	<b>179</b>	<b>349</b>

Details of guarantees and contingencies of the parent entity are included in Note 12.

### 20. RELATED PARTY TRANSACTIONS

#### a. Parent entity

The parent entity of the Group is Australian Pharmaceutical Industries Limited.

#### b. Equity interests in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 17.

#### c. Key management personnel

Disclosures relating to KMP are set out in Note 22.

#### d. Transactions with related parties other than key management personnel or entities related to them

Sales to, and purchases from, related parties for goods and services are made on an arm's length basis at normal prices and on normal commercial terms.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 21. BUSINESS ACQUISITIONS

There were no acquisitions in the year ended 31 August 2019.

During the year ended 31 August 2019 the Group finalised accounting for the acquisition of the Clear Skincare Clinics and Products businesses.

The Group initially recognised all the acquired assets and liabilities at their fair values or provisional fair values as disclosed in the 31 August 2018 financial report. Subsequently, the Group has conducted assessments of the valuation of assets and liabilities acquired as at the acquisition date, including the identification of intangible assets acquired. The effect on the financial statements has been summarised below. The twelve-month measurement period for the acquisition formally closed on 31 July 2019.

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

<i>In thousands of AUD</i>	As at 31 July 2018		
	Fair value (Provisional)	Adjustments	Fair value (Final)
<b>a. Purchase consideration</b>	<b>70,205</b>	<b>–</b>	<b>70,205</b>
<b>b. Net identifiable assets/(liabilities) acquired based on fair values at the date of acquisition:</b>			
Net identifiable assets/(liabilities) acquired	(2,773)	32,447	29,674
Less: interest retained by non-controlling shareholders	2,129	(15,511)	(13,382)
<b>Provisional net identifiable assets/(liabilities) acquired, net of non-controlling interest</b>	<b>(644)</b>	<b>16,936</b>	<b>16,292</b>
<b>Goodwill on acquisition (a) – (b)</b>	<b>70,849</b>	<b>(16,936)</b>	<b>53,913</b>

The adjustments represent the recognition of the Clear Skincare brand name of \$34,600,000 and restatement of asset and liability values previously based on provisional estimates.

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.

All other balances as presented in the Group's financial report for the year-ended 31 August 2018 remain unchanged. The restated comparative balances have been presented within Note 28.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### **OTHER DISCLOSURES**

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

#### **22. KEY MANAGEMENT PERSONNEL DISCLOSURES**

##### **a. KMP compensation summary**

In accordance with the requirements of AASB 124 Related Party Disclosures, the KMP included Non-Executive Directors and members of the Group Executive team who have authority and responsibility for planning, directing and controlling the activities of the Group. A summary of KMP compensation, included in personnel expenses, is set out below:

<i>In AUD</i>	<b>Year ended 31 August 2019</b>	<b>Year ended 31 August 2018</b>
Short term employee benefits	2,349,635	2,247,402
Other long term employee benefits	115,954	138,389
Final payouts	–	220,000
Share based payments	(195,478)	106,967
<b>Total KMP compensation</b>	<b>2,270,111</b>	<b>2,712,758</b>

##### **b. Individual Directors and Executives compensation disclosures**

Information regarding individual Directors and Executives' compensation and equity instruments disclosures as required by Corporations Act S300A and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors' Report.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or its subsidiaries since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

##### **c. Other Key Management Personnel transactions with the Company or its Controlled Entities**

A Director of the Company is a director of a company that has entered into transactions with the Group during the financial year. These transactions are on the same terms and conditions as those entered into by other entities, employees or customers.

No shares were granted during the period to Directors.

Mr R D Millner is a Director of Washington H Soul Pattinson and Company Limited. Washington H Soul Pattinson and Company Limited holds 95,068,472 shares (31 August 2018: 95,068,472 shares) in the Company at year end. In addition, Mr Millner holds 1,755,620 shares in the Company.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**23. SHARE BASED PAYMENTS**

<i>In thousands of AUD</i>	Year ended 31 August 2019	Year ended 31 August 2018
<b>Short term incentive plan (STIP)</b>		
Deferred component - 2016 STIP	–	51
<b>Long term incentive plan (LTIP)<sup>(i)</sup></b>		
2015 grant	(10)	(527)
2016 grant	(352)	40
2017 grant	(315)	552
2018 grant	123	–
<b>Total share based payments expense</b>	<b>(554)</b>	<b>116</b>

(i) In accordance with AASB 2 Share-based Payment, this amount represents the expense incurred, net of any writebacks, during the year in respect of current incentive allocations to employees. The amounts are therefore not amounts actually received by the employees during the year. Whether the employees receive any equity instruments in the future will depend on the performance of the Company over the performance period.

**a. Long Term Incentive Plan (LTIP)**

The Group has granted equity settled performance rights that entitle KMP and senior employees to receive shares in the Company if defined performance conditions are achieved (the LTIP). The LTIP has been established to incentivise employees to generate shareholder wealth and align the interests of the employees with those of the shareholders. Detailed remuneration disclosures, including the link between the LTIP and shareholder wealth, are provided in the Remuneration Report section of the Directors' Report.

Under the LTIP, the performance conditions are assessed by the Remuneration Committee at the next meeting immediately after the end of the performance period. If the performance conditions are met, the employees are granted shares in the Company proportionate to the level of performance achieved. If the minimum performance hurdles are not met, no shares are granted. The table below summarises the movement in the number of performance rights granted under the LTIP.

Tranche	Grant date	Number of performance rights granted	Balance at start of year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at end of year
<b>Financial year 2019</b>							
2015 LTIP	13 Jan 2016	1,103,290	1,060,046	–	(275,252)	(784,794)	–
2016 LTIP <sup>(i)</sup>	1 Feb 2017	924,512	924,512	–	–	(7,832)	916,680
2017 LTIP	29 Jan 2018	1,241,012	1,241,012	–	–	(110,775)	1,130,237
2018 LTIP	10 Dec 2018	1,364,259	–	1,364,259	–	(97,310)	1,266,949
<b>Total</b>		<b>4,633,073</b>	<b>3,225,570</b>	<b>1,364,259</b>	<b>(275,252)</b>	<b>(1,000,711)</b>	<b>3,313,866</b>
<b>Financial year 2018</b>							
2014 LTIP	16 Dec 2014	2,970,348	2,970,348	–	(2,337,905)	(632,443)	–
2015 LTIP <sup>(i)</sup>	13 Jan 2016	1,103,290	1,103,290	–	–	(43,244)	1,060,046
2016 LTIP	1 Feb 2017	924,512	924,512	–	–	–	924,512
2017 LTIP	29 Jan 2018	1,241,012	–	1,241,012	–	–	1,241,012
<b>Total</b>		<b>6,239,162</b>	<b>4,998,150</b>	<b>1,241,012</b>	<b>(2,337,905)</b>	<b>(675,687)</b>	<b>3,225,570</b>

(i) Since the end of the financial year, the Remuneration Committee has assessed the performance conditions of this grant which resulted in the vesting of 15.9% of this grant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 23. SHARE BASED PAYMENTS (continued)

#### Fair value of performance rights granted

Fair value of the performance rights at grant date is independently determined using Black-Scholes option pricing model developed by external consultants. Share performance rights are granted under a service condition and market and non-market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

The fair value calculated through the model and inputs into the model are set out below. Note there were two grants under the 2018 LTIP:

	Tranche 1	Tranche 2
Grant date	10 Dec 2018	12 Feb 2019
Fair value at measurement date	\$1.263	\$1.167
<b>Model inputs:</b>		
Share price at grant date	\$1.475	\$1.350
Expected volatility (expressed as weighted average)	35%	35%
Performance rights vesting life	Three years	Three years
Expected dividend yield	5.50%	5.50%
Risk free interest (based on Government bond rates)	1.914%	1.653%

#### b. Short Term Incentive Plan (STIP)

The STIP for Executives of the Group is designed to drive key performance measures aligned to strategy and financial objectives. For STIP performance scorecard measures established after 1 September 2012, 50% of any resulting STIP payment is converted from cash to rights to acquire API shares and is deferred for 12 months to encourage employee retention. It is also designed to manage risk by ensuring that decisions taken in the previous reporting period have resulted in sustainable benefit for the Group. Further details of the STIP are set out in the Remuneration Report.

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

Tranche	Grant date	Number of performance rights	Balance at start of year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at end of year
<b>Financial year 2019</b>							
<i>No STIP granted in 2019 financial year</i>							
<b>Financial year 2018</b>							
2016 STIP (deferred)	7 Nov 2016	512,718	512,718	–	(512,718)	–	–
<i>No STIP granted in 2017 (deferred component) or 2018 financial years</i>							
<b>Total</b>		<b>512,718</b>	<b>512,718</b>	<b>–</b>	<b>(512,718)</b>	<b>–</b>	<b>–</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 24. AUDITORS' REMUNERATION

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

<i>In AUD</i>	Year ended 31 August 2019	Year ended 31 August 2018
<b>Audit services - audit and review of financial reports</b>		
KPMG Australia	581,749	538,125
Overseas KPMG firms	36,000	36,000
<b>Total audit services</b>	<b>617,749</b>	<b>574,125</b>
<b>Other services</b>		
Due diligence services for business acquisitions - KPMG Australia	159,874	774,175
Clear Skincare acquisition related services - KPMG Australia	125,183	–
Other assurance services - KPMG Australia	31,920	32,015
Taxation services - KPMG Australia	–	35,494
Taxation services - Overseas KPMG firms	8,830	8,640
All other services - Overseas KPMG firms	5,636	–
<b>Total non audit services</b>	<b>331,443</b>	<b>850,324</b>

### 25. NEW ACCOUNTING STANDARDS

Except as described in this report, the accounting policies adopted by the Group in these consolidated financial statements are the same as those applied by the Group in its financial statements for the financial year ended 31 August 2018.

The Group has adopted the following new and amended accounting standards.

Reference	Title	Adoption Date
AASB 9	<i>Financial Instruments</i>	1 September 2018
AASB 15	<i>Revenue from Contract with Customers</i>	1 September 2018
AASB 2016-5	<i>Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions</i>	1 September 2018
AASB 2018-1	<i>Amendments to Australian Accounting Standards - Annual improvements 2015-2017 cycle</i>	1 September 2018
AASB 2018-5	<i>Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections</i>	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 year ended 31 August 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 accumulated losses with no restatements for comparative periods.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 25. NEW ACCOUNTING STANDARDS (continued)

The impacts of application are shown below:

<i>In thousands of AUD</i>	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
<b>Total assets impact</b>	<b>–</b>	<b>6,265</b>	<b>(6,242)</b>	<b>23</b>
Trade and other payables – current	(774,920)	(670)	–	(775,590)
Provisions	(29,851)	(4,878)	–	(34,729)
<b>Total liabilities impact</b>	<b>–</b>	<b>(5,548)</b>	<b>–</b>	<b>(5,548)</b>
Accumulated losses	(104,664)	717	(6,242)	(110,189)
<b>Total equity impact</b>	<b>–</b>	<b>717</b>	<b>(6,242)</b>	<b>(5,525)</b>

#### **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 as performance obligations are satisfied, instead of upfront.
- 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 in 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 accumulated losses by \$0.7 million.

A summary of the accounting policies and the timing of revenue earned by stream is summarised in Note 3.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 25. NEW ACCOUNTING STANDARDS (continued)

#### Presentation and classification

The application of AASB 15 required the Group to review the presentation and classification of its rebate and supplier income 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 accumulated losses.

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 year ended 31 August 2019 is presented below:

<i>In thousands of AUD</i>	Year ended 31 Aug 19 (before reclassification)	AASB 15	Year ended 31 Aug 19 (reported)
Revenue	4,039,246	(28,521)	4,010,725
Cost of sales	(3,512,210)	19,790	(3,492,420)
<b>Gross profit</b>	527,036	(8,731)	518,305
Marketing and sales expenses	(226,665)	8,731	(217,934)
<b>Profit for the year</b>	–	–	–

#### 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.

#### Trade receivables - expected credit losses

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. The Group's accounting policy is disclosed in Note 8.

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
- Accumulated losses increased by \$6.2 million

#### Hedge accounting

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. 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.

#### Financial assets and liabilities

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 25. NEW ACCOUNTING STANDARDS (continued)

#### New accounting standards and interpretations

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, AASB 117 Leases ('AASB 117'), Interpretation 4 – Determining whether an Arrangement contains a Lease and Interpretation 115 Operating Leases – Incentives, 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 substantially unchanged by the current standard with lessors continuing to classify leases as finance or operating leases except for subleases. Subleases are only classified as an operating lease to the extent that the head lease is classified as short-term under AASB 16, otherwise, the sublease should be classified by reference to the right-of-use asset arising from the head lease.

As at 31 August 2019, the Group's future minimum lease payments under non-cancellable operating leases are disclosed within Note 10. AASB 117 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. In its capacity as a lessor, this assessment also indicates that the Group will need to account for its subleases as finance leases under AASB 16 previously recorded as operating leases under AASB 117.

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 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. Using this approach, the cumulative effect of adopting the standard will be recognised as an adjustment to the opening balance of the retained earnings at 1 September 2019, with no restatement of comparative information.

The estimated pre-tax impact of adoption will result in recognition of;

- An increase in lease liabilities of between \$208 million to \$230 million;
- An increase in right-of-use assets of between \$151 million to \$167 million; and
- An increase in lease receivable of between \$33 million to \$38 million.

Combined with the above balance sheet impact;

- Finance costs will increase due to the interest component of the lease liability;
- Depreciation expense will increase due to the depreciation of the right-of-use assets over the lease term;
- Lease rental operating expense will reduce considerably; and
- In the statement of cash flows, cash flows from operating activities will decrease, and cash flows from financing activities will increase as repayment of the principal balance in the lease liability will be reclassified as a financing activity.

Key assumptions in determining this estimate include the lease term, extension option assessments, incremental borrowing rates, and the application of transitional practical expedients.

When applying the modified retrospective approach to leases previously classified as operating leases under AASB 117, the Group expects to apply a number of practical expedients, including;

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The accounting for operating leases with a remaining lease term of less than 12 months and leases of low-value assets as at 1 September 2019 as short-term leases;
- The use of hindsight in determining the lease term;
- Utilising previous assessments of onerous leases; and
- The exclusion of initial direct costs for the measurement of the right-of-use asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 25. NEW ACCOUNTING STANDARDS (continued)

#### AASB 16 Leases – to be adopted on 1 September 2019

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 estimated impact may be different to the actual impact on initial application on 1 September 2019 because the application of new accounting policies is subject to change until the Group presents its first financial statements that include the date of initial recognition.

### 26. SUBSEQUENT EVENTS

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

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

### 27. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

<i>In thousands of AUD</i>	Year ended 31 August 2019	Year ended 31 August 2018
Profit before tax for the year	73,740	70,027
Depreciation and amortisation	29,069	28,176
Impairment loss on property, plant and equipment	55	(452)
Net foreign exchange gain	(206)	(3)
Net loss on sale of property, plant and equipment	2,704	1,190
Share based payments expense	(554)	116
Fair value movement of financial liabilities	(18,034)	–
Dividend income	(3,533)	–
Net finance costs	20,306	12,370
<b>Operating profit before changes in working capital and provisions</b>	<b>103,547</b>	<b>111,424</b>
Decrease/(increase) in trade and other receivables	(34,881)	19,867
Decrease/(increase) in inventories	(18,039)	4,125
(Decrease)/increase in trade and other payables <sup>(i)</sup>	7,006	(37,601)
(Decrease)/increase in provisions and employee benefits	532	869
<b>Cash generated from operations</b>	<b>58,165</b>	<b>98,711</b>
Net interest paid	(19,105)	(12,216)
Income taxes paid	(27,450)	(32,844)
<b>Net cash inflows from operating activities</b>	<b>11,610</b>	<b>53,651</b>

(i) Excluding the effects of the acquisition of the Clear Skincare business for the year ended 31 August 2018

#### Reconciliation of cash and cash equivalents to net debt

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the cash management for the Group. The reconciliation of cash and cash equivalents to net debt is included below.

<i>In thousands of AUD</i>	As at 31 August 2019	As at 31 August 2018
Cash and cash equivalents	30,181	35,948
Loans and borrowings - current	(59,596)	(2,679)
Loans and borrowings - non current	(169,683)	(89,214)
<b>Net debt</b>	<b>(199,098)</b>	<b>(55,945)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 28. COMPARATIVE BALANCES

Comparative balances have been restated to reflect the update to provisional figures reported at 31 August 2018 for the accounting of the Clear Skincare business. The following table illustrates the quantum of the adjustments recognised during the period and the impact on the prior year comparative year figures presented in this report. For further information on the changes refer to Notes 11 and 21.

<i>In thousands of AUD</i>	<b>As at 31 August 2019 (reported)</b>	<b>As at 31 August 2018 (restated)</b>
<b>Current assets</b>		
Cash and cash equivalents	35,948	35,948
Trade and other receivables	654,661	654,661
Inventories	395,219	395,219
<b>Total current assets</b>	<b>1,085,828</b>	<b>1,085,828</b>
<b>Non-current assets</b>		
Trade and other receivables	28,279	28,279
Deferred tax assets	21,916	22,838
Property, plant and equipment	101,015	101,015
Intangible assets	265,718	283,383
<b>Total non-current assets</b>	<b>416,928</b>	<b>435,515</b>
<b>Total assets</b>	<b>1,502,756</b>	<b>1,521,343</b>
<b>Current liabilities</b>		
Trade and other payables	774,920	777,996
Loans and borrowings	2,679	2,679
Provisions	29,851	29,851
Income tax payable	7,141	7,141
<b>Total current liabilities</b>	<b>814,591</b>	<b>817,667</b>
<b>Non-current liabilities</b>		
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
<b>Total non-current liabilities</b>	<b>192,969</b>	<b>192,969</b>
<b>Total liabilities</b>	<b>1,007,560</b>	<b>1,010,636</b>
<b>Net assets</b>	<b>495,196</b>	<b>510,707</b>
<b>Equity</b>		
Share capital	566,461	566,461
Reserves	46,987	46,987
Accumulated losses	(104,664)	(104,664)
<b>Total equity attributable to members of the Company</b>	<b>508,784</b>	<b>508,784</b>
<b>Non-controlling interest in controlled entities</b>	<b>(13,588)</b>	<b>1,923</b>
<b>Total equity</b>	<b>495,196</b>	<b>510,707</b>

## DIRECTORS' DECLARATION

1. In the opinion of the Directors of Australian Pharmaceutical Industries Limited ('API'):
  - a. the consolidated financial statements and notes set out on pages 39 to 88, and the Remuneration Report set out on pages 26 to 37 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
    - i. giving a true and fair view of the financial position of the consolidated entity as at 31 August 2019 and of its performance, for the financial year ended on that date; and
    - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;
  - b. the consolidated financial report also complies with International Financial Accounting Standards as disclosed in Note 1(a); and
  - c. there are reasonable grounds to believe that API will be able to pay its debts as and when they become due and payable.

There are reasonable grounds to believe that API and the controlled entities identified in Note 17 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

2. The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 August 2019 pursuant to Section 295A of the *Corporations Act 2001*.

Dated at Sydney, 23 October 2019

Signed in accordance with a resolution of the Directors:



**Mark G. Smith**  
Chairman

# INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 AUGUST 2019



## Independent Auditor's Report

To the shareholders of Australian Pharmaceutical Industries Limited

### Report on the audit of the Financial Report

#### Opinion

We have audited the **Financial Report** of Australian Pharmaceutical Industries Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 August 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated balance sheet as at 31 August 2019
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

#### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

# INDEPENDENT AUDITOR'S REPORT

CONTINUED



## Key Audit Matters

The **Key Audit Matters** we identified are:

- Valuation of receivables (including assessment of financial guarantees); and
- Asset valuation (carrying value of goodwill and brand names for Australia and Clearskincare and carrying value of goodwill for New Zealand).

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of receivables of \$657.9m (current) and \$56.9m (non-current) (including assessment of financial guarantees of \$9.2m)	
Refer to Notes 8 and 12 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>The Group is exposed to credit risk in relation to overdue trade receivables and long term loans provided as financial assistance to certain pharmacy customers.</p> <p>The recoverable value and classification of these receivables from customers was a key audit matter due to the audit effort to address multiple and varying credit conditions across a large pool of customers. We focused on:</p> <ul style="list-style-type: none"> <li>• Amendments to standard terms of trade with certain customers, such as long term funding arrangements;</li> <li>• The value of security held by the Group over the customers' assets and its impact to the Group's credit risk exposure. In particular, the value of the retention of title on inventory held by the customers, the value of the formal charges over customers' assets used as collateral, and the ranking of the Group's debt compared to other creditors; and</li> <li>• Assessing the Group's subjective judgements relating to the customers' ability to repay amounts and the timing of these repayments. The specific trading situations of these customers was critical to our assessment.</li> </ul> <p>In addition, the Group adopted AASB 9 <i>Financial Instruments</i> on 1 September 2018. Under AASB 9, credit losses are recognised on an Expected Credit Loss (ECL) basis. Given the subjective judgements</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing the Group's valuation of receivables methodology against the requirements of relevant accounting standards.</li> <li>• Assessing the Group's classification of receivables with reference to expected timing of settlement.</li> <li>• Identifying customers with receivables balances which were at greater risk of non-recovery by reading the Group's credit committee reports and inspecting aged debtors ledgers. For those customers at greater risk of non-recovery, our audit procedures included:                             <ul style="list-style-type: none"> <li>○ Assessing the amendments to standard terms of trade with customers against signed long term funding arrangements. We also assessed patterns of customer's repayments since the amendments for consistency. We followed up unusual or inconsistent patterns;</li> <li>○ Assessing the value of the security held by the Group over the customer's pharmacy assets by comparing the Group's analysis of value to conclusions of external valuation reports obtained by the Group in relation to similar pharmacy businesses;</li> <li>○ Evaluating the objectivity, competence and scope of work undertaken by the external</li> </ul> </li> </ul>

## INDEPENDENT AUDITOR'S REPORT

CONTINUED



<p>by the Group applied in calculating the credit losses on an ECL basis, additional audit effort was applied in assessing the credit loss model and disclosures.</p>	<p>valuation expert appointed by the Group;</p> <ul style="list-style-type: none"> <li>o Assessing the Group's analysis of the value for other security held by the Group such as retention of title of inventory, formal charges over customer's assets and the ranking of the Group's debt compared to other creditors. This involved comparing the Group's estimates to customer inventory records, property mortgage documents and other information; and</li> <li>o Challenging assumptions made about the ability of customers to repay amounts due and the associated timing of repayments. This included assessing the customer's current trading status, payment history, payments made subsequent to year end and its effect in reducing the balance outstanding at year end, and evaluating the actions taken by the Group to recover overdue amounts.</li> </ul> <ul style="list-style-type: none"> <li>• Assessing the ECL model developed by the Group against the criteria in AASB 9, in particular the forward looking assumptions, the outputs compared to the historical write off rates, and the Group's disclosures of the results of the ECL model on adoption and at year end.</li> </ul>
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<b>Asset valuation (carrying value of goodwill and brand names of \$131.5m for Australia, \$88.5m for Clearskincare and carrying value of goodwill of \$16.9m for New Zealand)</b>	
<p>Refer to Note 11 to the Financial Report</p>	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>Asset valuation of the Group's indefinite useful life assets is a key audit matter due to the significant forward-looking assumptions the Group applied in its value in use and fair value less costs of disposal models being inherently difficult to determine with precision. We focused on the following significant assumptions which impact forecast cash flows:</p> <ul style="list-style-type: none"> <li>• EBIT growth rates are impacted by non-market related factors such as new clinic growth in the Clearskincare clinics business (clinics business), personal care and healthcare sales growth in consumer brands, net franchise store growth, and like-for-like store sales growth in pharmacy</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Evaluating the appropriateness of the value in use and fair value less costs of disposal methods applied by the Group to perform impairment testing against the requirements of accounting standards.</li> <li>• Assessing the integrity of the value in use and fair value less costs of disposal models used, including the mathematical accuracy of the underlying calculation formulas.</li> <li>• Assessing the Group's underlying methodology and documentation for the allocation of corporate</li> </ul>

# INDEPENDENT AUDITOR'S REPORT

CONTINUED



<p>and retail sales detailed in the Group's Strategic Plan;</p> <ul style="list-style-type: none"> <li>• Discount rates which are inherently subjective and vary according to the conditions and environment the specific cash generating unit (CGU) is subject to from time to time and the valuation models approach to incorporating risks into the cash flows or discount rate; and</li> <li>• Terminal growth rates are impacted by market-related factors such as inflation targets which contribute to variability in clinics, pharmacy and retail, and consumer brands sales.</li> </ul> <p>The Group's model is sensitive to changes in EBIT growth rates. This drives additional audit effort specific to the feasibility of EBIT growth rates and consistency of application to the Group's strategy. Reasonably possible changes to key assumptions increases the possibility of non-current assets being impaired, plus the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider.</p> <p>The valuation models used to perform impairment assessments include a range of internally and externally sourced inputs. Valuation models, particularly those containing judgemental allocations of corporate costs to CGUs, and forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.</p> <p>Given the inherent complexity of this key audit matter, we involved valuation specialists to supplement our senior audit team members.</p>	<p>costs to the forecast cash flows contained in the value in use and fair value less costs of disposal models, for consistency with our understanding of the business and the criteria in accounting standards.</p> <ul style="list-style-type: none"> <li>• Comparing the EBIT growth rates to the Group's Strategic Plan, published industry growth rates and market research reports. We also compared the carrying value EBITDA multiple and value in use EBITDA multiple to comparable companies.</li> <li>• Comparing the forecast cash flows contained in the value in use and fair value less costs of disposal models to the Strategic Plan approved by the Board.</li> <li>• Working with our valuation specialists, we independently developed a discount rate range using publicly available market data for comparable entities, adjusted by risk factors specific to the Group, such as variability in pharmacy and retail sales and the uncertain outcome of government reforms to the Pharmaceutical Benefits Scheme.</li> <li>• Working with our valuation specialists, we compared the terminal growth rates to inflation targets published by the Reserve Bank of Australia and New Zealand Reserve Bank and external economic outlook reports.</li> <li>• Considering the sensitivity of the models by varying key assumptions, such as EBIT growth rates within a reasonably possible range, to identify those CGUs at higher risk of impairment to further focus our procedures.</li> <li>• Assessing the Group's prior accuracy in forecasting EBIT growth rates. EBIT growth rates are driven by new clinic growth in the clinics business, personal care and healthcare sales growth in consumer brands, net franchise store growth, and like-for-like store sales growth in pharmacy and retail sales. We compared historical forecasts detailed in Group Strategic Plans to actual results. We did this to inform our evaluation of forecasts incorporated in the models. We applied additional focus to forecasts in the areas where previous forecasts were not achieved.</li> <li>• Assessing the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.</li> </ul>
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## INDEPENDENT AUDITOR'S REPORT

CONTINUED



### Other Information

Other Information is financial and non-financial information in Australian Pharmaceutical Industries Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

### Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

# INDEPENDENT AUDITOR'S REPORT

CONTINUED



## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Australian Pharmaceutical Industries Limited for the year ended 31 August 2019, complies with *Section 300A of the Corporations Act 2001*.

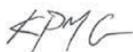
### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included in pages 26 to 37 of the Directors' report for the year ended 31 August 2019.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



Tony Romeo

*Partner*

Melbourne

23 October 2019



Mithra Villanelo

*Partner*

Melbourne

23 October 2019

## SHAREHOLDER INFORMATION

AS AT 18 NOVEMBER 2019

Shareholder information in this section has been updated since the Group's Appendix 4E and FY19 Financial Report (which were lodged with ASX on 24 October 2019)

### ASX ADDITIONAL INFORMATION

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report is set out below.

#### Shareholdings as at 18 November 2019

##### Substantial shareholders

The number of shares held by substantial shareholders and their associates as notified to the ASX are set out below:

HSBC Custody Nominees (Australia) Limited	99,738,718	ordinary shares
Washington H Soul Pattinson and Company Limited	95,068,472	ordinary shares
Citicorp Nominees Pty Limited	60,178,693	ordinary shares
J P Morgan Nominees Australia Pty Limited	39,814,126	ordinary shares
National Nominees Limited	33,345,970	ordinary shares

##### Voting rights

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

- a. on a show of hands:
  - (i) if a member has appointed two proxies, neither of those proxies may vote;
  - (ii) a member who is present and entitled to vote and is also a proxy, attorney or representative of another member has one vote; and
  - (iii) subject to paragraphs (a)(i) and (a)(ii), every individual present who is a member, or a proxy, attorney or representative of a member, entitled to vote has one vote;
- b. on a poll every member entitled to vote who is present in person or by proxy, attorney or representative:
  - (i) has one vote for every fully paid share held; and
  - (ii) subject to paragraph (c), in respect of each partly paid share held has a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share; and
- c. unless:
  - (i) permitted under the Listing Rules; and
  - (ii) otherwise provided in the terms on which shares are issued, in calculating the fraction of a vote which the holder of a partly paid share has, the Company must not count an amount:
    - (iii) paid in advance of a call; or
    - (iv) credited on a partly paid share without payment in money or money's worth being made to the Company.

##### On-market share buy-back

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

#### Distribution of Shareholders as at 18 November 2019

##### Category

Ordinary Shares	Number of Shareholders
1 – 1,000	3,225
1,001 – 5,000	4,339
5,001 – 10,000	2,036
10,001 – 100,000	2,605
100,001 and over	224
	<b>12,429</b>

The number of shareholders holding less than a marketable parcel at 18 November 2019 was 1,031 (16 October 2018: 730).

##### Stock Exchange

The Company is listed on the Australian Securities Exchange. The Home Exchange is Melbourne.

## SHAREHOLDER INFORMATION

CONTINUED

### Other Information

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

### Twenty largest Shareholders as at 18 November 2019\*

Name	Number of Ordinary shares held	Percentage of Capital held
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	99,738,718	20.24
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	95,068,472	19.29
CITICORP NOMINEES PTY LIMITED	60,178,693	12.21
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	39,814,126	8.08
NATIONAL NOMINEES LIMITED	33,345,970	6.76
PRUDENTIAL NOMINEES PTY LTD	7,000,000	1.42
BNP PARIBAS NOMS PTY LTD	2,710,206	0.55
JUM PTY LIMITED	1,567,286	0.31
MR LOUIS PIERRE LEDGER	1,500,000	0.30
MR FREDERICK BENJAMIN WARMBRAND	1,395,000	0.28
MR RAYMOND FRANCIS FREW & MRS GILLIAN MARGARET FREW	1,180,000	0.24
INVESTMENT CUSTODIAL SERVICES LTD	1,000,000	0.20
DE BRUIN SECURITIES PTY LTD	875,000	0.17
CS THIRD NOMINEES PTY LIMITED	868,567	0.17
BNP PARIBAS NOMINEES PTY LTD	853,352	0.17
BAINPRO NOMINEES PTY LIMITED	813,466	0.16
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	802,178	0.16
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	774,210	0.15
SOPHIA PTY LTD	736,245	0.14
MR JOHN JOSEPH MURPHY	681,879	0.13
	<b>350,903,368</b>	<b>71.13</b>

\* As shown on the register, beneficial holdings may differ.

### Shareholder Communications

Enquiries or notifications by shareholders regarding their shareholdings or dividend should be directed to API's share registry:

Boardroom Pty Limited  
Level 12,  
Grosvenor Place  
225 George Street  
Sydney NSW 2000

GPO Box 3993  
Sydney NSW 2001  
Telephone 1300 737 760  
International +61 2 9290 9600  
Facsimile 1300 653 459

Shareholders can also send queries to the share registry via email: [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

You can access information about your API shareholding and download forms via the internet by visiting: [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

## SHAREHOLDER INFORMATION

CONTINUED

### Dividends

If you wish your dividends to be paid directly to a bank, building society or credit union account in Australia contact the share registry or visit the website of Boardroom at [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au) for an application form. The payments are electronically credited on the dividend payment date and confirmed by payment advices sent through the mail to the shareholder's registered address. All instructions received remain in force until amended or cancelled in writing.

### Tax File Number (TFN), Australia Business Number (ABN or exemption)

You are strongly advised to lodge your TFN, ABN or exemption with the share registry. If you choose not to lodge these details, then API is obliged to deduct tax at the highest marginal rate (plus the Medicare levy) from the unfranked portion of any dividend. Certain pensioners are exempt from supplying their TFN's. You can confirm whether you have lodged your TFN, ABN or exemption via the Boardroom website.

### Uncertificated Forms of Shareholdings

Two forms of uncertificated holdings are available to API shareholders:

#### – Issuer Sponsored Holdings:

This type of holding is sponsored by API and provides shareholders with the advantages of uncertificated holdings without the need to be sponsored by any particular stockbroker.

#### – Broker Sponsored Holdings ('CHESS'):

Shareholders may arrange to be sponsored by a stockbroker (or certain other financial institutions) and are required to sign a sponsorship agreement appointing the sponsor as their 'controlling participant' for the purposes of CHESS. This type of holding is likely to attract regular stock market traders or those shareholders who have their share portfolio managed by a stockbroker.

Shareholders communicating with the share registry should have their Security Holder Reference Number (SRN) at hand or Holder Identification Number (HIN) as it appears on the Issuer Sponsored/ CHESS statements or dividend advices. For security reasons, shareholders should keep their Security Holder Reference Numbers confidential.

### Annual Report Mailing List

Shareholders (whether Issuer or Broker Sponsored) wishing to receive the Annual Report should advise Boardroom in writing so that their names can be added to the mailing list. Shareholders are able to update their preference via the Boardroom website. Shareholders can also elect to receive the Annual Report by e-mail or by accessing the Company website.

### Change of Address

Shareholders who are Issuer Sponsored should notify any change of address to the share registry promptly in writing quoting their Security Holder Reference Number, previous address and new address. Application forms for Change of Address are also available for download via the Boardroom website. Broker Sponsored (CHESS) holders must advise their sponsoring broker of the change.

### Share Trading and Price

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

### Off-Market Share Transfers

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

## SHAREHOLDER INFORMATION

CONTINUED

### Information on API

API has an internet site featuring news items, announcements, corporate information and a wide range of product and service information. API's internet address is [www.api.net.au](http://www.api.net.au)

The Annual Report is the main source of information for shareholders. Other sources of information include:

- interim results;
- annual results;
- the Annual General Meeting (at which the Chairman and the Managing Director address shareholders); and
- ASX announcements.

### Financial Calendar\*

Half year end	28 February 2020
Half year profit announcement	17 April 2020
Year end	31 August 2020
Full year profit announcement	22 October 2020
Annual General Meeting	20 January 2021

\* Timing of events is subject to change.

Requests for publications and other enquiries about API's affairs should be communicated to:

Company Secretary  
Australian Pharmaceutical Industries Limited  
Level 5,  
250 Camberwell Road  
Camberwell, VIC 3124

## CORPORATE DIRECTORY

### Offices and Officers

#### Company Secretary

Ms Anne Mustow, B.Com., LLB., GAICD, Grad. Dip. Applied Finance & Investment

#### Registered Office

Australian Pharmaceutical Industries Limited  
Level 5, 250 Camberwell Road  
Camberwell VIC 3124

Locked Bag 3002  
Hawthorn BC  
VIC 3122

Telephone: (03) 8855 3000  
International: +61 3 8855 3000  
Facsimile: +61 3 8855 3406  
Email: [legal@api.net.au](mailto:legal@api.net.au)

#### Location of Share Registry

##### Boardroom Pty Limited

Grosvenor Place  
Level 12, 225 George Street  
Sydney NSW 2000

GPO Box 3993  
Sydney NSW 2001

Telephone: 1300 737 760  
International: +61 2 9290 9600  
Facsimile: 1300 653 459  
E-mail: [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)



api

ABN 57 000 004 320

250 Camberwell Road, Camberwell, VIC 3124

[api.net.au](http://api.net.au)