

# api

Australian  
Pharmaceutical  
Industries Limited

+

prescriptions and advice

Clear Skincare

ANTI-AGEING, ACNE & LASER CLINICS

Annual Report 2020



## Glossary

Below is a glossary of abbreviations used in the Financial Report including the Directors' Report (including 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 as a percentage of total revenues for the year - includes total operating expenses excluding cost of sales, depreciation, amortisation and excludes one-off charges
CSC	Clear Skincare business
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EBIT	Earnings before Interest and tax
EPS	Earnings Per Share
FBT	Fringe Benefits Tax
FY18	Financial Year ended 31 August 2018
FY19	Financial Year ended 31 August 2019
FY20	Financial Year ended 31 August 2020
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

All currencies are expressed in Australian Dollars, unless stated otherwise.

# TABLE OF CONTENTS

Message from the Chair and the CEO.....	2
Priceline Sisterhood Foundation.....	8
Directors' Report .....	10
Board of Directors .....	10
Operating and Financial Review.....	13
Other Matters .....	20
Remuneration Report.....	23
Lead Auditor's Independence Declaration .....	35
Financial Report .....	36
Consolidated Income Statement.....	36
Consolidated Statement of Comprehensive Income .....	37
Consolidated Balance Sheet .....	38
Consolidated Statement of Changes In Equity .....	39
Consolidated Statement of Cash Flows .....	40
Notes to the Consolidated Financial Statements.....	41
Directors' Declaration .....	85
Independent Auditor's Report .....	86
Shareholder Information .....	92
Corporate Directory .....	96



**Kenneth W Gunderson-Briggs**  
Interim Chair

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

## MESSAGE FROM THE CHAIR AND THE CEO

During the 2020 financial year, a year of unprecedented challenges, API demonstrated its capacity to serve the Australian community with commitment and excellence.

The API Group faced a changing retail environment and a surge in demand for critical medicines - driven by the bushfire emergencies and later by the COVID-19 pandemic, which brought lockdowns of varying durations across its network of distribution centres, retail outlets and skin care clinics. API rose to the challenges of the year and is emerging from the pandemic in good shape, solidifying its financial position and identifying opportunities for future growth.

The Group saw expansion in the Clear Skincare clinic network and strong revenue growth in Pharmacy Distribution. Priceline and Priceline Pharmacy performed well despite store closures and reductions in demand for beauty products and over-the-counter cold and flu medicines resulting from the COVID-19 pandemic.

The Group recorded an increase in total revenue and a significant reduction in net debt whilst investing in a number of strategic growth projects to improve inventory management, advance the Sister Club loyalty platform, enhance its omni-channel offer and raise distribution capacity through a commitment to build a new fully automated Sydney Distribution Centre.

Priceline, Priceline Pharmacy and Clear Skincare implemented online sales platforms and online skincare services to meet consumer needs during lockdowns and store closures. Clear Skincare has seen an increase in demand since clinics reopened compared with the same period in 2019 and is well-positioned to continue expanding its network into and through the next financial year.

The Group focussed on caring for its people and its customers during the COVID-19 pandemic. Having its head office in Melbourne, the lockdown endured by most of the Group's support office staff was extensive and tough. The Melbourne Distribution Centre suffered a COVID-19 outbreak, which was well managed and contained, with minimal disruption to operations. Priceline pharmacies and Clear Skincare clinics adopted COVID-safe practices to protect staff and customers.

As one of the pharmaceutical distributors, the populace relies on API to ensure consumers can access medicines through community pharmacies. API's teamwork and supply chain met this challenge in spite of the difficult circumstances of the year, ensuring that equitable distribution of medicines was maintained.

## MESSAGE FROM THE CHAIR AND THE CEO

CONTINUED

Behind the scenes we continue to work with the Australian Government to provide information and advice to help ensure continuity of medicines for all Australians. API's vision is "enriching life", and we are very proud of the dedicated contribution our teams have made to this during 2020.

### Operational performance

The Group's revenue was \$4.0 billion, an increase of 0.2% on the prior year despite the retail lockdowns in both our Priceline and Clear Skincare businesses.

The Group ended the financial year with reported net debt of \$18.0 million, compared to \$199.1 million in the prior comparable period. The reduction in net debt was impressive given the Group's investment in a number of large scale projects. These included commencing the development of the new Sydney Distribution Centre with world leading artificial intelligence designed to increase efficiency and streamline management procedures and an inventory optimisation program. The total expenditure on the Distribution Centre is expected to be in the order of \$50.0 million, with the majority forecast for the 2022 financial year.

Actual cash conversion days were at 16.8 for the year, compared to 21.1 on the prior comparable period and 20.4 in 2018. The significant improvement in working capital cash conversion days reflects improved inventory processes and a focus on debt collections - critical to be undertaken in times of crisis.

Due to a range of cost savings initiatives, the Group's underlying cost of doing business was pleasingly down 70 basis points to 10.2%. This was driven by the consolidation of distribution centres in the first half of 2020, rent savings, business restructuring and other cost reduction initiatives.

### Our business

The impact of the COVID-19 pandemic has been felt in different ways by the arms of the API Group. We endured the forced closure of Priceline stores and Clear Skincare clinics and ongoing raw material continuity issues in our Consumer Brands business on the one hand, while maintaining the supply and distribution of medicines through our Pharmacy Distribution business on the other. In a time of uncertainty, requiring a collaborative, rapid response from the Government and industry alike, our response has reflected our commitment to customers, shareholders and the community.

Our national pharmacy distribution network performed well throughout the pandemic, particularly at the height of its impact with lockdowns in most States and Territories. We approached the COVID-19 pandemic by:

1. focusing on safety and support;
2. reacting to changes in customer demand;
3. accelerating digital capabilities;
4. lowering the cost of doing business; and
5. further strengthening the balance sheet.

### Total Revenue

 **4.0<sup>B</sup>**  
An increase of 0.2%

### Net Debt

 **-\$181.1<sup>M</sup>**  
To \$18.0 Million

### Cost of Doing Business

 **-70<sup>BPS</sup>**  
To 10.2%



## MESSAGE FROM THE CHAIR AND THE CEO

CONTINUED



**Pharmacy Distribution** has once again shown consistent, reliable growth. We continue to add to our already impressive offering for pharmacists reflected in the increase of revenue (up 6.1% on the prior comparable period). The new Sydney Distribution Centre, scheduled to open in 2022, is expected to result in further cost savings as we introduce world leading automation to the site.

As a Community Service Obligation (CSO) accredited pharmaceutical wholesaler, API will continue to meet obligations for the distribution of pharmaceutical products and participate with Government and the Pharmacy Guild as key players in the distribution of medicines across Australia.

We actively contributed to the National Pharmacy Services Association (NPSA) during the year, which comprises CSO wholesalers, including API. The NPSA has had a particularly busy year addressing the various COVID-19 pandemic challenges and negotiating the 7th Community Pharmacy Agreement, commencing 1 July 2020.

This agreement provides a number of positive changes for the industry, including certainty of funding, and the additional CSO support of \$92 million for pharmaceutical wholesaling over the next five years, commencing from 1 July 2020. Importantly, the funding will enable wholesalers like API to keep investing in pharmacy distribution and ensuring access to vital medicines throughout Australia.

**Priceline** further developed its online store and introduced Click & Collect and Click & Deliver during the year throughout the network. These options provide consumers with continuous access to our health and beauty offering. In particular:

1. Click & Collect launched in January 2020 - now with coverage Australia-wide via 333 stores; sales having grown by an average of 30% month on month; and
2. Click & Deliver launched in March 2020- enabling customers to access same day delivery when ordering from their local store; growing rapidly with an impressive consumer satisfaction score of 99.4%.

## MESSAGE FROM THE CHAIR AND THE CEO

CONTINUED



Priceline permanently closed some company-owned (non-pharmacy) stores during COVID-19. The Priceline network stood at 474 stores as of 31 August and we expect to see expansion during 2021 as more pharmacists seek the benefits that our brand and systems deliver to their bottom line.

Priceline has recently relaunched the Sister Club, which remains Australia's largest health & beauty loyalty program. The changes to the platform are designed to grow sales and visitations by rewarding our most loyal customers.

With the refined brand belief:

**“We believe people only feel better when they feel they matter”**

Priceline's goal is to drive consumer engagement through the four pillars of:

1. unique retail – where the white coat care meets an inspired vast range;
2. pharmacy peace of mind – leading with strong health credentials to connect and care;
3. range of inspired ideas – in products, services, plans, solutions and advice; and
4. a culture of real, classic care – time to do and inspire in all things customer.

Priceline is proud to be leading the market with ScriptsNow and in store health stations. We offer prescriptions via our tele-doctoring consultation services in our pharmacies and will provide the same service to our customers through the Priceline Pharmacy app. Over 250 Priceline Pharmacies have successfully dispensed eScripts to date proving the confidential, safe and paperless delivery of scripts through the network, ready for the Government's electronic prescription program that will replace paper prescriptions.



## MESSAGE FROM THE CHAIR AND THE CEO

CONTINUED



By rolling out SiSU health stations (which are accredited by the Therapeutic Goods Administration) in more than 280 locations Australia-wide, API's **Healthcare Services** division has invested in an active healthcare prevention program allowing customers to receive health information and assessments, such as a diabetes risk assessment, free of charge. These stations are exclusive to API and are part of our strategy to enable our customers to take control of their health. API is continuing to add capabilities and functions to the stations, in order to increase the quality and range of healthcare services provided by our pharmacies.

**Clear Skincare** continued its rapid growth phase opening 15 clinics this year, reaching a total of 67 clinics. This is an increase of 23 clinics since the Group purchased the Clear Skincare business in 2018. Despite the temporary closure of 64 clinics (6 in New Zealand, and 58 in Australia) during the various COVID-19 lockdowns throughout the year, the demand for products and services since reopening has been considerably higher when compared with the same period last year. For example, in-clinic cosmetic injectable treatments are up 60% on last year.

While Clear Skincare clinics were impacted by closures, the business launched Skincare@home to maintain product sales and customer engagement and enable virtual consultations with skin therapists.

We again expect to see positive clinic growth in the coming year based on the strong brand position of Clear Skincare and resurgence in demand following the reopening of clinics.

In New Zealand **Consumer Brands** responded swiftly to changing customer needs during the COVID-19 pandemic, including the production of half a million units of hand sanitiser driven by consumer demand. COVID-19 saw a significant reduction in demand for cold and flu tablets and antibiotics as a result of less communicable sickness for people working from home. COVID-19 also delayed the re-launch of an export range into China and the Health Basics range in New Zealand.



## MESSAGE FROM THE CHAIR AND THE CEO

CONTINUED

### OUR BRANDS



#### API and our community

API provided a critical component of Australia's management and response to, both the COVID-19 pandemic and recent bushfire emergency.

During the recent bushfire emergency in the Eastern States, our Pharmacy Distribution business coordinated with other CSO distributors to deliver life-saving medicines and supplies to pharmacies and people across the country including isolated communities. Priceline Pharmacy stores distributed free care packs and raised \$241,000 for the Australian Red Cross Disaster Relief Fund.

We continue to support the Priceline Sisterhood Foundation which raises funds for charities that support Australian women and their families. The Priceline Sisterhood Foundation's 2020 fundraising campaign was moved to the end of the year due to the COVID-19 pandemic, combining Priceline's "give a little something" campaign with an EFTPOS "round-up" over the Christmas period, with all proceeds being donated to the Priceline Sisterhood Foundation. This campaign is tracking well with the total fundraising tally expected to be realised at the end of the campaign period in December 2020. Excluding the "round-up", the Priceline Sisterhood Foundation raised \$1.075m during FY20, bringing the total to \$7.245m since the Foundation was established - a tremendous achievement in light of such a challenging year.

The Group published its first standalone Sustainability Report in October this year. This provides investors with more information underlining the importance of sustainability to API and its people, and how the Group is addressing sustainability risks and opportunities.

#### Dividend

The Directors have announced a fully franked final dividend of 2.0 cents per share, representing a payout ratio of 33% on underlying NPAT. For reference, API did not pay a dividend in respect of the first half given the uncertainty created by the COVID-19 pandemic and the Board's view at that time that it was prudent to preserve cash. These dividend decisions reflect API's responsible approach to capital management whilst endeavouring to reward shareholders for their ongoing support.

#### Board changes

During the year our Chair, Mark Smith, passed away after a short illness. Mark held the role of Chair since 2017 and during that time led API through the acquisition of Clear Skincare and more recently through the bushfires in the Eastern States and COVID-19. Mark's contribution and legacy at API is significant and he is missed by his fellow Board members, API staff and the broader API community.

In January 2020, Gerard Masters retired as a Non-executive Director of the API Board after just over nine years of service.

During that time Gerry served on the Nomination Committee and as Chairman of the Remuneration Committee. Gerry's extensive retailing experience assisted API to build its successful Priceline retail business during the period of his directorship.

Robert Millner resigned as a Non-executive Director of the API Board in July 2020, after 20 years. Rob served on both the Remuneration and Nominations Committees but more importantly he made a significant and lasting impact across many areas of API's performance during his time on the Board.

Janine Allis joined the API Board on 23 October 2020. Janine brings retail and franchising expertise to the API Board, having founded Boost Juice Bars and grown three other food retail brands within the Retail Zoo group. We welcome Janine and we look forward to her contribution to API.

On behalf of the Board we would like to thank our employees for their considerable efforts during this difficult year.

  
**Kenneth W Gunderson-Briggs**  
Interim Chair



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

# Priceline Sisterhood Foundation™

## HELP US HELP WOMEN

### TOTAL RAISED

# \$7,245,422

Thanks to the generosity of our customers, team members and suppliers, the Priceline Sisterhood Foundation raised an impressive \$1,075,422 during the financial year ended 31 August 2020. The Foundation has continued to support its Charity Partners throughout 2020, during what has been a challenging year for many not-for-profit organisations.

Since its inception in 2011, the Priceline Sisterhood Foundation has aimed to enrich the lives of Australian women and their families by supporting Charity Partners making a difference across various health-related causes. The Foundation's goal is to help these Charity Partners achieve their core charitable purposes and build long-term capability and sustainability.

To ensure future Charity Partners align with the Foundation's Vision to enrich the lives of Australian women and their families, the Charity Partner Selection Policy Criteria which the Foundation's key Charity Partners must meet, was updated this year to include:

- promotes principles of equity, access and diversity;
- has a key focus on service delivery (i.e. not medical research);
- does not have any key relationships with Priceline competitors; and
- does not duplicate the core work of another Charity Partner supported by the Foundation.

In addition to meeting other criteria, the Foundation's key Charity Partners must be "real need" charities with sustainable proposals, so that funding received from the Foundation will have a real impact on proposals that focus on core charitable capability and long-term sustainability for the Charity Partner.



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

## 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. They also provide national policy and advocacy for Australians living with dementia and represent the 459,000 Australians living with dementia and the almost 1.6 million Australians involved in their care. There are over 100 diseases that may cause dementia and we now know dementia is a disease symptom, and 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/ changing surgery in Australia. Both of Children First Foundation's 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 the security of knowing this is where children will 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 150,000 people have participated in the program, which offers over 1,000 workshops each year both in-person and virtually.

The program is managed by a small team of staff and together with the support of 1,000 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.

- One in five expecting and new mums will experience perinatal anxiety or depression
- Around one in ten expecting and new fathers will experience perinatal anxiety or depression
- Over 100,000 families across Australia are affected by these illnesses every year

### Raise Foundation

Raise Foundation creates thriving communities across Australia by delivering best practice, early intervention mentoring programs in high schools to help young people become resilient, capable and connected. Young people facing issues such as anxiety, bullying, depression, family illness, suicidality and disadvantage are matched with a Raise Mentor to build their resilience, learn how to ask trusted adults for help and develop hope for the future. The Priceline Sisterhood Foundation has also supported the Bump program for a number of years, which supports pregnant and parenting women aged between 13 and 23. This program provides a chance for young mums to meet other young mums in their area and build a supportive social network.

### 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

The Directors are pleased to 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 2020 and the auditor's report.

This Report is made on 21 October 2020.

### BOARD OF DIRECTORS

#### DIRECTORS\*

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



#### MR KENNETH W GUNDERSON-BRIGGS

B. Bus, FCAANZ, MAICD, FIML, JP

Independent Non-executive Director appointed on 6 May 2014

Senior Independent Non-Executive Director from 2 September 2015 until 29 January 2019

Chair – Audit and Risk Committee appointed on 25 January 2017 and member since 6 May 2014

Member – Remuneration Committee appointed on 8 April 2015

Member – Nomination Committee appointed on 3 August 2020

Interim Chair of the Board – appointed on 4 September 2020

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

Mr Gunderson-Briggs was a Director of Glenaeon Rudolf Steiner School Limited from 2009 until May 2018, and its Chair from 2013 until May 2018.

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

- Harvey Norman Holdings Limited (June 2003 – current)



#### 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

Member – Remuneration Committee appointed on 3 August 2020

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

Ms Ausburn 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 – August 2020)



#### 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

Chair – Remuneration Committee and member appointed on 22 January 2020

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 a member of the Institute of Chartered Accountants ANZ and has a Masters of Entrepreneurship and Innovation from Swinburne University.

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

- Healius Ltd (November 2020 – current)
- Redbubble Limited (February 2018 – current)
- Bapcor Limited (September 2018 – current)
- Redflow Limited (December 2017 – September 2019)

\* Director profiles have been updated since publication of the Directors' Report as part of the Company's Appendix 4E on 22 October 2020

## DIRECTORS' REPORT

CONTINUED



### MR RICHARD C 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. He has held a number of general management roles including pharmacy distribution and business development, strategy, supply chain, franchise recruitment, IT, manufacturing and mergers and acquisitions.

Mr Vincent was a director of CH2 Holdings Pty Ltd from 2006 – 2015 and is currently the Chair of the National Pharmaceutical Services Association.



### MS JANINE ALLIS

Independent Non-executive Director  
appointed on 23 October 2020

Ms Allis is a successful businesswoman with extensive experience in retail and franchising. She founded Boost Juice Bars and the Retail Zoo group of food retail brands and has led innovation in digital marketing and customer engagement.

Ms Allis has won numerous retail and franchise awards and has been appointed an Ambassador to the United Nations High Commission for Refugees. She is currently a Non-executive Director of the Olivia Newton-John Foundation and was previously a director of the Hawthorn Football Club.

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

- Michael Hill International Limited (June 2016 – October 2020)

## RETIRED DIRECTORS

### MR MARK SMITH

Independent Non-executive Director  
appointed on 6 September 2017

Chair of the Board appointed on 24 January 2018

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

Mr Smith ceased to be a Director and Chair on 4 September 2020.

### MR ROBERT D MILLNER

Independent 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 ceased to be a Director and Committee Member on 9 July 2020.

### MR GERARD J MASTERS

Independent Non-executive Director  
appointed on 7 September 2010

Member – Nomination Committee  
appointed on 15 August 2012

Chair – Remuneration Committee  
appointed on 30 January 2014

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

Mr Masters ceased to be a Director and Committee Member on 22 January 2020.

## DIRECTORS' REPORT

CONTINUED

### COMPANY SECRETARY

Ms Anne Mustow, B.Com., LLB, GAICD, Grad. Dip. Applied Finance, has been Company Secretary and General Counsel since 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 two not for profit organisations.

### DIRECTORS' MEETINGS

The number of Board and Board Committee meetings held and attended by each of the Directors who are members of them during the financial year are listed below. In addition, Directors who are not members of Board Committees are invited to all Committee meetings and attend Committee meetings from time to time, with the Chair and the CEO and Managing Director attending most Committee meetings by invitation.

Director	Board		Audit and Risk		Remuneration		Nomination	
	Held <sup>(i)</sup>	Attended	Held <sup>(i)</sup>	Attended	Held <sup>(i)</sup>	Attended	Held <sup>(i)</sup>	Attended
Mr Kenneth W Gunderson-Briggs	14	14	7	7	4	4	–	–
Ms Lee Ausburn <sup>(ii)</sup>	14	14	7	7	2	2	1	1
Ms Jennifer Macdonald <sup>(iii)</sup>	14	14	7	7	2	2	–	–
Mr Richard C Vincent	14	14	–	–	–	–	–	–
<b>Retired Directors</b>								
Mr Mark Smith <sup>(iv)</sup>	14	13	–	–	–	–	–	–
Mr Robert Millner <sup>(v)</sup>	12	12	–	–	2	2	1	1
Mr Gerard J Masters <sup>(vi)</sup>	6	5	–	–	2	2	1	1

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

(ii) Appointed Remuneration Committee member on 3 August 2020

(iii) Appointed Remuneration Committee Chair and member on 22 January 2020

(iv) Ceased to be a Director and Chair on 4 September 2020

(v) Ceased to be a Director on 9 July 2020

(vi) Ceased to be a Director on 22 January 2020



## DIRECTORS' REPORT

CONTINUED

### OPERATING AND FINANCIAL REVIEW

The Directors are pleased to present their report, together with the financial statements.

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

- Underlying NPAT
- Underlying EBITDA
- Total network register sales (including dispensary)
- Cash Conversion Days
- Revenue excluding Hepatitis C Medicine; and
- Cost of Doing Business (CODB) (excluding Hepatitis C Medicine)

The Directors are of the view that these non-statutory measures provide useful information to allow shareholders to understand the financial performance of the Company, but should not be considered as an indication of, or substitution for reported information. These non-statutory measures have not been audited or reviewed in accordance with Australian Auditing Standards.

#### Principal Activities

The principal activities of the Group during the year were the wholesale distribution of pharmaceutical goods to pharmacies, retail services to pharmacies, 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, and the provision of non-invasive aesthetic beauty services and the sale of beauty products through the Clear Skincare network of clinics in Australia and New Zealand. In addition, Clear Skincare manufactured beauty products in Australia and the Group manufactured pharmaceutical and toiletry goods in New Zealand for distribution to the New Zealand, Australian and Asian markets. There have been no significant changes in the nature of the principal activities during the year.

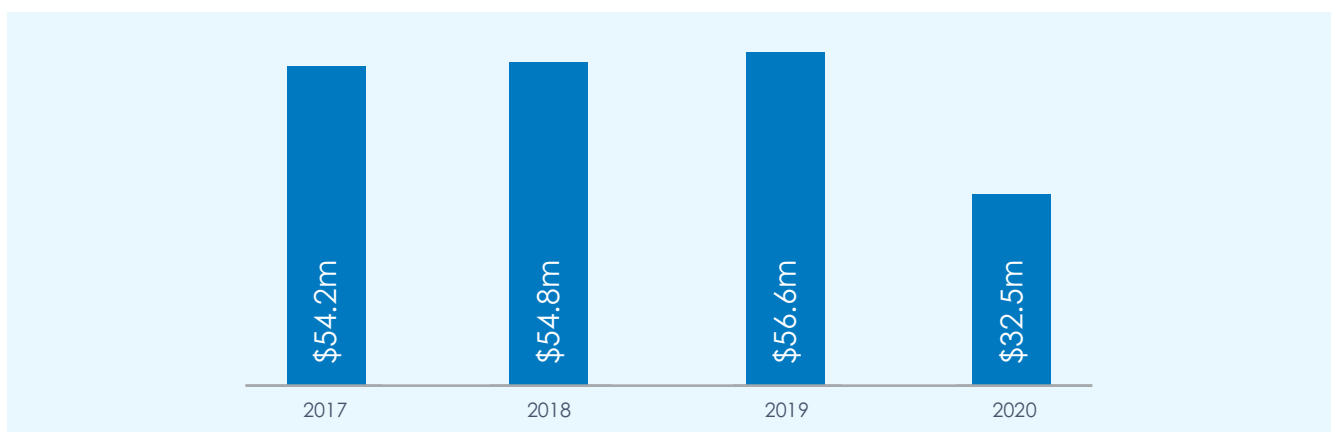
### FINANCIAL PERFORMANCE

#### Financial highlights versus prior year



#### Company Growth

##### Underlying NPAT\* (\$'m)



\* FY20 excludes AASB16

## DIRECTORS' REPORT

CONTINUED

Consolidated \$'000	FY2019	FY2020	Change
Revenue*	3,878,859	3,940,683	1.6%
Gross Profit*	517,540	473,910	(8.4%)
Operating Expenses**	451,784	487,753	8.0%
Reported EBITDA**	123,115	32,215	(73.8%)
Underlying EBITDA**	123,115	87,334	(29.1%)
Reported NPAT	56,577	(7,937)	(114.0%)
Underlying NPAT**	55,109	32,468	(42.6%)

\* Reported on an ex Hepatitis C Medicine basis

\*\* FY2020 Normalised for AASB16

Our Financial Performance has been impacted by two crises this year, the bushfires in the Eastern States and more significantly the COVID-19 pandemic. COVID-19 resulted in changes in demand which were experienced by all of our businesses and it particularly impacted negatively upon Priceline, Priceline Pharmacy and Clear Skincare. The COVID-19 lockdown regulations resulted in temporary store and clinic closures which in turn resulted in reduced revenue for these businesses. We also incurred costs associated with COVID-19 responses which are included in our Underlying adjustment, and the Clear Skincare business received COVID-19 support and assistance which partly subsidised staff costs when Clear Skincare clinics were temporarily closed.

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



The Group's revenue excluding Hepatitis C Medicine<sup>(i)</sup> was \$3.9 billion representing a 1.6% increase on prior year. This increase reflects the resilience of our businesses despite the negative impact during the year of two

(i) Hepatitis C medicine sales are excluded due to its very high cost and inconsequential profit contribution.

crises – the bushfires in the Eastern States in the first half of the financial year and COVID-19 in the second half of the year which resulted in temporary closures of all Clear Skincare clinics at different times and 22 Priceline stores were temporarily closed in Victoria as a result of lockdown restrictions. Despite the significant impact of these crises, Pharmacy Distribution revenue was \$2.9 billion (excluding Hepatitis C Medicine), up 6.4% on prior year. Priceline and Priceline Pharmacy recorded a decline in total network register sales<sup>(ii)</sup> by 5.2% on the prior year and Clear Skincare revenue was \$40.3 million, down 11.7% on prior year reflecting particularly the impact of COVID-19. The Priceline and Priceline Pharmacy store network reduced by a net 14 stores to 474 as a result of the closure of stores including ones in central business district locations in larger cities that had been adversely impacted by the move to working from home. The closure of these stores has resulted in an optimised network that we believe is positioned to grow. Clear Skincare increased by 15 clinics to 67 at year end and it also has a strong growth pipeline.

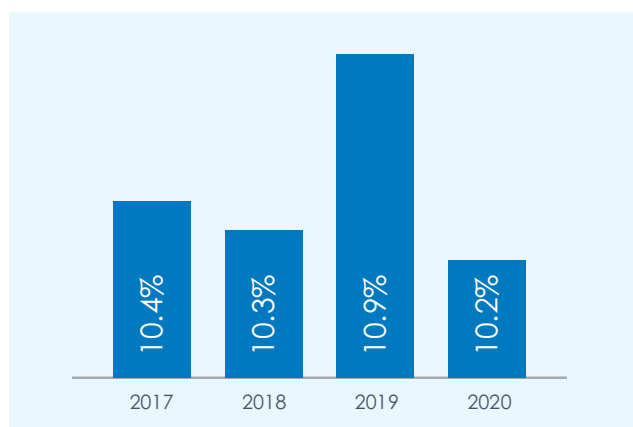
(ii) Register sales do not form part of the sales of the Group.

## DIRECTORS' REPORT

CONTINUED

The Group's CODB<sup>(iii)</sup> has reduced significantly this year as a result of our focus on driving efficiencies through the business. When comparing the past four years and noting that 2017 and 2018 were prior to the inclusion of Clear Skincare which had driven this metric up, CODB has remained consistently low reflecting a strong focus on cost management. In FY20 we continued our focus on building a strong operating platform for future growth. We have closed 2 Distribution Centres which will permanently reduce costs and we have undertaken a reorganisation that will also deliver ongoing cost savings.

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



(iii) CODB includes warehousing, distribution, marketing, sales, administration, and general expenses excluding depreciation and is a percent of Revenue

\* FY20 Normalised for AASB16

## OPERATING PERFORMANCE

### Priceline and Priceline Pharmacy

Priceline and Priceline Pharmacy recorded a reduction in total network register sales (including dispensary) of 5.2% to \$2.1 billion. Of note is that 'register' sales made by franchisees do not form part of the financial results of API Ltd. During the past 12 months the bushfires in the southern states followed by COVID-19 had a significant impact upon revenue in this business. Despite these setbacks the Priceline and Priceline Pharmacy teams have remained focused on the following achievements:

- The Priceline Sister Club loyalty program remains one of the leading health and beauty membership programs and largest programs by membership in Australia. The program was relaunched with a new structure and benefits for Sister Club members. We now have tiered member levels that reward our high margin and loyal customers, and we are tracking customer behaviour closely with active customer management and more targeted marketing;

- The Priceline online store has proven to be successful. Our omni channel ecommerce includes Click and Collect from store and Click and Deliver to our customer from our stores which take advantage of our significant national network. Our online orders are despatched to customers, on average, inside 20 hours;
- Priceline launched a new brand belief – 'We believe people only feel better when they feel they matter'. This is the Priceline story, and it will inform everything from how Priceline interacts with customers, the products it ranges and the way it presents to the market. This increased customer insight will drive a step-change enhancement in customer service and customer engagement; and
- The Priceline store network was optimised by taking swift action to close stores during the year including company owned non-pharmacy stores in CBD locations in response to structural changes resulting from customers working from home. We had 474 stores at year end, a net reduction of 14 stores over the year. The business is positioned to grow the franchise network over the coming year with a strong pipeline of new stores in place and pharmacists continuing to join the network.

We expect the result of these significant achievements over the year place Priceline and Priceline Pharmacy in a strong position for continued growth.

### Pharmacy Distribution

Pharmacy Distribution revenue was \$3.0 billion, a 3.9% increase on prior year. Excluding Hepatitis C Medicine, overall reported sales growth was 6.1%. This is a strong result in the current environment. The business grew independent accounts as well as adding a number of large pharmacy groups, demonstrating strong pharmacy advocacy driven by the sales support API provides and the retail programs offered by API that are tailored to suit the individual business needs of our customers.

During the second half of the year, the 7th Community Pharmacy Agreement (7CPA) was agreed and it commenced on 1 July 2020 for five years. This agreement provides increased funding and certainty of funding for the Community Services Obligation pool (CSO) participants, including API, for four years and certainty of funding for our community pharmacies which are core to our business. The 7CPA resulted in the CSO funding pool increasing with the potential for additional distribution revenue per unit for API that will defray ongoing costs. A floor price was introduced, amongst a number of other positive changes.



## DIRECTORS' REPORT

CONTINUED

### Clear Skincare

Clear Skincare revenue was \$40.3 million, a decrease of 11.7% on prior year. This decrease reflects the impact of mandated COVID-19 closures in Australia and New Zealand that meant that at some stage during the year all clinics were temporarily closed. Clear Skincare was eligible for COVID-19 support and assistance totalling \$3.8 million which partially offset the cost of the clinic staff that were unable to work when their clinics were temporarily closed.

Clear Skincare continued its rapid growth phase with an increase of 15 clinics for the year reaching a total of 67. This represents an increase of 23 clinics since the business was purchased in 2018. Taking advantage of the temporary clinic closures during the year the business launched 'Clear Skincare @home' online site that resulted in an increase in Clear Skincare online products sales. In addition, Clear Skincare relocated five clinics to improved locations and maintained a focus on safety and efficiency by implementing new COVID-19 safe procedures. Clear Skincare also added two new higher margin skin treatments to its product range; Skin Pen and HydraFacial, with these treatments expected to grow Clear Skincare's margin.

### API Consumer Brands

New Zealand manufacturing segment revenue was \$63.3 million, an 18.3% decrease on prior year. COVID-19 impacted negatively on this business primarily as a result of reduced access to raw materials, resulting in lost revenue. The business sources a significant amount of raw material from China and India and these avenues were restricted at times during the year. Despite these setbacks the business increased its range of products particularly in generics and skincare and now produces over 590 products up from 370 last year. During the year it produced half a million units of hand sanitiser with sales of sanitiser for the New Zealand market.

### Underlying adjustments

We have written down our Soul Pattinson brand name, a reduction before tax of \$37.5 million. There were 43 Soul Pattinson stores in the network at year end and it is expected that the store numbers will remain at around the current level, with these stores suited to their respective locations and trading well. We do not intend to grow the Soul Pattinson network further which has resulted in this write down. We have 1,505 members in all of our pharmacy programs, an increase of 42 stores on prior year, and our focus will be on growing this combined network.

In addition, we have restructuring and reorganisation underlying adjustments totalling \$17.6 million before tax and these include costs associated with COVID-19 safety and compliance, the cost of Priceline store closures, the cost of closing two Distribution Centres and other restructuring costs.

### Response to COVID-19

API continues to benefit from its efficient national distribution network, the non-discretionary nature of a significant portion of its sales and efficient working capital and this has been evident throughout COVID-19. Our approach to COVID-19 and the impact thereof is as follows:

1. Focus on safety and support; our first priority was and remains the safety of our staff, franchise partners and our customers. We introduced appropriate safety measures in our Priceline stores, Clear Skincare clinics, Distribution Centres, our manufacturing sites and in our offices. While distribution is an essential service and people needed to work on site, some support areas worked from home and this was implemented effectively. We added appropriate assistance and leave arrangements for our staff to support their wellbeing. Our staff engagement increased over the year and this reflects the success of these programs to ensure our staff are safe and well.
2. Responded to changes in customer demand; Pharmacy Distribution, Priceline and Priceline Pharmacy experienced unprecedented demand at the onset of COVID-19 as consumers brought forward spend in pharmaceutical and over the counter products. These businesses experienced a slow-down in demand in subsequent months and both Priceline company stores, and Clear Skincare clinics experienced temporary store and clinic closures. We took the opportunity to restructure our Priceline business, continue with our cost reengineering program and further improve our balance sheet and cash position.
3. Accelerated digital capabilities; we have focussed on customer loyalty, digital personalisation and omni channel e-Commerce which allows our customer to decide when and how they interact with us. The pandemic reinforced the importance of our approach and we accelerated the roll out of Click and Deliver, adding to our existing Click and Collect offering, which enables online orders to be delivered to our customer from their closest store which shortens our despatch times. We upgraded our Clear Skincare online store and launched our at home products.
4. During the year we further strengthened the Balance Sheet; this allowed us the capacity and agility to grow organically and inorganically. This has positioned us well to respond to COVID-19. Our Net Debt at \$18.0 million has improved by \$181.1 million over the year and this places us to grow in the year ahead.

## DIRECTORS' REPORT

CONTINUED

### FINANCIAL POSITION

The Company reported a net debt position of \$18.0 million, compared to \$199.1 million in prior year reflecting the success of an Inventory optimisation program that introduced world leading Artificial Intelligence machine learning to optimise inventory ordering based on current customer behaviour and buyer data. This program has driven permanent cost savings for API combined with the sale of Sigma shares in the first half and working capital improvement reducing inventory levels by \$45.1 million in addition to further improvements in Debtor and Creditor management. Net cash conversion days was 16.8 days reflecting a strong focus on working capital management. The Company is currently operating comfortably within the Group's debt finance facility limits and associated banking covenants.

Our re-engineered Balance Sheet has sufficient capacity to allow us to self-fund the Sydney Distribution Centre development fitout, with a spend in the order of \$50.0 million with the majority of the spend in our 2022 financial year. We have recently signed contracts with the developer and construction is expected to commence later this year.

The capital expenditure for the year was \$40.0 million, a \$4.3 million increase on prior year reflecting an increase of 15 Clear Skincare clinics compared to an increase of 8 clinics in the prior year, and spend on business growth projects including new product development in Consumer Brands.

Recognising a strong underlying performance and strong cash generation despite the impact of COVID-19, the Board has decided to pay a fully franked final dividend of 2.0 cents per share fully franked.

### BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

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

To ensure that API's business strategies remain relevant and market leading, the Company's Board performs a regular review of the short and long term overall strategy and strategic initiatives. The Board reviews and approves the Company's strategic goals and supporting initiatives across all business units and functions and particularly recently in light of the social and economic changes that have and will arise as a result of COVID-19.

Our Vision is 'Enriching Life' and our ways of working are be well, show you care, make it better, act now. The overall business strategies relating to this Vision and which are relevant to the Company's future financial position and performance are set out below.

### Strategy Map

BUILDING FINANCIAL STRENGTH  
**6. CREATING VALUE FOR OUR SHAREHOLDERS**

DELIGHTING OUR CUSTOMERS  
**5. OUR HIGHLY VALUED CUSTOMER EXPERIENCE**

WHAT WE DO  
**4. UNCOMPROMISING EXECUTION EXCELLENCE**  
**3. THE MOST COMPELLING OFFER FOR OUR PARTNERS**

THE WAY WE WORK  
**2. VALUES DRIVEN, INSIGHT & INNOVATION ENABLED**  
**1. A SAFER PLACE TO WORK EVERYDAY**

ENRICHING  
**LIFE**

Be **Well** • Show You **Care** • Make It **Better** • Act **Now**

## DIRECTORS' REPORT

CONTINUED

By applying these strategic goals to the Company's business plans, there is a continued emphasis on capitalising on the strengths of the Company, particularly in the health and beauty retail market and in non-invasive skin treatments, while maintaining the Group's strong national community pharmacy wholesale distribution business. This means the Company intends to continue 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 reforms, leverage retail and pharmacy expertise and drive further growth from integrated dispensary and retail programs;
- build loyalty, increase engagement with 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 driving scale for Pharmacy Distribution;
- provide consistent, valued, and measurable service improvement to all customers and suppliers;
- drive continuous improvement and cost savings through our Supply Chain;
- grow our Clear Skincare offer to customers, both through opening clinics and offering new products and services;
- continue to innovate and optimise our Consumer Brands manufacturing business;
- optimise the value of our business portfolio with a focus on our retail businesses through investment, divestment, and acquisition;
- be at the forefront of health, beauty and wellbeing industry trends, insights and innovation and use customer insights to drive connectivity of health and beauty offerings;
- enrich the community by active support of our Sisterhood Foundation;
- continually enhance our employees experience and wellbeing, and promote an environment to generate, prioritise and execute innovation; and
- improve our sustainability activities including but not limited to safety performance.

Certain strategic information has been omitted from this Report because its inclusion would be likely to result in material prejudice to the Group.

### 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 which 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 the current controls which are in place to manage identified risks.

The results of these reviews are provided to the Audit and Risk Committee for its consideration and for it to make recommendations to the Board. The most recent update was provided to the Audit and Risk Committee in respect of the Group's risk profile and risk management plans in August 2020.

The COVID-19 pandemic has impacted all areas of the business over the second half of the financial year. The recently completed risk assessment has considered all material risks for the Group arising from the pandemic with robust strategies and action plans developed to address them.

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

## DIRECTORS' REPORT

CONTINUED

### Risk

### How the risk is addressed by the Group

#### Structural reforms within the Australian community pharmacy sector

This relates to the risk of unfavourable Government reforms and changes in Government initiatives, regulation and legislation (including, for example, changes to the PBS).

The Group works to minimise any adverse commercial impacts and responds where appropriate. Responsive strategies may include a combination of adjusted discounts to pharmacy customers and operational changes. The Group also closely monitors costs associated with complying with its Community Service Obligation. Additional funding has been secured through 7CPA negotiation.

#### Ongoing competitor threats

There is a risk that the Group is exposed to significant existing and/or new competitors in the Australian pharmacy, retail, health and beauty markets.

API continues to focus on its customer value proposition. It leverages the market leading Priceline offer, including, for example, further personalisation of offers to Priceline Sister Club members, offer new and exclusive products and continue to ensure it provides high quality and innovative services to customers.

#### Continuity of supply

There is a risk that the Group is exposed to substantial supply chain disruption, as has been experienced during the COVID-19 pandemic.

API is focussed on negotiating and securing robust supply agreements with appropriate due diligence and negotiation processes. Effective relationships are maintained with key suppliers, both domestic and international, to minimise supply chain disruptions and where appropriate, alternate sources of supply are explored.

#### Cyber security and IT systems failure

There is a risk that the Group's IT systems are compromised by third party actions. The risks include customer privacy breaches and major IT system failures which adversely impact the ability of the Group to conduct business.

The Group performs regular reviews of all security configurations aligned with current industry standards. There is regular security testing across the entire IT landscape and protocols in place for regular monitoring and reporting.

#### Financial risk

The Group is exposed to a number of financial risks including customer payment defaults, financial guarantees supporting pharmacy customers and the risk of general retail trading conditions impacting revenue.

The Group adopts a financial risk management program which seeks to minimise potential adverse impacts on the financial performance of the Group.

#### Professional services and products

There is a risk that customers are exposed to inappropriate treatments, service delivery or unsafe products.

The Group has governance and compliance management structures and standards in place that aim for continuous improvement. The supporting compliance 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

### OTHER MATTERS

#### SUSTAINABILITY

This year, the Group has prepared a more comprehensive Sustainability Report which may be downloaded from the API website <https://www.api.net.au/investor/annual-reports/>.

In summary, during the year, the Group introduced its new Sustainability Vision and updated its Sustainability Principles. The Sustainability Vision and Principles align with the Group's Vision of "Enriching Life" and reflect its corporate culture.



The Sustainability Committee coordinates the management of sustainability risks and benefits. It comprises senior executives from across the Group and is chaired by the CEO & Managing Director. The Board, through the Audit and Risk Committee, has oversight of Sustainability.

#### Sustainable choices in action

Whilst the year has been tumultuous in respect of the bushfires and the COVID-19 pandemic, there are three particular highlights which reflect the Group's Sustainability Principles: Priceline stores raising \$241,000 for bushfire relief; adding more than \$1 million to our tally of support for the Priceline Sisterhood Foundation; and the Group's response to the COVID-19 pandemic.

The importance of the Group's role from the wider community's perspective, has remained front and centre of the Group's decision-making during the COVID-19 pandemic; prioritising communities and people, to enable and support them.

## DIRECTORS' REPORT

CONTINUED

### Environmental performance

The Group has further progressed its management of environmental risk during the year. There has been no known noncompliance with environmental laws or action taken against any part of the Group by environmental regulators. A number of initiatives were undertaken during the financial year to reduce our impact on the environment, including:

- installation of LED lighting
- "paperless" initiatives
- a focus on plastic reduction and
- making various environmentally-friendly decisions relating to the design of the new Sydney distribution centre.

Also, climate change risk is monitored as part of the Group's risk management framework.

These matters are described in more detail in the API 2020 Sustainability Report.

### INSURANCE AND INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the year, the Company paid a premium in respect of a contract insuring the Directors and officers against 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 of 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 as an officer of the Company;
- b) for legal costs incurred by the Director in defending proceedings for a liability incurred as an officer of the Company, or in seeking relief from that liability under applicable law; and
- c) for any liability for legal costs incurred by the Director in connection with legal proceedings of a Government or Regulatory authority which is brought against the Director because of their present or former capacity as 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 the changes resulting from the COVID-19 pandemic, including many employees working from home and some permanent closure of Priceline stores and temporary closures of Priceline and Clear Skincare stores during the pandemic.

### SUBSEQUENT EVENTS

On 1 September 2020, the Group paid \$32.9m to the minority shareholders of the Clear Skincare business to increase the ownership in this business from 50.2% to 75.2%. This acquisition was agreed as part of the original acquisition of Clear Skincare in 2018 and further details are included in Note 25 to the Financial Report. Subsequent to year-end, investment in the Group's distribution network continued with operations scheduled to commence at a new Distribution Centre in Sydney (New South Wales) in 2022.

Details of the final dividend, which the Board resolved after the balance date to propose to pay, is set out in Note 7 to 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.

## DIRECTORS' REPORT

CONTINUED

### DIVIDENDS

A dividend was paid by the Company during the year ended 31 August 2020 in respect of the year ended 31 August 2019. This payment was made on 12 December 2019. The dividend was at the rate of 4.0 cents per share, fully franked and totalled \$19.7 million.

No interim dividend was paid by the Company in respect of half year ended 29 February 2020.

### 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.

### NON-AUDIT SERVICES

During the year KPMG, auditors of the Group, have performed some non-audit services.

The Board has considered the non-audit services provided during the year by the auditor. In accordance with written advice provided and endorsed by resolution of the Audit and Risk Committee, the Board 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, for audit and non-audit services provided during the year are set out in Note 23 to the Financial Report.

The Board, through the Audit & Risk Committee, 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 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 35 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 21 October 2020

Signed in accordance with a resolution of the Directors:



**Kenneth W Gunderson-Briggs**  
Interim Chair

## DIRECTORS' REPORT

CONTINUED

### REMUNERATION REPORT

Dear Shareholder,

On behalf of the Board, I am pleased to present the Remuneration Report for the year ended 31 August 2020 (FY20).

The FY20 financial year has presented unprecedented challenges for the Group and the global community more broadly. The COVID-19 pandemic compounded with the devastating bushfires and wide-spread drought in Australia has resulted in significant health, environmental and economic consequences. As an essential service provider in Australia's medicines supply chain, API has been at the forefront in responding to these challenges by supporting community pharmacies and providing critical services.

As the COVID-19 pandemic began to develop, the management team worked with the Australian Government and our industry to ensure community pharmacies were able to continue to operate and distribute medicine. We have worked hard with pharmacies and with landlords to try and minimise the financial pain inflicted by the pandemic. We have provided flexibility to our business partners to allow them to better cope with the pandemic, including reducing franchise fees for a number of franchisees and assisting some with their rental obligations. Paramount to this was the safety of all our staff, partners and customers.

Like many companies, these challenges have had a financial impact on the FY20 results of the Group. The various State governments mandated COVID-19 lockdown regulations resulting in temporary Priceline store and Clear Skincare clinic closures and costs incurred with managing the COVID-19 response have resulted in a decrease in FY20 earnings. In addition, and to ensure that we emerged from these challenges in a strong position and to drive growth for the future, we restructured the business and incurred one-off costs associated with this. The challenges experienced in FY20 have had an impact on remuneration and this Report describes the way in which Directors and Executives have been remunerated.

#### SUMMARY OF REMUNERATION MATTERS FOR FY20

The following is a summary of the matters impacting the Group's remuneration structure and strategy:

- there have been no changes to the Short Term Incentive Plan (STIP) or the Long Term Incentive Plan (LTIP) measures or opportunities during the financial year;
- the NPAT of the Group for FY20 did not meet the minimum gateway requirements for any STIP payments. Accordingly, no Executive KMP will receive an STI award in respect of FY20. The internal forecast in February, prior to the onset of the COVID-19 pandemic, indicated that the FY20 NPAT gate was likely to be achieved however the Board has elected not to apply discretion to pay any KMP executive an amount under the FY20 STIP;
- the three-year performance period for the 2017 LTIP ended on 31 August 2020. Vesting of the 2017 LTIP performance rights was subject to meeting the cumulative ROE and EPS CAGR performance conditions. Whilst consideration was given to the impact of the COVID-19 pandemic on the financial performance of the Group, there was no vesting of an award under the 2017 LTIP;
- as flagged in previous reports an independent review of market data had shown Board fees to be well below market median. As a result, the Board decided to implement increases to align with market median over a two year period. The second year of the Board fee adjustments were completed in January 2020, prior to the COVID-19 pandemic, details are provided in Section 3 of this Report. There will be no changes to Non-Executive Director fees (including Committee fees) in FY21; and
- separately, a discretionary bonus of \$100,000 paid to the CEO and \$50,000 to the CFO in November 2019 pertaining to strategic initiatives undertaken in FY19.

#### EXECUTIVE REWARDS FOR FY21 AND BEYOND

The Group's executive remuneration and reward structure has been unchanged for many years. Accordingly, in FY21 a full review of the structure will be undertaken to ensure that it continues to:

- align with current contemporary thinking around reward and remuneration;
- support our business objectives;
- be market competitive and sustainable; and
- align with shareholders interests.

We thank you for your support in FY20.

Yours sincerely



**Jenny Macdonald**  
Chair of the Remuneration Committee



## DIRECTORS' REPORT

CONTINUED

### REMUNERATION REPORT - AUDITED

This Report explains the processes used in remuneration decisions and the outcomes of remuneration decisions for KMP for FY20 and is prepared in accordance with Section 300A of the *Corporations Act 2001* (as amended) for the Company and its subsidiaries.

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

This Remuneration Report is in sections as follows:

#### Section 1 Overview of Remuneration Reporting and Governance

- 1.1 Key Management Personnel
- 1.2 Non-executive Director Key Management Personnel
- 1.3 Executive Key Management Personnel
- 1.4 Remuneration Governance

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

- 2.1 Policy and Principles
- 2.2 Remuneration Structure
- 2.3 Short Term Incentive Plan (STIP)
- 2.4 Long Term Incentive Plan (LTIP)
- 2.5 Employment Contracts
- 2.6 Remuneration of Executive KMP

#### Section 3 Non-executive Director KMP Remuneration

- 3.1 Policy and Principles
- 3.2 Remuneration of Non-executive Director KMP

#### Section 4 Other matters required by Section 300A Corporations Act 2001

- 4.1 Movement in shares held by the KMP
- 4.2 Earnings and Consequences of Performance on Shareholders' Wealth
- 4.3 Comments on Remuneration Report at the most recent Annual General Meeting (AGM) of the Company
- 4.4 Related party transactions

### SECTION 1 OVERVIEW OF REMUNERATION REPORTING AND GOVERNANCE

#### 1.1 Key Management Personnel

As defined under AASB124, KMP have the authority and responsibility for planning, directing and controlling the activities of the Group. At API they are:

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

#### 1.2 Non-executive Director Key Management Personnel

Mark Smith	Chair (ceased 4 September 2020)
Lee Ausburn	Director
Gerard Masters	Director (ceased 22 January 2020)
Robert Millner	Director (ceased 9 July 2020)
Kenneth Gunderson-Briggs	Director (Interim Chair from 4 September 2020)
Jennifer Macdonald	Director

#### 1.3 Executive Key Management Personnel

Richard Vincent	CEO and Managing Director
Peter Mendo	Chief Financial Officer

#### 1.4 Remuneration Governance

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 issues and practices relating to remuneration and reward and to make 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. The Charter has recently been amended to reflect the inclusion of succession planning and oversight of corporate culture in the scope of the Remuneration Committee's work.

## DIRECTORS' REPORT

CONTINUED

Membership of the Remuneration Committee consists of Non-executive Directors. During the year members of the Remuneration Committee were Mr Gerard Masters, Mr Robert Millner, Mr Kenneth Gunderson-Briggs, Ms Jennifer Macdonald and Ms Lee Ausburn. Ms Macdonald was appointed as Chair of the Remuneration Committee following Mr Masters' retirement, and Ms Ausburn was appointed to the Committee following Mr Millner's resignation.

### Engagement of Remuneration Consultants

While the Remuneration Committee seeks external advice from advisers who are independent of management on 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 2020.

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

### 2.1 Policy and Principles

The policy of the Board for determining Executive KMP remuneration is to:

- offer a remuneration structure that will attract, focus, retain and reward highly capable people;
- ensure that remuneration takes into account a fair and transparent job evaluation processes which are linked to comparable market data and relevant experience of the employee;
- clearly and transparently link performance with remuneration outcomes;
- encourage and integrate appropriate risk management within the reward framework;
- build employee engagement;
- ensure total remuneration is competitive by market standards; and
- align management and shareholder interests through the ownership of Company shares.

Executive KMP remuneration is determined having regard to the nature of the Executive KMP's position, benchmarking data and the performance of the individual.

The policy referred to above is linked to performance of the Company through the total remuneration of each Executive KMP incorporating variable "at risk" elements to link reward with the achievement of business objectives and financial performance (including earnings) of the Group.

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

### 2.2 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 includes salary, fringe benefits, charges related to employee benefits (including motor vehicles) and employer contributions to superannuation funds.

Fixed remuneration levels are typically reviewed annually, each November, 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 from time to time to help 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 conditions and length of service requirements.

The Board has discretion in relation to the making of awards under the STIP and the LTIP, including discretion to cancel any unvested STIP Performance Rights in appropriate circumstances (for example, excessive risk taking, material misstatement of financial statements or fraudulent or gross misconduct).

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, noting that entering into such arrangements has also been prohibited by law since 1 July 2011.

## DIRECTORS' REPORT

CONTINUED

### 2.3 Short Term Incentive Plan (STIP)

The STIP is an annual incentive plan for Executives and certain other senior employees. The STIP is designed to reward 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 Group values and behaviours.

The aims of the STIP are to:

- provide a clear link between individual and organisational performance on the one hand and executive reward on the other;
- recognise individual, team and Group performance, and encourage collaboration between business units and functions;
- align the interests of executives; and
- drive a high performance leadership culture.

The STIP performance conditions have been determined to reflect these aims. 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 reflects Group performance as follows:

- 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 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.

The Board approves the performance conditions for the STIP pool each financial year, which includes the minimum financial performance that must be met, and the maximum amount of the STIP pool.

For FY20 the STIP performance-payout calibration was as follows:

- Minimum STIP pool = 90% of Group Performance Gateway; and
- Maximum STIP pool = 110% of Group Performance Gateway.

### STIP Payment and STIP Performance Rights

Fifty percent of any STIP awarded to the executive is paid in cash and fifty percent is provided in the form of STIP Performance Rights. STIP Performance Rights vest and can be converted for no consideration into fully paid ordinary shares in the Company on a one for one basis after a 12 month deferral period.

The number of STIP Performance Rights awarded is determined by dividing the value of fifty percent 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.

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

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.

### CEO and Managing Director

For FY20 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
- and a maximum payment of 100% of his fixed remuneration if 110% or more of NPAT Group Performance Gateway is achieved.

The CEO and Managing Director's eligibility criteria is determined by the Board each year and is drawn from financial measures such as NPAT 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.

## DIRECTORS' REPORT

CONTINUED

The performance measures and weightings for FY20 for the CEO and Managing Director's FY20 STIP award were:

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

The NPAT result for FY20 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.

Separately, a discretionary bonus of \$100,000 was paid in November 2019, pertaining to strategic initiatives undertaken in FY19.

### 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 a maximum payment of 40% of fixed remuneration if 110% or more of the Group Performance Gateway is achieved.

For each other Executive KMP, STIP award entitlement depends on the Executive's business unit meeting an EBIT measure (40% weighting), the Group meeting a ROCE measure (40% weighting) and the individual meeting all of certain key performance indicators (20% weighting) with the first two of these (the financial measures) having to be met before any STIP award 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 FY20 did not exceed 90% of the Group Performance Gateway and accordingly the Board did not approve a STIP award for other Executive KMP.

### 2.4 Long Term Incentive Plan (LTIP)

The LTIP provides for the grant of LTIP Performance Rights to eligible Executives to acquire fully paid ordinary shares in API for nil consideration, subject to LTIP Performance Conditions being satisfied. The Board is responsible for granting awards under the LTIP and for overseeing administration of the LTIP.

The key features and application of the LTIP are:

#### LTIP Offer

- LTIP Performance Rights are granted to participants 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 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;
- the maximum value of the LTIP awarded to Executive KMP is respectively:
  - CEO and Managing Director: 60% of Fixed Remuneration; and
  - other Executive KMP: 30% of Fixed Remuneration.
- In the case of the CEO and Managing Director LTIP Performance Rights are subject to shareholder approval at the Annual General Meeting and granted once approval is received.



## DIRECTORS' REPORT

CONTINUED

### LTIP Vesting subject to Performance Conditions and other Requirements

- LTIP Performance Rights vest upon the Board confirming that the LTIP Performance Conditions have been met and can then be converted for no consideration into fully paid ordinary shares in the Company on a one-for-one basis:
  - for offers made prior to September 2019 Performance Rights automatically convert to shares upon vesting;
  - for offers since September 2019, participants may elect to convert Performance Rights to shares during a permitted share trading window up until 5 years after vesting. Any Performance Rights not converted by that date will lapse. Upon vesting and conversion, the participant will receive a cash amount equivalent to the declared dividends paid during the performance period in respect of the relevant number of shares; and
  - no dividends are received by participants on unvested LTIP Performance Rights during the performance period.
- the LTIP Performance Conditions are tested at the end of the three year performance period. 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 in respect of the relevant number of shares;
- if the Performance Conditions are not fully met, the LTIP Performance Rights lapse proportionately to the extent to which they are met, in accordance with the weightings established at the time of grant;
- to enable shares to be delivered in accordance with the LTIP, the LTIP provides for API shares to be purchased on market on behalf of the participant or for new shares to be 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 not be re-tested. 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; and
- 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.

### Details of LTIP Performance Conditions

- The performance conditions for the 2017, 2018 and 2019 LTIPs include (i) a target measure of earnings per share (EPS) compound annual growth rate (CAGR) over the three year performance period; and (ii) the cumulative return on equity (ROE) achieved by the Group during the three year performance period, compared to the target ROE set by the Board for the same period (Target ROE).

Each of the two performance conditions (EPS and ROE) contribute equally to a LTIP award – in other words, 50% of the award is dependent on achievement against targets for the ROE metric, and 50% of the award is dependent on achievement against targets for the EPS metric.

- ROE is expressed as a percentage created by dividing NPAT for the relevant financial period by total shareholder equity for the relevant financial year. The ROE targets are cumulative and derived from the API Group corporate plan for the three years commencing at the beginning of the performance period. The ROE may be varied by the Board in its absolute discretion;
- the EPS performance condition compares the actual EPS CAGR achieved during the three-year performance period against the target EPS CAGR set by the Board. Target EPS CAGR is derived from the Corporate Plan for the three years commencing at the beginning of the performance period. The initial benchmark EPS that serves as the basis for calculating the CAGR, and the EPS from may be varied by the Board in its absolute discretion;
- a minimum and maximum target is set for each performance measure;
- the number of LTIP Performance Rights which will vest under each measure is based on the level of performance between the minimum and maximum target, with performance below the minimum resulting in no payout; performance at the minimum target delivering 20% of the maximum vesting for that measure; performance at the maximum delivering 100% of the maximum vesting for that measure; and performance between the minimum and maximum delivering between 20% and 100% vesting on a straight-line basis; 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, strategic business drivers and long term shareholder returns.

## DIRECTORS' REPORT

CONTINUED

Details of the performance conditions and offer parameters for each LTIP offers currently on foot are:

### 2017 LTIP offer

**Performance Period:** 1 September 2017 to 31 August 2020

**Shareholder approval for offer to the CEO and Managing Director:** Annual General Meeting 24 January 2018

The following are the performance results declared for the 2017 LTIP offer:

Performance Condition	Weighting	Targets		Result Achieved	% Vesting
		Min.	Max.		
ROE (cumulative)	50%	24.32%	39.52%	18.78%	0.0%
EPS CAGR <sup>(i)</sup>	50%	7.5%	10.0%	(153.20) <sup>(ii)</sup>	0.0%
Vesting Calibration		20%	100%		0.0%

(i) EPS starting point- 10.7 cents per share

(ii) Based on reported EPS.

the three-year performance period for the 2017 LTIP ended on 31 August 2020. Vesting of the 2017 LTIP performance rights was subject to meeting the cumulative ROE and EPS CAGR performance conditions. Whilst consideration was given to the impact of the COVID-19 pandemic on the financial performance of the Group, there was no vesting of an award under the 2017 LTIP;

### 2018 LTIP offer

**Performance Period:** 1 September 2018 to 31 August 2021

**Shareholder approval for offer to the CEO and Managing Director:** Annual General Meeting 23 January 2019

Performance Condition	Weighting	Targets	
		Min.	Max.
ROE (cumulative)	50%	32.96%	53.56%
EPS CAGR <sup>(i)</sup>	50%	7.5%	10.0%
Vesting Calibration		20%	100%

(i) EPS starting point – 9.8 cents per share

### 2019 LTIP offer

**Performance Period:** 1 September 2019 to 31 August 2022

**Shareholder approval for offer to the CEO and Managing Director:** Annual General Meeting 22 January 2020

Performance Condition	Weighting	Targets	
		Min.	Max.
ROE (cumulative)	50%	26.48%	43.03%
EPS CAGR <sup>(i)</sup>	50%	3.65%	5.92%
Vesting Calibration		20%	100%

(i) EPS starting point – 11.5 cents per share

## 2.5 Employment Contracts

The Company has entered into Executive Service Agreements ("**Agreements**") with Executive KMP. These Agreements outline the components of remuneration to be paid to the Executive KMP. 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.

## DIRECTORS' REPORT

CONTINUED

The employment conditions and remuneration of KMP are formalised in the Agreements. No fixed terms are specified in 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 an Executive KMP's employment in specified circumstances with immediate effect and no termination benefits will apply other than accrued entitlements.

### 2.6 Remuneration of Executive KMP

Details of the nature and amount of each major element of remuneration of each of the Executive KMP of the are as follows:

Year ended	Salary, fees and compensated absences <sup>(i)</sup>	Short-term cash profit sharing and other bonuses– STIP	Short-term cash profit sharing and other bonuses - other	Non-monetary benefits/other short-term employee benefits	Total	Post-employment Superannuation contributions	Other post-employment benefits- 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
	\$	\$			\$	\$	\$	\$	\$	\$	\$
<b>Mr R Vincent – CEO and Managing Director</b>											
31 August 2020	1,099,737	–	108,268 <sup>(iii)</sup>	–	<b>1,208,005</b>	21,118	28,164	–	–	45,373	<b>1,302,660</b>
31 August 2019	1,072,040	–	–	–	<b>1,072,040</b>	20,610	28,778	–	–	(152,809)	<b>968,619</b>
<b>Mr P Mendo – Chief Financial Officer</b>											
31 August 2020	488,963	–	52,597 <sup>(iv)</sup>	–	<b>541,560</b>	21,118	18,014	–	–	11,770	<b>592,462</b>
31 August 2019	478,833	–	–	–	<b>478,833</b>	20,610	12,459	–	–	(42,669)	<b>469,233</b>

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

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

(iii) Includes discretionary bonus awarded in November 2019 for FY19 performance related to recent strategic projects (\$100,000), dividend equivalent payment for 2016 LTIP Performance Rights vested (\$7,448) and employee service recognition award (\$820).

(iv) Dividend equivalent payment for 2016 LTIP Performance Rights vested (\$2,597), and payment in relation to living away from home expenses (\$50,000).

## DIRECTORS' REPORT

CONTINUED

	Proportion of remuneration performance related (%)	Value of rights as proportion of remuneration (%)
<b>Mr R Vincent – CEO and Managing Director</b>		
31 August 2020	11.8	3.5
31 August 2019	(15.8)	(15.8)
<b>Mr P Mendo – Chief Financial Officer</b>		
31 August 2020	10.9	2.0
31 August 2019	(9.1)	(9.1)

### Analysis of Performance Rights over Equity Instruments granted as Compensation (share based payments)

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

Executive	Tranche	Number	Fair value per right \$	Total value \$	Included in FY20 remuneration \$	As at the date of this Report	
						Vested %	Forfeited <sup>(i)</sup> %
<b>Richard C Vincent</b>							
	2017 LTIP	402,264	1.36	547,079	(89,356)	0.0%	0.0%
	2018 LTIP	416,954	1.17	487,836	(40,653)	0.0%	0.0%
	2019 LTIP <sup>(ii)</sup>	495,711	1.08	535,368	175,383	0.0%	0.0%
<b>Peter Mendo</b>							
	2017 LTIP	92,311	1.32	121,851	(19,902)	0.0%	0.0%
	2018 LTIP	95,218	1.26	119,975	(9,898)	0.0%	0.0%
	2019 LTIP <sup>(ii)</sup>	113,300	1.12	126,896	41,570	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.

(ii) The 2019 LTIP offer permits the recipient of Performance Rights which vest to elect the time of conversion of the Performance Rights into shares within a 5 year window.

### FY20 STIP Summary

No STIP awards were approved for FY19 or FY20 and therefore no STIP Performance Rights have been issued for those financial years.

### FY20 LTIP Summary

The Performance Conditions for the current LTIP Performance Rights offers on foot are outlined in section 1.4 of this Report.

The fair value of LTIP Performance Rights is determined in accordance with the requirements of AASB2: Share-Based Payment. These requirements invoke the Black Scholes valuation methodology, which takes account of the share price at the time of offer, the volatility of the share price, the performance period and a number of other factors.

The fair value of LTIP Performance Rights varies between the CEO and Managing Director on the one hand, and the other KMP on the other hand, due to the specific timing of the respective offers and the Group closing share price on the actual offer date. The LTIP offer to the CEO and Managing Director is not made until after the annual general meeting approving the relevant offer.

## DIRECTORS' REPORT

CONTINUED

Summary of the valuations of current LTIP Performance Rights:

Grant Date	Valuation of LTIP Performance Rights	
	CEO and Managing Director	Other KMP
2017	1.36	1.32
2018	1.17	1.26
2019	1.08	1.12

### 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 KMP	STIP Performance Rights			LTIP Performance Rights			Total held at the end of the year
	Held at the beginning of the year	Granted during the year	Vested during the year	Granted during the year <sup>(i)</sup>	Vested during the year	Other changes <sup>(ii)</sup>	
<b>Financial year 2020</b>							
Richard C Vincent	1,041,990	–	–	495,711	(35,465)	(187,307)	1,314,929
Peter Mendo	262,529	–	–	113,300	(11,940)	(63,060)	300,829

(i) Total KMP grants of 609,011 rights during the period over new issue shares were equal to 0.12% 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 convertible to shares.

## SECTION 3 NON-EXECUTIVE DIRECTOR KMP REMUNERATION

### 3.1 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 2020 was \$890,377, an increase of 1.9% over those paid in FY19. This total excludes the \$170,040 retirement benefit paid to Mr Robert Millner under the Directors' Retirement Scheme (details below).

The Board's policy for remuneration of Non-executive Directors is that it will be determined having regard to non-executive director remuneration benchmarking data (which the Group typically procures biennially), the need to attract and retain appropriately qualified Directors, fee levels applied in companies of similar financial size (total and net assets, revenue, EBITDA and market capitalisation) and business operations, and Board judgement as to whether any adjustments are appropriate. Due to the impact of the COVID-19 pandemic, no increases in Board chair or member fees are planned for FY2021. Non-executive Directors do not receive performance related remuneration.

As reported to shareholders in recent years, independent remuneration benchmarking since 2012 has regularly shown the Group's Board fees to be well below the median of fees paid by comparable companies. The most recent independent review (conducted in 2018) reported that fees were below the 10th percentile for a peer group of comparable companies, and around 25% below the median of fees paid by this peer group. Based on these findings the Board approved an increase of fees in 2019 and 2020 in order to align remuneration with the median of fees for that peer group. The final adjustment was made with effect from 1 January 2020, prior to the COVID-19 pandemic.

The Board considers that market competitive fees are necessary in order to attract and retain high calibre Non-executive Directors.

Under the Directors' Retirement Scheme, which was approved by Shareholders at the 1994 AGM, retiring Non-executive Directors are paid on a pro-rata basis up to ten (10) years' service to a maximum of three (3) times the average annual remuneration in the three (3) years preceding retirement. The retirement benefit is capped at \$220,000 per Director and applies only to Directors appointed prior to 9 September 2003. The Directors agreed to freeze this benefit as at 31 August 2009. Mr Robert Millner was the only Director eligible under the Scheme and with his departure, and payment of his entitlement, the Directors' Retirement Scheme is no longer in operation.



## DIRECTORS' REPORT

CONTINUED

Annual Non-executive Directors fees (including superannuation) are as follows, with effect from 1 January 2020:

Role	Annual Fee
Board Chair (including Interim Chair)	\$311,327
Board Member	\$127,855
Audit and Risk Committee Chair	\$35,000
Audit and Risk Committee Member	\$8,700
Remuneration Committee Chair	\$17,398
Remuneration Committee Member	\$8,700
Nomination Committee Chair	(no fee)
Nomination Committee Member	(no fee)

The Board Chair does not receive Committee fees, although the Interim Chair will receive both Chair and relevant Committee fees since Mr Gunderson-Briggs is continuing as an active member of his current Committees, in conjunction with the additional duties as Interim Chair.

### 3.2 Remuneration of Non-executive Director KMP

Name	Year	Short term benefits (\$)	Post-employment benefits (\$)		Total Remuneration (\$)
		Director fees	Other post-employment benefits	Superannuation benefits	
Mark Smith	2020	<b>286,146</b>	–	<b>7,001</b>	<b>293,147</b>
	2019	223,034	–	20,021	243,055
Robert D Millner <sup>(i)</sup>	2020	<b>101,286</b>	<b>170,040<sup>(ii)</sup></b>	<b>9,622</b>	<b>280,949</b>
	2019	101,363	–	9,630	110,993
Lee Ausburn	2020	<b>119,608</b>	–	<b>11,363</b>	<b>130,971</b>
	2019	101,363	–	9,630	110,993
Gerard J Masters <sup>(iii)</sup>	2020	<b>46,072</b>	–	<b>4,377</b>	<b>50,449</b>
	2019	109,019	–	10,359	119,378
Ken Gunderson-Briggs <sup>(iv)</sup>	2020	<b>150,420</b>	–	<b>14,290</b>	<b>164,710</b>
	2019	162,620	–	15,449	178,069
Jennifer Macdonald	2020	<b>128,185</b>	–	<b>12,008</b>	<b>140,193</b>
	2019	101,363	–	9,630	110,993
TOTAL	2020				<b>1,060,419<sup>(v)</sup></b>
	2019				873,481

(i) For the period 1 September 2019 until 9 July 2020.

(ii) Entitlement under the Directors' Retirement Scheme, amount is reported due to the Director's departure during FY20; however payment was made after 31 August 2020.

(iii) For the period 1 September 2019 until 22 January 2020.

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

(v) Total excluding retirement benefit \$890,377

## DIRECTORS' REPORT

CONTINUED

### SECTION 4 OTHER MATTERS REQUIRED BY SECTION 300A CORPORATIONS ACT 2001

#### 4.1 Movements in shares held by the KMP

The movement during the year (or, in the case of directors who ceased during the year, up until their departure) 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 2020</b>				
Mark Smith	305,000	110,000		415,000
Robert D Millner <sup>(i)</sup>	1,755,620			1,755,620
Lee Ausburn	83,334			83,334
Gerard J Masters <sup>(ii)</sup>	218,000			218,000
Ken Gunderson-Briggs	30,000			30,000
Jennifer Macdonald	35,000	15,000		50,000
Richard C Vincent	446,368	35,465 <sup>(iii)</sup>		481,833
Peter Mendo	46,496	11,940 <sup>(iii)</sup>		58,436

(i) Ceased to be a Director and KMP on 9 July 2020.

(ii) Ceased to be a Director and KMP on 22 January 2020.

(iii) Issued in November 2020 pursuant to the LTIP offer for the performance period 1 September 2016 to 31 August 2019 (2016 LTIP offer).

#### 4.2 Earnings and 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 2020	31 August 2019	31 August 2018	31 August 2017	31 August 2016
Earnings (EBIT)	4,432	94,046	82,397	89,276	87,131
Net profit/(loss) (\$'000)	(\$7,937)	56,577	48,202	52,371	51,670
Dividends (cents per share)	2.00	7.75	7.5	7.0	6.0
Share price as at end of year (\$)	1.08	1.32	1.85	1.47	1.77

#### 4.3 Comments on Remuneration Report at the most recent annual general meeting of the Company

The Company's most recent annual general meeting was held on 22 January 2020. At this meeting:

- no comments were considered on the 2019 Remuneration Report; and
- 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.

#### 4.4 Related party transactions

Transactions with Related Parties are set out in Note 20. The Company has not entered into any loan arrangements with any KMP, KMP family member or entity under their control.

**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 2020 there have been:

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



KPMG



Tony Romeo

*Partner*

Melbourne

21 October 2020

## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2020

<i>In thousands of AUD</i>	Note	Year ended 31 August 2020	Year ended 31 August 2019
Revenue	3	4,019,525	4,010,725
Cost of sales		(3,545,031)	(3,492,420)
<b>Gross profit</b>		<b>474,494</b>	<b>518,305</b>
Other income	3	14,470	27,525
Warehousing and distribution expenses		(145,553)	(141,557)
Marketing and sales expenses		(190,035)	(217,934)
Administration and general expenses		(111,444)	(92,293)
Impairment of brand name	11	(37,500)	–
<b>Profit from operating activities (EBIT)</b>		<b>4,432</b>	<b>94,046</b>
Finance income		67	395
Finance expenses	4	(19,146)	(20,701)
<b>Net finance costs</b>		<b>(19,079)</b>	<b>(20,306)</b>
<b>Profit/(loss) before tax</b>		<b>(14,647)</b>	<b>73,740</b>
Income tax (expense)/benefit	5	6,710	(17,163)
<b>Profit/(loss) for the year</b>		<b>(7,937)</b>	<b>56,577</b>
<b>Attributable to:</b>			
Ordinary shareholders of the Company		(8,395)	55,109
Non-controlling interest		458	1,468
<b>Profit/(loss) for the year</b>		<b>(7,937)</b>	<b>56,577</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	(1.7)	11.2
Diluted earnings per share	6	(1.7)	11.1

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 2020

<i>In thousands of AUD</i>	Note	Year ended 31 August 2020	Year ended 31 August 2019
<b>Profit/(loss) for the year</b>		(7,937)	56,577
<b>Other comprehensive income/(loss)</b>			
<b>Items that will not be reclassified subsequently to the consolidated income statement</b>			
Remeasurement of the defined benefit asset (post tax)		(1)	(93)
Changes in the fair value of financial assets at fair value through other comprehensive income (post tax)	13	(5,087)	1,364
<b>Total items that will not be reclassified</b>		<b>(5,088)</b>	<b>1,271</b>
<b>Items that may be reclassified subsequently to the consolidated income statement</b>			
Exchange fluctuations on translation of foreign operations (post tax)		(900)	621
Effective portion of changes in fair value of cash flow hedges (post tax)		(81)	(207)
<b>Total items that may be reclassified</b>		<b>(981)</b>	<b>414</b>
<b>Total other comprehensive income/(loss) for the year</b>		<b>(6,069)</b>	<b>1,685</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>(14,006)</b>	<b>58,262</b>
<b>Attributable to:</b>			
Ordinary shareholders of the Company		(14,464)	56,794
Non-controlling interest		458	1,468
<b>Total comprehensive income/(loss) for the year</b>		<b>(14,006)</b>	<b>58,262</b>

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



## CONSOLIDATED BALANCE SHEET

AS AT 31 AUGUST 2020

<i>In thousands of AUD</i>	Note	As at 31 August 2020	As at 31 August 2019 (restated) <sup>(i)</sup>
<b>Current assets</b>			
Cash and cash equivalents	26	60,713	30,181
Trade and other receivables	8	537,899	657,932
Inventories	8	368,180	413,258
Lease receivables	24	6,530	–
<b>Total current assets</b>		<b>973,322</b>	<b>1,101,371</b>
<b>Non-current assets</b>			
Trade and other receivables	8	22,534	57,544
Lease receivables	24	23,002	–
Financial assets at fair value through other comprehensive income	13	1,200	87,849
Deferred tax assets	5	19,900	–
Right-of-use assets	24	125,079	–
Property, plant and equipment	9	109,817	107,130
Intangible assets	11	268,117	301,901
<b>Total non-current assets</b>		<b>569,649</b>	<b>554,424</b>
<b>Total assets</b>		<b>1,542,971</b>	<b>1,655,795</b>
<b>Current liabilities</b>			
Trade and other payables	8	741,945	790,270
Loans and borrowings	14	8,260	59,596
Lease liabilities	24	40,404	–
Provisions	12	34,632	35,235
Income tax payable	5	7,441	2,380
<b>Total current liabilities</b>		<b>832,682</b>	<b>887,481</b>
<b>Non-current liabilities</b>			
Trade and other payables	8	33,431	80,079
Deferred tax liabilities	5	–	8,239
Loans and borrowings	14	70,423	169,683
Lease liabilities	24	141,790	–
Provisions	12	6,899	5,663
<b>Total non-current liabilities</b>		<b>252,543</b>	<b>263,664</b>
<b>Total liabilities</b>		<b>1,085,225</b>	<b>1,151,145</b>
<b>Net assets</b>		<b>457,746</b>	<b>504,650</b>
<b>Equity</b>			
Share capital		566,461	566,461
Reserves		38,526	62,645
Accumulated losses		(151,090)	(127,847)
<b>Total equity attributable to members of the Company</b>		<b>453,897</b>	<b>501,259</b>
<b>Non-controlling interest in controlled entities</b>		<b>3,849</b>	<b>3,391</b>
<b>Total equity</b>		<b>457,746</b>	<b>504,650</b>

(i) The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Notes 5, 11 and 27 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 2020

Attributable to ordinary shareholders of API Limited											
In thousands of AUD	Share Capital	Accumulated Losses <sup>(i)</sup>	Profits <sup>(ii)</sup> Reserve	Trans-lation Reserve	Hedging Reserve	Equity Reserve	Control Reserve	Fair Value Reserve	Total	Non-controlling Interest	Total Equity <sup>(iii)</sup>
<b>Balance at 31 August 2019</b>	566,461	(127,847)	116,656	1,358	(139)	5,717	(62,311)	1,364	501,259	3,391	504,650
Adjustment on Adoption of AASB 16	-	(11,125)	-	-	-	-	-	-	(11,125)	-	(11,125)
<b>Balance at 1 September 2019</b>	<b>566,461</b>	<b>(138,972)</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>490,134</b>	<b>3,391</b>	<b>493,525</b>
Profit/(loss) after tax	-	(8,395)	-	-	-	-	-	-	(8,395)	458	(7,937)
Total other comprehensive income/(loss)	-	-	(1)	(900)	(81)	-	-	(5,087)	(6,069)	-	(6,069)
Total comprehensive income / (loss) for the year	-	(8,395)	(1)	(900)	(81)	-	-	(5,087)	(14,464)	458	(14,006)
<b>Transactions with owners, recorded directly in equity</b>											
Dividends to equity holders	-	-	(19,706)	-	-	-	-	-	(19,706)	-	(19,706)
Unwinding of discount on put and call option	-	-	-	-	-	-	(2,310)	-	(2,310)	-	(2,310)
Share based payments	-	-	-	-	-	243	-	-	243	-	243
Transfer of fair value reserve to accumulated losses	-	(3,723)	-	-	-	-	-	3,723	-	-	-
Total contributions by and distributions to owners	-	(3,723)	(19,706)	-	-	243	(2,310)	3,723	(21,773)	-	(21,773)
<b>Balance at 31 August 2020</b>	<b>566,461</b>	<b>(151,090)</b>	<b>96,949</b>	<b>458</b>	<b>(220)</b>	<b>5,960</b>	<b>(64,621)</b>	<b>-</b>	<b>453,897</b>	<b>3,849</b>	<b>457,746</b>
<b>Balance at 31 August 2018<sup>(iv)</sup></b>	<b>566,461</b>	<b>(122,322)</b>	<b>99,811</b>	<b>737</b>	<b>68</b>	<b>6,271</b>	<b>(59,900)</b>	<b>-</b>	<b>491,126</b>	<b>1,923</b>	<b>493,049</b>
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>(127,847)</b>	<b>99,811</b>	<b>737</b>	<b>68</b>	<b>6,271</b>	<b>(59,900)</b>	<b>-</b>	<b>485,601</b>	<b>1,923</b>	<b>487,524</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>(127,847)</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>501,259</b>	<b>3,391</b>	<b>504,650</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) The 31 August 2018 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Note 5, 11 and 27 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 2020

<i>In thousands of AUD</i>	Note	Year ended 31 August 2020	Year ended 31 August 2019
<b>Cash flows from operating activities</b>			
Cash receipts from customers (inclusive of GST)		4,575,669	4,359,494
Cash payments to suppliers and employees (inclusive of GST)		(4,336,241)	(4,301,329)
<b>Cash inflow from operations</b>		<b>239,428</b>	<b>58,165</b>
Interest received		67	396
Finance costs paid		(13,045)	(19,502)
Income taxes paid		(10,935)	(27,450)
<b>Net cash inflows from operating activities</b>	26	<b>215,515</b>	<b>11,609</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		(39,992)	(35,704)
Proceeds from/(Payments for) financial assets at fair value through other comprehensive income		80,978	(85,901)
Receipts from subleases		8,771	–
Dividends received		1,373	3,533
<b>Net cash inflows/(outflows) from investing activities</b>		<b>51,130</b>	<b>(116,539)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		4,034,050	2,722,269
Repayment of borrowings		(4,182,794)	(2,585,935)
Lease payments during the period		(70,400)	–
Payment of finance lease liabilities		–	(891)
Dividends paid		(19,706)	(38,171)
<b>Net cash (outflows)/inflows from financing activities</b>		<b>(238,850)</b>	<b>97,272</b>
Net increase/(decrease) in cash and cash equivalents		27,795	(7,658)
Cash and cash equivalents at the beginning of the year		28,237	35,948
Effect of exchange rate fluctuations on cash held		29	(53)
<b>Cash and cash equivalents at the end of the year<sup>(i)</sup></b>		<b>56,061</b>	<b>28,237</b>

(i) Cash and cash equivalents include 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 2020	Year ended 31 August 2019
<b>Cash and cash equivalents in the Consolidated balance sheet</b>	<b>60,713</b>	<b>30,181</b>
Bank overdrafts repayable on demand and used for cash management purposes	(4,652)	(1,944)
<b>Cash and cash equivalents in the Consolidated statement of cash flows</b>	<b>56,061</b>	<b>28,237</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ABOUT THIS REPORT.....	42
<b>FINANCIAL PERFORMANCE.....</b>	<b>44</b>
2. SEGMENT REPORT.....	44
3. REVENUE AND OTHER INCOME.....	45
4. EXPENSES.....	47
5. TAXATION.....	48
6. EARNINGS PER SHARE.....	50
7. DIVIDENDS.....	50
<b>OPERATING ASSETS AND LIABILITIES.....</b>	<b>51</b>
8. WORKING CAPITAL.....	51
9. PROPERTY, PLANT AND EQUIPMENT.....	55
10. COMMITMENTS.....	56
11. INTANGIBLE ASSETS.....	57
12. PROVISIONS AND CONTINGENCIES.....	61
13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME.....	62
<b>CAPITAL AND RISK MANAGEMENT.....</b>	<b>63</b>
14. LOANS AND BORROWINGS.....	63
15. FINANCIAL RISK MANAGEMENT.....	65
16. CAPITAL AND RESERVES.....	70
<b>GROUP STRUCTURE.....</b>	<b>71</b>
17. SUBSIDIARIES.....	71
18. DEED OF CROSS GUARANTEE.....	73
19. PARENT ENTITY DISCLOSURES.....	75
20. RELATED PARTY TRANSACTIONS.....	75
<b>OTHER DISCLOSURES.....</b>	<b>76</b>
21. KEY MANAGEMENT PERSONNEL DISCLOSURES.....	76
22. SHARE-BASED PAYMENTS.....	77
23. AUDITOR'S REMUNERATION.....	78
24. NEW ACCOUNTING STANDARDS.....	79
25. SUBSEQUENT EVENTS.....	82
26. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES.....	83
27. COMPARATIVE BALANCES.....	84

# 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 21 October 2020.

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.

This is the first set of the Group's annual financial statements in which AASB 16 Leases has been applied. The related changes to significant accounting policies are described in Note 24.

### 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. Details 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 in the foreign currency translation reserve.

### d. Impact of COVID-19

The COVID-19 pandemic has caused significant impact on the global economy and the confidence of financial markets. The responses of governments across the world and nationally have impacted on the Group's operations. During the current period, the Group experienced the following impacts on its operations and financial statements:

- Clear Skincare Clinics operating in the beauty therapies industry was classed as non-essential and entered mandatory shutdown throughout New Zealand and Australia. As of the 31 August 2020 all Clinics are open except for Victoria.
- Stage four restrictions in Victoria resulted in the closure of Priceline retail stores. Priceline Pharmacies and associated wholesale activities are classified as essential services and continue to operate.
- Changes in consumer demand and panic buying placed pressure on the supply chain due to an increase in the demand for pharmaceutical products.
- Temporary closure and deep cleaning of the Melbourne Distribution Centre as a result of staff testing positive to COVID-19.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## 1. ABOUT THIS REPORT (continued)

### d. Impact of COVID-19 (continued)

In preparing the consolidated financial statements in line with Australian Accounting Standards, consideration has been given to judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on historical experience and conditions existing and emerging as at 31 August 2020. The ongoing COVID-19 pandemic has increased estimation uncertainty in the preparation of the consolidated financial statements due to the impact of actions of governments, businesses and consumers to contain the spread of the virus, the extent and duration of the expected economic downturn and the effectiveness of government support measures for businesses and consumers.

As at the 31 August, the Group has reassessed all significant judgements, assumptions and critical estimates included in the consolidated financial statements including but not limited to impairment of non-current assets, provisions for trade and other receivables and provisions for inventories. The key estimates and judgements are outlined in Note 1e) Key estimates and judgements.

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
<b>Note 24 New accounting standards – AASB 16 Leases</b>	Determination of lease term for leases with extension options

### f. 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.

### e. 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 report. 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.

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

### g. 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 Chief Executive Officer (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 and retail services to pharmacies, the purchase and sale of health, beauty and lifestyle products within the retail industry including cosmetic products and non-invasive 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 for pharmaceutical medicines and consumer toiletries. Products are sold in New Zealand and exported.

In thousands of AUD	Year ended 31 August							
	Australia		New Zealand		Eliminations		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Revenue</b>								
External sales	3,822,290	3,793,776	47,808	52,713	–	–	3,870,098	3,846,489
External services	149,427	164,236	–	–	–	–	149,427	164,236
Inter-segment revenue <sup>(i)</sup>	–	–	15,479	24,782	(15,479)	(24,782)	–	–
<b>Total segment revenue</b>	3,971,717	3,958,012	63,287	77,495	(15,479)	(24,782)	4,019,525	4,010,725
Reportable segment gross profit	448,700	491,169	25,325	33,276	469	(6,141)	474,494	518,305
<b>Reportable segment profit</b>	3,565	95,171	398	5,016	469	(6,141)	4,432	94,046
<b>Unallocated amounts</b>								
Net financing costs							(19,079)	(20,306)
<b>Profit/(loss) before tax</b>							(14,647)	73,740
Income tax (expense)/benefit							6,710	(17,163)
<b>Profit/(loss) for the year</b>							<b>(7,937)</b>	<b>56,577</b>

(i) All inter-segment sales are made on an 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	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Attributable to:</b>								
Ordinary shareholders of the Company							(8,395)	55,109
Non-controlling interest							458	1,468
<b>Other segment information:</b>								
Depreciation and amortisation	85,649	27,301	1,859	1,768	–	–	87,508	29,069
Additions of property, plant and equipment and intangible assets	34,072	31,354	5,920	4,350	–	–	39,992	35,704

### 3. REVENUE AND OTHER INCOME

In thousands of AUD	Year ended 31 August 2020	Year ended 31 August 2019
<b>Revenue</b>		
Sales revenue	3,870,098	3,846,489
Service revenue	149,427	164,236
<b>Total revenue</b>	<b>4,019,525</b>	<b>4,010,725</b>
<b>Other income</b>		
Gain on disposal of property, plant and equipment	64	253
Interest fee income	5,444	5,765
Net foreign exchange gain/(loss)	110	(60)
Dividend income	1,373	3,533
Changes in the fair value of financial liabilities	7,479	18,034
<b>Total other income</b>	<b>14,470</b>	<b>27,525</b>

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

Revenue stream	Description	Performance obligation	Timing of recognition
<b>Sales revenue</b>	<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
	<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 Australian local pharmacies within a short time frame.	CSO income is recognised when the Group has complied with the conditions attached to the obligation

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 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 program 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 income 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**

CONTINUED

**4. EXPENSES**

<i>In thousands of AUD</i>	<b>Year ended 31 August 2020</b>	<b>Year ended 31 August 2019</b>
Wages and salaries expense	192,541	192,278
Superannuation expense	15,097	15,407
Share based payments expense	243	(554)
Other employee expenses	18,047	19,024
<b>Employee benefits expense</b>	<b>225,928</b>	<b>226,155</b>
Interest expense	7,230	12,551
Borrowing costs	2,188	3,125
API rewards	3,905	4,973
Finance expense on leased assets	5,823	52
<b>Finance expenses</b>	<b>19,146</b>	<b>20,701</b>
Depreciation and amortisation	87,508	29,069

During the financial year, the Group received or was entitled to receive COVID-19 support and assistance under the JobKeeper (Australia) and Wage Subsidy (New Zealand) programs totalling \$3,750,405 (pre-tax). This amount is included within employee benefits expense above. The Group also received an amount of payroll tax relief from certain jurisdictions amounting to \$174,732.

During the financial year, the Group incurred business restructuring and reorganisation expenses of \$17,622,051 (pre-tax). These include the cost of Priceline store closures, the cost of closing two Distribution Centres, an Inventory Optimisation program, costs associated with COVID-19 safety compliance and other restructuring costs. These expenses have been recognised within the Consolidated Income Statement under Administration and general expenses \$11,642,051 (pre-tax) and Cost of sales \$5,980,000 (pre-tax).

**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 22 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 expense on lease liabilities;</li> <li>– Amortisation of ancillary costs incurred in connection with the arrangement of borrowings;</li> <li>– Net interest charges on the API rewards program; and</li> <li>– Discount unwind on financial liabilities held at fair value.</li> </ul>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 5. TAXATION

<i>In thousands of AUD</i>	Year ended 31 August 2020	Year ended 31 August 2019
<b>(a) Income tax expense recognised in the income statement</b>		
Current tax expense	15,379	23,905
Deferred tax expense	(22,133)	(6,858)
Adjustments in current year tax relating to prior year	44	116
<b>Total income tax expense/(benefit)</b>	<b>(6,710)</b>	<b>17,163</b>
<b>Reconciliation of prima facie tax expense/(benefit) to income tax expense/(benefit)</b>		
Profit/(loss) before income tax	(14,647)	73,740
Prima facie income tax at 30%	(4,394)	22,122
<b>Tax effect of items which increase/(decrease) tax expense/(benefit):</b>		
Share based payments expense	73	(167)
Entertainment and other sundry expenses	122	221
Fair value movement of financial liabilities	(2,160)	(5,410)
Other	(395)	282
Adjustment for prior years	44	115
<b>Income tax expense/(benefit)</b>	<b>(6,710)</b>	<b>17,163</b>
<i>In thousands of AUD</i>		
	As at 31 August 2020	As at 31 August 2019 (restated) <sup>(i)</sup>
<b>(b) Current tax liability<sup>(i)</sup></b>	<b>7,441</b>	<b>2,380</b>
<b>(c) Deferred tax assets/(liabilities)</b>		
Employee benefits	7,779	7,494
Provision for impairment losses	14,047	12,323
Other provisions	10,251	6,541
Property, plant and equipment	(1,921)	(3,642)
Brand names	(28,038)	(39,288)
Other	17,782	8,333
<b>Net deferred tax asset/(liability)</b>	<b>19,900</b>	<b>(8,239)</b>
<b>Comprised of:</b>		
Entities incorporated in Australia - net deferred tax asset/(liability)	19,550	(8,257)
Entities incorporated in New Zealand - net deferred tax asset/(liability)	350	18
<b>Net deferred tax asset/(liability)</b>	<b>19,900</b>	<b>(8,239)</b>
<b>Movements in deferred tax</b>		
Balance at 1 September	(8,239)	(16,742)
Expense recognised in the income statement	22,133	6,858
New Zealand tax losses recognised	152	-
Deferred tax recognised directly in equity	1,006	(723)
Deferred tax recognised on adoption of new accounting standards	4,848	2,368
<b>Balance at 31 August</b>	<b>19,900</b>	<b>(8,239)</b>

(i) The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Note 11 and 27 for further details.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

**5. TAXATION (continued)**

<i>In thousands of AUD</i>	Year ended 31 August 2020	Year ended 31 August 2019
<b>(d) Deferred tax recognised directly in equity</b>		
Remeasurement of the defined benefit asset	(1)	(38)
Changes in the fair value of financial assets at fair value through other comprehensive income	(584)	584
Exchange fluctuations on translation of foreign operations	(386)	266
Effective portion of changes in fair value of cash flow hedges	(35)	(89)
<b>Total deferred tax recognised directly in equity</b>	<b>(1,006)</b>	<b>723</b>

**Accounting policies**

**Income tax expense/ (benefit)** 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.

**Current tax liability** 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.

**Deferred tax** 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 in a transaction that affects neither accounting nor taxable profit at the time of the transaction.

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

If certain criteria are met deferred tax assets and liabilities are offset in the financial statements.

**Tax consolidation** 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.

The Clear Skincare Clinics business acquired in July 2018 is not part of the API tax consolidated group as it is not 100% owned. Subsequent wholly owned new Clinic entities are however part of the API tax consolidated group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 6. EARNINGS PER SHARE

<i>In thousands of AUD</i>	Year ended 31 August 2020	Year ended 31 August 2019
<b>Profit/(loss) attributable to shareholders of the Company</b>	<b>(8,395)</b>	<b>55,109</b>
<b><i>In thousands of shares</i></b>		
Basic weighted average number of ordinary shares for the year	492,632	492,516
Effect of potential ordinary shares on issue through conversion of performance rights	3,994	3,530
<b>Diluted weighted average number of shares for the year</b>	<b>496,626</b>	<b>496,046</b>
<b><i>In cents</i></b>		
Basic earnings per share	(1.7)	11.2
Diluted earnings per share <sup>(i)</sup>	(1.7)	11.1

(i) The performance rights on issue throughout the year ended 31 August 2020 are not dilutive in effect, as the Group recorded a loss for the year.

### 7. DIVIDENDS

<i>In thousands of AUD</i>	Year ended 31 August 2020	Year ended 31 August 2019
<b>Dividends paid during the year</b>		
Final dividend for 2019 financial year of 4.00 cents per share fully franked (2018: Final dividend of 4.0 cents per share fully franked)	19,706	19,701
Interim dividend for 2020 financial year (2019: Interim dividend of 3.75 cents per share fully franked)	–	18,470
<b>Total dividends paid during the year</b>	<b>19,706</b>	<b>38,171</b>
<b>Dividend franking account</b>		
Franking credits available to shareholders for subsequent financial years based on tax rate of 30% <sup>(i)</sup>	67,441	66,931

(i) The ability to utilise the franking credits is dependent upon there being sufficient available profits to pay 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 \$4,222,766 (31 August 2019: \$8,443,431).

#### Accounting policies

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

#### Dividends proposed after balance date

On 21 October 2020, the Directors proposed to pay a final dividend of 2.00 cents per share amounting to \$9,853,120 in respect of the 2020 financial year. The dividend will be payable out of the Profits Reserve and will be fully franked to be paid on 15 December 2020. The financial effect of this dividend is not included in the financial statements for the year ended 31 August 2020 and will be recognised in the financial statements for the year ended 31 August 2021.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

**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>	<b>As at 31 August 2020</b>	<b>As at 31 August 2019</b>
<b>Current</b>		
Trade and other receivables	589,900	698,214
Provision for impairment losses (a)	(52,001)	(40,282)
<b>Net trade and other receivables</b>	<b>537,899</b>	<b>657,932</b>
Lease receivables	6,530	–
Inventories		
Raw materials and consumables	9,876	7,990
Finished goods	377,679	409,719
Provision for obsolescence and shrinkage	(19,375)	(4,451)
<b>Net inventories</b>	<b>368,180</b>	<b>413,258</b>
Trade and other payables	(707,725)	(790,270)
<b>Net working capital – current</b>	<b>204,884</b>	<b>280,920</b>
Financial liabilities payable to non-controlling shareholders	(34,220)	–
<b>Total current</b>	<b>170,664</b>	<b>280,920</b>
<b>Non-current</b>		
Non-current trade receivables	25,236	65,462
Provision for impairment losses (a)	(3,350)	(8,600)
Defined benefit plan asset	648	682
<b>Net non-current trade and other receivables</b>	<b>22,534</b>	<b>57,544</b>
Lease receivables	23,002	–
Lease payable	–	(7,246)
Trade and other payables	(50)	–
Financial liabilities payable to non-controlling shareholders	(33,381)	(72,833)
<b>Total non-current</b>	<b>12,105</b>	<b>(22,535)</b>
<b>(a) Movement in provision for impairment losses</b>		
Balance at beginning of the year	(48,882)	(29,114)
Adjustment on adoption of AASB 9	–	(8,917)
Amounts provided for during the year	(13,428)	(18,432)
Amounts written off during the year	6,959	7,581
<b>Balance at end of the year</b>	<b>(55,351)</b>	<b>(48,882)</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.

During the year, \$18.2 million (2019: \$12.5million) was recognised as an expense for inventories remeasured to net realisable value. This is included in cost of sales in the consolidated income statement.

##### **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. The COVID-19 pandemic has resulted in the mandated closure of stores and a rationalisation of the store network during the period. The uncertainty surrounding the trading environment has required an additional amount of judgement in determining the value of inventory.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

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

**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 as the Group assumes the risks and rewards of these receivables.

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

The circumstances of the COVID-19 outbreak have impacted consumer spending and retail sales. The recoverability of trade debtors as at 31 August 2020 has been assessed to consider COVID-19 impacts and the changing trading and economic environment moving forward.

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 ECL includes:

- Financial conditions of specific counterparties on expected settlement;
- Macroeconomic indicators including consumer spending, GDP growth, unemployment and inflation forecasts impacting on different geographical areas; 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 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 2020 have been determined in a manner consistent with the methodology applied on adoption, with consideration to the impact of COVID-19 on the current trading and economic environment.

Any provision for impairment for trade receivables is recognised against profit during the reporting period within 'Marketing and sales expenses'. 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, subject to certain performance hurdles being met, has been recognised by the Group as a financial liability at fair value.

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 9 *Financial Instruments*, this liability has been measured at the exercise price of the option at present value, discounted using a risk adjusted discount rate. The exercise price of the option is a fixed amount.

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 present value, based on the probability weighted expected cash outflows, discounted using an appropriate risk adjusted discount rate.

The probability assessment for the payment of mandatory dividends includes estimating the likelihood of performance hurdles being met for the payment of contingent consideration, and the expected level of future profitability of the Clear Skincare Clinics that were acquired.

**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	Capital work in progress	
<b>Financial year 2020</b>				
Cost	10,360	259,332	13,557	283,249
Accumulated depreciation and impairment	(6,330)	(167,102)	–	(173,432)
<b>Net book value</b>	<b>4,030</b>	<b>92,230</b>	<b>13,557</b>	<b>109,817</b>
Balance 1 September 2019	4,391	86,334	16,405	107,130
Additions	–	9,331	29,830	39,161
Disposals	–	(5,168)	–	(5,168)
Depreciation expense for the year	(273)	(17,473)	–	(17,746)
Reversal of impairment loss	–	463	–	463
Reclassification of assets	–	15,906	(15,906)	–
Transfer of assets to intangibles	–	–	(16,701)	(16,701)
Transfer of assets to right-of-use assets	–	2,797	–	2,797
Foreign currency exchange differences	(88)	40	(71)	(119)
<b>Balance at 31 August 2020</b>	<b>4,030</b>	<b>92,230</b>	<b>13,557</b>	<b>109,817</b>
<b>Financial year 2019</b>				
Cost	10,606	243,660	16,405	270,671
Accumulated depreciation and impairment	(6,215)	(157,326)	–	(163,541)
<b>Net book value</b>	<b>4,391</b>	<b>86,334</b>	<b>16,405</b>	<b>107,130</b>
Balance 1 September 2018	4,564	88,891	7,560	101,015
Additions	–	2,905	32,338	35,243
Disposals	–	(4,238)	–	(4,238)
Depreciation expense for the year	(273)	(17,241)	–	(17,514)
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>86,334</b>	<b>16,405</b>	<b>107,130</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 and fit-out contributions relating to an obligation for site closure or restoration costs have been transferred to the right-of-use asset in line with AASB 16 Leases.</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> </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 or earlier if indicators exist. If any such indication exists, the recoverable amount of the asset is first assessed on an asset basis before testing for impairment at the Cash Generating Unit (CGU) and goodwill level. 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 CGU 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.</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 and amortisation, if no impairment loss had been recognised.</p>

### 10. COMMITMENTS

<i>In thousands of AUD</i>	<b>As at 31 August 2020</b>	<b>As at 31 August 2019</b>
<b>Non-cancellable operating leases - Group as lessee</b>		
Less than one year	–	58,004
Between one and five years	–	122,457
More than five years	–	30,251
<b>Total non-cancellable operating leases</b>	<b>–</b>	<b>210,712</b>
<b>Non-cancellable operating leases - Group as lessor</b>	<b>–</b>	<b>(38,397)</b>
<b>Lease expense during the year</b>	<b>–</b>	<b>62,834</b>
<b>Capital expenditure contracted but not provided for or payable</b>	<b>111</b>	<b>886</b>

From 1 September 2019, the Group has recognised right-of-use assets and corresponding lease liabilities in respect of these leases, see Note 24 for further detail.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

**11. INTANGIBLE ASSETS**

<i>In thousands of AUD</i>	As at 31 August				Total
	Goodwill	Brand names	Software	Development costs	
<b>Financial year 2020</b>					
Cost	201,931	133,601	136,387	2,346	474,265
Accumulated amortisation and impairment	(74,019)	(40,140)	(90,312)	(1,677)	(206,148)
<b>Net book value</b>	<b>127,912</b>	<b>93,461</b>	<b>46,075</b>	<b>669</b>	<b>268,117</b>
Balance 1 September 2019	127,556	130,961	42,406	978	301,901
Transfer from property, plant and equipment	–	–	16,679	–	16,679
Additions	831	–	–	–	831
Disposals	–	–	(1)	–	(1)
Amortisation expense for the year	–	–	(12,955)	(303)	(13,258)
Impairment	–	(37,500)	–	–	(37,500)
Foreign currency exchange differences	(475)	–	(54)	(6)	(535)
<b>Balance at 31 August 2020</b>	<b>127,912</b>	<b>93,461</b>	<b>46,075</b>	<b>669</b>	<b>268,117</b>
<b>Financial year 2019</b>					
Cost (restated) <sup>(i)</sup>	201,574	133,601	130,894	2,395	468,464
Accumulated amortisation and impairment <sup>(i)</sup>	(74,018)	(2,640)	(88,488)	(1,417)	(166,563)
<b>Net book value</b>	<b>127,556</b>	<b>130,961</b>	<b>42,406</b>	<b>978</b>	<b>301,901</b>
Balance 1 September 2018 (restated) <sup>(i)</sup>	126,689	130,961	46,488	875	305,013
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<sup>(i)</sup></b>	<b>127,556</b>	<b>130,961</b>	<b>42,406</b>	<b>978</b>	<b>301,901</b>

(i) The 31 August 2018 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Notes 5 and 27 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:

In thousands of AUD	As at 31 August							
	Australia		New Zealand		Clear Skincare		Total	
	2020	2019 (restated) <sup>(i)</sup>	2020	2019	2020	2019 (restated) <sup>(i)</sup>	2020	2019 (restated) <sup>(i)</sup>
<b>Brand names</b>								
Soul Pattinson brand name	–	37,500	–	–	–	–	–	37,500
Priceline brand name	58,860	58,860	–	–	–	–	58,860	58,860
Clear Skincare brand name	–	–	–	–	34,601	34,601	34,601	34,601
<b>Brand names</b>	<b>58,860</b>	<b>96,360</b>	<b>–</b>	<b>–</b>	<b>34,601</b>	<b>34,601</b>	<b>93,461</b>	<b>130,961</b>
<b>Goodwill</b>	<b>47,232</b>	<b>46,401</b>	<b>16,387</b>	<b>16,862</b>	<b>64,293</b>	<b>64,293</b>	<b>127,912</b>	<b>127,556</b>
<b>Other intangible assets</b>	<b>43,419</b>	<b>39,912</b>	<b>3,262</b>	<b>3,472</b>	<b>63</b>	<b>–</b>	<b>46,744</b>	<b>43,384</b>
<b>Total intangible assets</b>	<b>149,511</b>	<b>182,673</b>	<b>19,649</b>	<b>20,334</b>	<b>98,957</b>	<b>98,894</b>	<b>268,117</b>	<b>301,901</b>

(i) The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Notes 5 and 27 for further details

AASB 136 *Impairment of Assets* requires intangible assets to be assessed at the end of each reporting period where there is any indication that an asset may be impaired. A review of indicators of impairment using both external and internal sources of information has been undertaken.

As at 31 August 2020, impairment indicators were identified for the Soul Pattinson Chemist brand name, within the Australian operating segment, due to changes in the operating environment and its performance, and the way in which management intend to use the asset. The Group engaged an independent valuation specialist to assess the fair value of the Brand using the 'relief from royalty' method on a fair value less cost of disposal basis. The independent valuation considered the environment, operations and future operating strategy. Fair value was measured largely using Level 2 and Level 3 inputs under AASB 13 *Fair Value Measurements* including comparable royalty rates in the health and community pharmacy franchise industry in addition to other relevant transactions. The results of this assessment, in addition to management's consideration of the present industry in which the Brand operates and its intended use of the Brand moving forward, resulted in an impairment loss of \$37.5m being recognised.

#### 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>	Business combinations are accounted for by applying the acquisition method. Goodwill represents the excess of the consideration over the fair value of the net identifiable assets acquired. Acquisition-related expenses are recognised in the income statement as incurred.  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.	Indefinite

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

**11. INTANGIBLE ASSETS (continued)**

<b>Intangible asset</b>	<b>Capitalisation criteria</b>	<b>Useful life</b>
<b>Brand names</b>	Brand names acquired are recognised initially at fair value, using independent valuations obtained during the twelve-month measurement period following acquisition.  Brand names are assessed to have indefinite useful lives. Brand names with indefinite useful lives are assessed for impairment at least on an annual basis.	Indefinite
<b>Research and development</b>	Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as an expense as incurred.  Expenditure on development activities, 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.	1 to 4 years
<b>Software</b>	Capitalised software is 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 the assets are part. The assets 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 fair value less cost of disposal assessment for the Australia, New Zealand and Clear Skincare CGUs. In the prior year the Australia and New Zealand CGU recoverable amounts were estimated using value in use methodology.

The estimate of the recoverable amount of each CGU is based on conditions existing and emerging as at 31 August 2020, including management's assessment arising from current and future impacts of COVID-19.

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 assessments use five-year projections for each CGU and for the Clear Skincare CGU, further future forecasts for newly established clinics. The cash flows used are based on business plans and FY21 Board approved budget. 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

CONTINUED

### 11. INTANGIBLE ASSETS (continued)

The key assumptions for impairment assessment of each of the Australian, New Zealand and Clear Skincare CGUs 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 a five-year business plan and a board approved budget and uses estimates made from the perspective of a market participant including:</p> <p>Pharmaceutical distribution business growth reflects the Board approved budget 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 from FY21 to FY25.</p>	<p>Based on a five-year business plan and a board approved budget and uses estimates made from the perspective of a market participant including:</p> <p>Contracts entered into with new local and international customers, that will provide annual sales increases.</p>	<p>Based on a five-year business plan and board approved budget. For newly established clinics further future forecasts are determined.</p> <p>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 over the 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>
<b>Discount rate</b>	<p>Based on a market-determined, risk adjusted post-tax nominal discount rate of 7.8% (2019: 8.0%), representing the post-tax weighted average cost of capital (WACC) including specific risks relating to the CGU.</p>	<p>Based on a market-determined, risk adjusted post-tax nominal discount rate of 11.0% (2019: 11.0%), representing the post-tax weighted average cost of capital (WACC) including specific risks relating to the CGU.</p>	<p>Based on a market-determined, risk adjusted post-tax nominal discount rate of 11.3% (2019: 12.0%), representing the post-tax weighted average cost of capital (WACC) including specific risks relating to the CGU.</p>
<b>Terminal long term growth rate</b>	<p>The terminal growth rate of 2.5% adopted for all CGUs represents the growth rate applied to 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.</p>		

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

**12. PROVISIONS AND CONTINGENCIES****a. Provisions**

<i>In thousands of AUD</i>	As at 31 August 2020	As at 31 August 2019
<b>Current provisions</b>		
Employee benefits	22,919	22,490
Other provisions	11,713	12,745
<b>Total current provisions</b>	<b>34,632</b>	<b>35,235</b>
<b>Non current provisions</b>		
Employee benefits	3,442	2,886
Other provisions	3,457	2,777
<b>Total non current provisions</b>	<b>6,899</b>	<b>5,663</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 2020</b>					
Balance 1 September 2019	146	4,309	3,988	7,079	15,522
Provisions made during the year, net of write-back	24	3,378	1,017	7,440	11,859
Provisions used during the year	–	(3,604)	(275)	(8,427)	(12,306)
Unwinding of discount	–	–	95	–	95
<b>Balance at 31 August 2020</b>	<b>170</b>	<b>4,083</b>	<b>4,825</b>	<b>6,092</b>	<b>15,170</b>
<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 write-back	–	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>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 12. PROVISIONS AND CONTINGENCIES (continued)

#### b. Contingencies

<i>In thousands of AUD</i>	As at 31 August 2020	As at 31 August 2019
Financial guarantees to pharmacists	9,175	9,175

Financial guarantees of \$9,175,000 (2019: \$9,175,000) 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.

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

On 16 December 2019 the Group ceased to be a substantial holder in Sigma Healthcare, selling its shareholding of 137,264,592 shares.

On 8 July 2020, the Group acquired a 5% share in SiSU Wellness Pty Ltd for an amount of \$1,200,006.

#### 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 2020	As at 31 August 2019
<b>Non-current assets</b>		
Sigma Healthcare Limited - Listed securities	–	87,849
SiSU Wellness Pty Ltd - Unlisted securities	1,200	
<b>Total financial assets at fair value through other comprehensive income</b>	<b>1,200</b>	<b>87,849</b>

At 31 August 2020 these financial assets were classified as non-current as the Group intends to hold the shares for long term investment.

#### c. Amounts recognised in 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 2020	Year ended 31 August 2019
Changes in the fair value of financial assets at FVOCI recognised in other comprehensive income	(5,087)	1,364
Dividend from financial assets at FVOCI recognised in profit or loss	1,373	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 2020</b>	<b>As at 31 August 2019</b>
<b>Current liabilities</b>		
Insurance premium funding	3,608	2,822
Finance lease liabilities	–	286
Cash advance facilities - secured	–	54,544
Bank overdraft	4,652	1,944
<b>Total current liabilities</b>	<b>8,260</b>	<b>59,596</b>
<b>Non current liabilities</b>		
Finance lease liabilities	–	230
Securitisation of trade receivables	–	63,817
Cash advance facilities - secured	5,423	40,636
Interest bearing loans	65,000	65,000
<b>Total non current liabilities</b>	<b>70,423</b>	<b>169,683</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 Australian Dollars 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)

#### a. 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 2020</b>			
Bank overdraft	4,652	23,087	27,739
Cash advance facilities	5,423	65,060	70,483
Securitisation of trade receivables	–	300,000	300,000
Interest bearing loans	65,000	–	65,000
<b>Total at 31 August 2020</b>	<b>75,075</b>	<b>388,147</b>	<b>463,222</b>
<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>

(i) Average used facilities during the year, excluding interest bearing loans relating to the Clear Skincare acquisition, was \$214,087,490 (2019: \$245,643,260).

(ii) Average unused facilities during the year was \$103,343,290 (2019: \$65,965,182).

#### Financing facilities

<b>Bank overdraft</b>	The Company is a guarantor to a bank facility agreement which provides a total overdraft facility of \$27,738,726 (31 August 2019: \$27,817,960) to entities within the Group. The facility is subject to a 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>Cash advances</b>	The consolidated cash advance facilities of \$70,483,451 (31 August 2019: \$128,641,920) are secured 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 \$300,000,000 consists of a daily redraw overdraft facility of \$130,000,000 and a term facility of \$170,000,000. 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 31 March 2022. The facilities are secured 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

CONTINUED

### 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:

#### (a) 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 and the financial guarantee contingent liabilities.

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 circumstances of the COVID-19 outbreak have impacted on the Group's assessment of credit risks associated with trade debtors, with consideration of the impact on the current trading and economic environment. Refer to Note 8 for further information on the determination of the provision for expected credit losses at 31 August 2020. The ageing profile of current and non-current trade receivables, including provision for impairment assessment at balance date is set out below:

<i>In thousands of AUD</i>	<b>As at 31 August 2020</b>	<b>As at 31 August 2019</b>
Not past due	461,636	588,421
Past due 0 - 30 days	12,453	31,444
Past due 31+ days	141,047	143,811
<b>Total trade receivables</b>	<b>615,136</b>	<b>763,676</b>
Provision for impairment losses	(55,351)	(48,882)
<b>Net trade receivables</b>	<b>559,785</b>	<b>714,794</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 15. FINANCIAL RISK MANAGEMENT (continued)

#### (b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as those financial obligations 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 Group's processes for managing liquidity risk include scenario modelling and analysis on current trading expectations and known events. These assessments have included the Group's assessments of the impact of COVID-19 on forecast performance. 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 2020</b>						
Insurance premium funding	3,608	3,608	3,608	–	–	–
Trade and other payables	707,725	707,725	707,136	564	25	–
Cash advance facility	5,423	5,423	–	5,423	–	–
Interest bearing loans	65,000	65,000	–	65,000	–	–
Lease liabilities	182,194	204,072	48,317	39,734	79,105	36,916
Payable to Non-controlling interest	67,651	68,838	34,223	34,615	–	–
<b>Balance at 31 August 2020</b>	<b>1,031,601</b>	<b>1,054,666</b>	<b>793,284</b>	<b>145,336</b>	<b>79,130</b>	<b>36,916</b>
<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>

#### (c) 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.

##### i. 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)

#### ii. 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 2020, the Group had interest rate swaps with a notional contract amount of \$70,000,000, with a maturity date of September 2020 and weighted rate of 1.04%.

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 2020 based on the forecast of 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 2020</b>		
Financial assets <sup>(i)</sup>	1.67%	85,949
Financial liabilities - fixed rate	2.98%	(70,000)
Financial liabilities - variable rate	3.40%	(6,759)
<b>Balance at 31 August 2020</b>		<b>9,190</b>
<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>

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

#### iii. Equity price risk

The Group had no material exposure to equity price risk due to no longer being a substantial holder in Sigma Healthcare at 31 August 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 15. FINANCIAL RISK MANAGEMENT (continued)

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

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.

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

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 In thousands of AUD	Fair value	Expected cash flows	0-1 year	1-2 years	2-5 years	More than 5 years
<b>Financial year 2020</b>						
Interest rate swap	(52)	(52)	(52)	-	-	-
Foreign exchange forward	(261)	(261)	(261)	-	-	-
<b>Net asset/(liability)</b>	<b>(313)</b>	<b>(313)</b>	<b>(313)</b>	-	-	-
<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>	-	-

#### (i) Sensitivity analysis

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

In thousands of AUD	As at 31 August 2020			As at 31 August 2019		
	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	-	52	52	-	649	649
Interest rate swap - 100bp decrease	-	(52)	(52)	-	(1,241)	(1,241)

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 methods and assumptions used to estimate the fair values are:

	<b>Financial instruments</b>	<b>Fair value technique</b>
<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 the Clear Skincare business (Note 8) has been measured at the exercise price of the option at present value, discounted using a risk adjusted discount rate. The exercise price of the option 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 market implied volatility. 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 value of cash flow hedges has been obtained from third party valuations derived from forward interest rates at the balance date.
	Foreign exchange forwards	Fair value is determined using prevailing forward exchange rates.
	Defined benefit asset	The employee defined benefit plan financial asset is measured using Level 3 inputs, being an independent actuarial valuation performed on an annual basis.
	Other financial liabilities (Amounts payable to non-controlling interests)	<p>The amounts payable include liabilities relating to the mandatory dividend payments and contingent consideration payable to non-controlling shareholders of Clear Skincare (Note 8).</p> <p>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.</p> <p>The probability assessment for the payment of mandatory dividends includes estimating the likelihood of performance hurdles being met for the payment of contingent consideration, and the expected level of future profitability of the Clear Skincare business.</p>
	Financial assets at fair value through other comprehensive income (FVOCI)	<p>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.</p> <p>Financial assets at FVOCI are Level 3 financial instruments as the fair value can only be determined using unobservable inputs being the equity interest in a non-listed entity. In the prior year, financial assets at FVOCI were Level 1 financial instruments as the measurement was derived from quoted prices, directly observable on the ASX.</p>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 15. FINANCIAL RISK MANAGEMENT (continued)

#### 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.

### 16. CAPITAL AND RESERVES

#### (a) Share capital

<i>In thousands of shares</i>	<b>As at 31 August 2020</b>	<b>As at 31 August 2019</b>
Shares on issue at beginning of the period - fully paid	492,533	492,428
Ordinary shares issued during the period pursuant to the Company's Long Term Incentive Plan	123	105
<b>Shares on issue at the end of the period - fully paid</b>	<b>492,656</b>	<b>492,533</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 other minority shareholders. This is recognised as 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. However, the net change may be reclassified within equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

**GROUP STRUCTURE**

This section provides information about the Group's structure and subsidiaries.
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**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		
	2020	2019	Notes		2020	2019	Notes
API Services Australia Pty Ltd	100.0%	100.0%	(i)	CSC Bayside Frankston Pty Ltd	100.0%	100.0%	
API Victoria Pty Ltd	100.0%	100.0%	(i)	CSC Ashfield Mall Pty Ltd	100.0%	100.0%	
Canberra Pharmaceutical Supplies Trust	100.0%	100.0%		Clearskincare Auckland Ltd	100.0%	N/A	(ii) & (iii)
Pharma-Pack Pty Ltd	100.0%	100.0%	(i)	CSC Mt Ommaney Pty Ltd	100.0%	N/A	(iii)
API (Canberra) Pty Ltd	100.0%	100.0%	(i)	CSC Forrest Chase Pty Ltd	100.0%	N/A	(iii)
Making Life Easy - Mobility and Independent Living Superstores Pty Ltd	100.0%	100.0%	(i)	CSC Joondalup Pty Ltd	100.0%	N/A	(iii)
API Healthcare Holdings (NZ) Ltd	100.0%	100.0%	(ii)	CSC Forest Hill	100.0%	N/A	(iii)
Garrett Investments Ltd	100.0%	100.0%	(ii)	CSC Northbridge Pty Ltd	100.0%	N/A	(iii)
New Price Retail Services Pty Ltd	100.0%	100.0%	(i)	CSC Manuka Pty Ltd	100.0%	N/A	(iii)
Soul Pattinson (Manufacturing) Pty Ltd	100.0%	100.0%	(i)	CSC Riverton Pty Ltd	100.0%	N/A	(iii)
API Financial Services Australia Pty Ltd	100.0%	100.0%	(i)	Clearskincare Chatswood Pty Ltd	50.2%	50.2%	(iv)
Priceline Unit Trust	100.0%	100.0%		Clearskincare Doncaster Pty Ltd	50.2%	50.2%	(iv)
Priceline Proprietary Ltd	100.0%	100.0%	(i)	Clearskincare Clinics Payroll Pty Ltd	50.2%	50.2%	(iv)
MLE Unit Trust	100.0%	100.0%		Clearskincare Adelaide Street Pty Ltd	50.2%	50.2%	(iv)
Priceline (NZ) Pty Ltd	100.0%	100.0%	(ii)	Clearskincare Collins St Pty Ltd	50.2%	50.2%	(iv)
Second Priceline Unit Trust	100.0%	100.0%		Clearskincare South Yarra Pty Ltd	50.2%	50.2%	(iv)
CSC Holdings Australia Pty Ltd	100.0%	100.0%	(i)	Clearskincare Macarthur Square Pty Ltd	50.2%	50.2%	(iv)
CSC Products Pty Ltd	100.0%	100.0%	(i)	Clearskincare Southport Pty Ltd	50.2%	50.2%	(iv)
Synapse Finance Pty Ltd	100.0%	100.0%	(i)	Clearskincare Cronulla Pty Ltd	50.2%	50.2%	(iv)
New Price Retail Finance Pty Ltd	100.0%	100.0%	(i)	Clearskincare Brighton Pty Ltd	50.2%	50.2%	(iv)
Australian Pharmaceutical Industries (Queensland) Pty Ltd	100.0%	100.0%	(i)	Clearskincare Quentin Ave Pty Ltd	50.2%	50.2%	(iv)
New Price Retail Pty Ltd	100.0%	100.0%	(i)	Clearskincare Moonee Ponds Pty Ltd	50.2%	50.2%	(iv)
PSM Healthcare Ltd	100.0%	100.0%	(ii)	Clearskincare Sunshine Plaza Pty Ltd	50.2%	50.2%	(iv)
API Leasing Pty Ltd	100.0%	100.0%	(i)	Clearskincare Fremantle Pty Ltd	50.2%	50.2%	(iv)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 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		
	2020	2019	Notes		2020	2019	Notes
CSC Franchising Pty Ltd	100.0%	100.0%	(i)	Clearskincare QV Melbourne Pty Ltd	50.2%	50.2%	(iv)
API Owned CSC Pty Ltd	100.0%	100.0%	(i) & (vi)	Clearskincare Bondi Junction Pty Ltd	50.2%	50.2%	(iv)
CSC Whitford Pty Ltd	100.0%	100.0%		Clearskincare Carousel Pty Ltd	50.2%	50.2%	(iv)
CSC West Lakes Pty Ltd	100.0%	100.0%		Clearskincare Hurstville Pty Ltd	50.2%	50.2%	(iv)
CSC Holdings New Zealand Ltd	100.0%	100.0%	(ii) & (v)	Clearskincare Clinics Pty Ltd	50.2%	50.2%	(iv)
CSC Ponsonby Limited	100.0%	100.0%	(ii)	Clearskincare Bendigo Pty Ltd	50.2%	50.2%	(iv)
CSC Shared Services Pty Ltd	100.0%	100.0%		Clearskincare Carindale Pty Ltd	50.2%	50.2%	(iv)
CSC Camberwell Pty Ltd	100.0%	100.0%		Clearskincare City Square Pty Ltd	50.2%	50.2%	(iv)
CSC Port Melbourne Pty Ltd	100.0%	100.0%		Clearskincare Chermerside Pty Ltd	50.2%	50.2%	(iv)
CSC Mordialloc Pty Ltd	100.0%	100.0%		Clearskincare Macquarie Centre Pty Ltd	50.2%	50.2%	(iv)
CSC North Sydney Pty Ltd	100.0%	100.0%		Clearskincare Norwood Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Cockburn Gateway Pty Ltd	50.2%	50.2%	(iv)	Clearskincare South Australia Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Parramatta Pty Ltd	50.2%	50.2%	(iv)	Clearskincare West End Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Clinics Australia Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Claremont Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Bondi Beach Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Northland Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Robina Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Southland Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Warringah Mall Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Chirnside Park Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Clarence St Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Mt Lawley Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Miranda Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Newmarket Ltd	51.0%	50.2%	(ii) & (iv)
Clearskincare Cremorne Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Tokapuna Ltd	51.0%	50.2%	(ii) & (iv)
Clearskincare Leichhardt Pty Ltd	50.2%	50.2%	(iv)	CSC Ventures Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Rockdale Pty Ltd	50.2%	50.2%	(iv)	Clearskincare Canberra City Pty Ltd	50.2%	50.2%	(iv)
Clearskincare Toowong Pty Ltd	50.2%	50.2%	(iv)				

(i) These controlled entities have entered into a Deed of Cross Guarantee with the parent entity, 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) Entities incorporated in New Zealand. All other entities are incorporated in Australia.

(iii) Entities were incorporated during the year ended 31 August 2020.

(iv) Entities form part of Non-controlling interest.

(v) This entity changed its name from KMS Stevens Equities to CSC Holdings New Zealand Ltd in the prior financial year.

(vi) This entity changed its name from API Ownership Pty Ltd to API Owned CSC Pty Ltd during the current financial year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

**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 2020 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 2020	Year ended 31 August 2019 (restated) <sup>(ii)</sup>
Profit / (loss) before tax	(12,281)	69,068
Income tax (expense) / benefit	6,509	(16,131)
<b>Profit / (loss) after tax</b>	<b>(5,772)</b>	<b>52,937</b>
Other comprehensive income / (loss)	(5,623)	786
<b>Total comprehensive income / (loss) for the year</b>	<b>(11,395)</b>	<b>53,723</b>
<b>Movement in accumulated losses</b>		
Accumulated losses at the beginning of the year	(143,699)	(138,174)
Adjustment on adoption of AASB 16	(11,125)	–
Adjustment on adoption of AASB 9 and AASB 15	–	(5,525)
Profit / (loss) after tax for the year <sup>(i)</sup>	(5,772)	–
<b>Accumulated losses at the end of the year</b>	<b>(160,596)</b>	<b>(143,699)</b>
<b>Movement in Reserves</b>		
Reserves at the beginning of the year	184,073	169,075
Profit / (loss) after tax for the year <sup>(i)</sup>	–	52,937
Dividends paid from profits reserve	(19,706)	(38,171)
Other comprehensive income	(5,623)	786
Share based payments expense, recorded in equity reserve	243	(554)
<b>Reserves at the end of the year</b>	<b>158,987</b>	<b>184,073</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.

(ii) The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Notes 5, 11 and 27 for further details.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 18. DEED OF CROSS GUARANTEE (continued)

#### b. Statement of financial position

<i>In thousands of AUD</i>	As at 31 August 2020	As at 31 August 2019 (restated) <sup>(i)</sup>
<b>Current assets</b>		
Cash and cash equivalents	48,815	23,860
Trade and other receivables	597,834	701,958
Inventories	346,172	395,853
Lease receivables	6,530	–
<b>Total current assets</b>	<b>999,351</b>	<b>1,121,671</b>
<b>Non-current assets</b>		
Trade and other receivables	21,237	55,655
Lease receivables	23,002	–
Investments	206,824	201,933
Financial assets at fair value through other comprehensive income	1,200	87,849
Deferred tax assets	20,880	29,378
Right-of-use assets	106,699	–
Property, plant and equipment	72,723	85,801
Intangible assets	141,779	158,269
<b>Total non-current assets</b>	<b>594,344</b>	<b>618,885</b>
<b>Total assets</b>	<b>1,593,695</b>	<b>1,740,556</b>
<b>Current liabilities</b>		
Trade and other payables	716,084	774,806
Loans and borrowings	3,637	57,652
Lease liabilities	36,330	–
Provisions	31,575	33,289
Income tax payable	11,500	1,957
<b>Total current liabilities</b>	<b>799,126</b>	<b>867,704</b>
<b>Non-current liabilities</b>		
Trade and other payables	33,382	80,045
Loans and borrowings	64,945	163,877
Lease liabilities	126,071	–
Provisions	5,319	4,437
<b>Total non-current liabilities</b>	<b>229,717</b>	<b>248,359</b>
<b>Total liabilities</b>	<b>1,028,843</b>	<b>1,116,063</b>
<b>Net assets</b>	<b>564,852</b>	<b>624,493</b>
<b>Equity</b>		
Share capital	566,461	566,461
Reserves	158,987	184,073
Accumulated losses	(160,596)	(126,041)
<b>Total equity</b>	<b>564,852</b>	<b>624,493</b>

(i) The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Notes 5, 11 and 27 for further details.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 19. PARENT ENTITY DISCLOSURES

#### a. Summarised statement of comprehensive income

<i>In thousands of AUD</i>	Year ended 31 August 2020	Year ended 31 August 2019
Profit / (loss) after tax	(14,691)	34,539
Other comprehensive income / (loss)	(5,088)	1,271
<b>Total comprehensive income / (loss) for the year</b>	<b>(19,779)</b>	<b>35,810</b>

#### b. Summarised balance sheet

<i>In thousands of AUD</i>	As at 31 August 2020	As at 31 August 2019 (restated) <sup>(i)</sup>
Current assets	58,926	222,096
Non-current assets	723,506	717,033
<b>Total assets</b>	<b>782,432</b>	<b>939,129</b>
Current liabilities	333,888	400,063
Non-current liabilities	59,744	112,072
<b>Total liabilities</b>	<b>393,632</b>	<b>512,135</b>
<b>Net assets</b>	<b>388,800</b>	<b>426,994</b>
<b>Equity</b>		
Share capital	566,461	566,461
Reserves	34,826	74,099
Accumulated losses	(212,487)	(213,566)
<b>Total equity</b>	<b>388,800</b>	<b>426,994</b>
<b>Capital commitments of the parent entity</b>	<b>111</b>	<b>179</b>

(i) The 31 August 2019 balances have been restated due to the IFRS Interpretations Committee decision in relation to Multiple Tax Consequences of Recovering an Asset. Refer to Notes 5, 11 and 27 for further details.

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 21.

#### 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

CONTINUED

### OTHER DISCLOSURES

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

#### 21. 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>	Year ended 31 August 2020	Year ended 31 August 2019
Short-term employee benefits	2,581,282	2,349,635
Other long-term employee benefits	147,075	115,954
Final payouts	170,040	–
Share based payments	57,143	(195,478)
<b>Total KMP compensation</b>	<b>2,955,540</b>	<b>2,270,111</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 former 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 retired as Director on 9 July 2020 and, subsequent to year-end, received a retirement payment in respect of his directorship. During his period as a Director, Mr R D Millner was a Director of Washington H Soul Pattinson and Company Limited. Washington H Soul Pattinson and Company Limited holds 95,068,472 shares (31 August 2019: 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 issued to forfeited by and KMP have been disclosed in the Remuneration Report contained within the Directors' Report.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 22. SHARE-BASED PAYMENTS

<i>In thousands of AUD</i>	Year ended 31 August 2020	Year ended 31 August 2019
<b>Long term incentive plan (LTIP)<sup>(i)</sup></b>		
2015 grant	–	(10)
2016 grant	4	(352)
2017 grant	(238)	(315)
2018 grant	(122)	123
2019 grant	599	–
<b>Total share based payments expense</b>	<b>243</b>	<b>(554)</b>

(i) In accordance with AASB 2 Share-based Payment, this amount represents the expense incurred, net of any write-backs, during the year in respect of current incentive allocations to employees. The amounts are 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 2020</b>							
2016 LTIP	1 Feb 2017	924,512	916,680	–	(122,571)	(794,109)	–
2017 LTIP <sup>(i)</sup>	29 Jan 2018	1,241,012	1,130,237	–	–	–	1,130,237
2018 LTIP	10 Dec 2018	1,364,259	1,266,949	–	–	(50,119)	1,216,830
2019 LTIP	12 Nov 2019	1,685,711	–	1,685,711	–	(38,600)	1,647,111
<b>Total</b>		<b>5,215,494</b>	<b>3,313,866</b>	<b>1,685,711</b>	<b>(122,571)</b>	<b>(882,828)</b>	<b>3,994,178</b>
<b>Financial year 2019</b>							
2015 LTIP	13 Jan 2016	1,103,290	1,060,046	–	(275,252)	(784,794)	–
2016 LTIP	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>

(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 0% of this grant.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 22. 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 2019 LTIP:

	Tranche 1	Tranche 2
Grant date	19 Dec 2019	20 Feb 2020
Fair value at measurement date	\$1.120	\$1.080
<b>Model inputs:</b>		
Share price at grant date	\$1.330	\$1.275
Expected volatility (expressed as weighted average)	30%	30%
Performance rights vesting life	Three years	Three years
Expected dividend yield	6.00%	6.00%
Risk free interest (based on Government bond rates)	0.806%	0.697%

#### 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.

There was no STIP granted during the 2020 or 2019 financial year.

### 23. AUDITOR'S REMUNERATION

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

In AUD	Year ended 31 August 2020	Year ended 31 August 2019
<b>Audit services - audit and review of financial reports</b>		
KPMG Australia	521,640	581,749
Overseas KPMG firms	38,886	36,000
<b>Total audit services</b>	<b>560,526</b>	<b>617,749</b>
<b>Other services</b>		
Due diligence services for business acquisitions - KPMG Australia	–	159,874
Clear Skincare acquisition related services - KPMG Australia	–	125,183
Other assurance services - KPMG Australia	34,673	31,920
Taxation services - Overseas KPMG firms	23,240	8,830
All other services - Overseas KPMG firms	5,764	5,636
<b>Total non audit services</b>	<b>63,677</b>	<b>331,443</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 24. NEW ACCOUNTING STANDARDS

#### a. New accounting standards and interpretations

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

- AASB 16 Leases
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017
- AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments

The adoption of all amending standards above, apart from AASB 16 Leases, did not have any material impact on the disclosures or amounts recognised in the consolidated financial report for the year ended 31 August 2020.

#### AASB 16 Leases

The Group adopted AASB 16 Leases on 1 September 2019, using the modified retrospective approach, with the cumulative effect of initial application being recognised as an adjustment against the opening accumulated losses with no restatements for comparative periods.

AASB 16 Leases has established a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligations to make lease payments.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses and is adjusted for remeasurement of the lease liability.

The lease liability is initially measured at the present value of the future lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The Group's lease portfolio includes various distribution centres, retail premises, warehouse machinery, motor vehicles and office equipment typically for fixed periods of 3 to 10 years. The Group's leases may have extension options in order to maximise operational flexibility when managing contracts. These options are exercisable only by the Group as a lessee and not the respective lessor. The lease agreements are negotiated individually and do not impose any covenants.

Details of the Group's extension options are as follows:

	<b>As at 31 August 2020</b>
<b>Details of the Group's extension options at 31 August 2020</b>	
Leases with extension options	8%
Leases without extension options	92%
<b>Total leases</b>	<b>100%</b>
<b>Of the leases with extension options</b>	
Leases with an extension option included in the lease liability	53%
Leases with an extension option excluded in the lease liability	47%
<b>Total leases with extension options</b>	<b>100%</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 24. NEW ACCOUNTING STANDARDS (continued)

#### Key accounting estimate and judgement – lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Relevant factors the Group considers in determining the likelihood to exercise a lease renewal, to the point of reasonable certainty, include the property strategy, the importance of the leased asset to the Group, the existence of renewal options and their pricing, whether the market is a new market or an existing market, the costs of returning the leased asset in a contractually specified condition, the existence of alternate sites within the same location and the associated costs of a relocation and any broader trends generally shaping the industries in which the Group operates.

The adoption of AASB 16 Leases had the following impact on the Consolidated Balance Sheet of the Group at 1 September 2019:

<i>In thousands of AUD</i>	<b>As at 31 August 19</b>	<b>AASB 16 impact</b>	<b>Opening balance as at 1 September 19</b>
Right-of-use asset	–	157,324	157,324
Lease receivable	–	34,927	34,927
Property Plant & Equipment	107,130	2,797	109,927
<b>Total assets impact</b>		<b>195,048</b>	
Trade and other payables – current	(790,270)	8,089	(782,181)
Deferred tax liabilities	(8,239)	4,848	(3,391)
Lease liabilities - current	–	(50,722)	(50,722)
Lease liabilities - non-current	–	(168,388)	(168,388)
<b>Total liabilities impact</b>		<b>(206,173)</b>	
Accumulated losses	(127,847)	(11,125)	(138,972)
<b>Total equity impact</b>		<b>(11,125)</b>	

On adoption of AASB 16 Leases, the Group has recognised lease liabilities for leases previously classified as operating leases under the principles of the previous standard AASB 117 Leases. On adoption, these leases were measured at the present value of remaining lease payments discounted using the lessee's incremental borrowing rate as at 1 September 2019. The Group's incremental borrowing rate in its capacity as lessee was a weighted average of 2.96% at reporting date.

The following practical expedients have been applied, as permitted by AASB 16 Leases:

- Application of a single incremental borrowing rate for a portfolio of leases with reasonably similar characteristics,
- Reliance on previous assessments on whether leases are onerous,
- Treatment of leases with a remaining lease term of less than 12 months at 1 September 2019 as short-term leases,
- Treatment of leases for which the underlying asset is of low value, as rental expense, and
- Application of hindsight in determining where the contract contains options to extend or terminate the lease.

The Group has also adopted the practical expedient for rent concessions negotiated as a consequence of COVID-19. This allows the Group to elect not to account for changes in lease payments as a lease modification where a change in lease payments to the revised consideration are substantially the same or less than the consideration for the lease preceding the change, the reductions only affects payments which fall due before 30 June 2021 and there has been no substantive change in terms and conditions. Where the practical expedient has been applied, rent concessions are accounted for in the consolidated income statement.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

**24. NEW ACCOUNTING STANDARDS (continued)**

A reconciliation of operating lease commitments at 31 August 2019 to 1 September 2019 is provided below:

<i>In thousands of AUD</i>	<b>2019</b>
Operating lease commitment at 31 August 2019	210,712
Discounted using incremental borrowing rate at date of initial application	(24,498)
Adjustments for reasonably certain extension options and leases in holdover	33,120
Recognition exemptions - Short term leases	(224)
<b>Lease liability at 1 September 2019</b>	<b>(219,110)</b>
Lease liability - current	(50,722)
Lease liability - non-current	(168,388)

The movement in lease liabilities is presented below:

<i>In thousands of AUD</i>	<b>Property</b>	<b>Vehicle</b>	<b>Equipment</b>	<b>Total</b>
Lease liability at 1 September 2019	(213,492)	(747)	(4,871)	(219,110)
Additions	(32,514)	(226)	(1,396)	(34,136)
Modifications	6,767	(15)	110	6,862
Finance expense	(6,645)	(11)	(85)	(6,741)
Payments on lease liabilities	68,074	523	2,209	70,806
Foreign currency exchange differences	122	3	-	125
<b>Total lease liability at 31 August 2020</b>	<b>(177,688)</b>	<b>(473)</b>	<b>(4,033)</b>	<b>(182,194)</b>
Lease liability - current	(38,406)	(320)	(1,678)	(40,404)
Lease liability - non-current	(139,282)	(153)	(2,355)	(141,790)

The movement in right-of-use assets is presented below:

<i>In thousands of AUD</i>	<b>Property</b>	<b>Vehicle</b>	<b>Equipment</b>	<b>Total</b>
Opening right-of-use asset at 1 September 2019	151,706	747	4,871	157,324
Additions	28,504	226	1,396	30,126
Modifications	(5,423)	15	(110)	(5,518)
Depreciation	(53,783)	(514)	(2,207)	(56,504)
Impairment	(227)	-	-	(227)
Foreign currency exchange differences	(119)	(3)	-	(122)
<b>Total right-of-use assets at 31 August 2020</b>	<b>120,658</b>	<b>471</b>	<b>3,950</b>	<b>125,079</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 24. NEW ACCOUNTING STANDARDS (continued)

The movement in lease receivables is presented below:

<i>In thousands of AUD</i>	<b>Property</b>
Opening lease receivable at 1 September 2019	34,927
Receipts from subleases	(8,772)
Finance expense	918
Additions	2,442
Modifications	382
Disposals	(365)
<b>Total lease receivable at 31 August 2020</b>	<b>29,532</b>

The following segments were affected by the change in policy during the year:

<i>In thousands of AUD</i>	<b>Australia</b>	<b>New Zealand</b>	<b>Consolidated</b>
Occupancy costs	(59,208)	(517)	(59,725)
Depreciation and amortisation	56,046	458	56,504
Finance expense	5,716	107	5,823
Income tax expense	(766)	(15)	(781)
<b>Net profit after tax</b>	<b>1,788</b>	<b>33</b>	<b>1,821</b>

### b. Accounting standards issued but not yet implemented

The Group has not early adopted any new or amended standards in preparing the consolidated financial statements.

### 25. SUBSEQUENT EVENTS

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

On 1 September 2020, the Group paid \$32.9m to the minority shareholders of the Clear Skincare business to increase the ownership interest in this business from 50.2% to 75.2%.

Subsequent to year-end, the Group entered into an arrangement for construction at a new Distribution Centre in Sydney, New South Wales, as part of the Group's plans to invest in the Distribution network.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 31 August 2020, 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

CONTINUED

**26. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES**

<i>In thousands of AUD</i>	<b>Year ended 31 August 2020</b>	<b>Year ended 31 August 2019</b>
Profit / (loss) before tax for the year	(14,647)	73,740
Depreciation and amortisation	87,508	29,069
Impairment (reversal)/loss on property, plant and equipment	(463)	55
Impairment loss on brand names	37,500	–
Impairment loss on right-of-use assets	227	–
Net foreign exchange loss / (gain)	123	(206)
Net loss on sale of property, plant and equipment	5,168	2,704
Share based payments expense	243	(554)
Fair value movement of financial liabilities	(7,479)	(18,034)
Dividend income	(1,373)	(3,533)
Net finance costs	19,079	20,306
<b>Operating profit before changes in working capital and provisions</b>	<b>125,886</b>	<b>103,547</b>
Decrease/(increase) in trade and other receivables	155,042	(34,881)
Decrease/(increase) in inventories	45,078	(18,039)
(Decrease)/increase in trade and other payables	(87,211)	7,006
(Decrease)/increase in provisions and employee benefits	633	532
<b>Cash generated from operations</b>	<b>239,428</b>	<b>58,165</b>
Net interest paid	(12,978)	(19,106)
Income taxes paid	(10,935)	(27,450)
<b>Net cash inflows from operating activities</b>	<b>215,515</b>	<b>11,609</b>

**(a) 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>	<b>As at 31 August 2020</b>	<b>As at 31 August 2019</b>
Cash and cash equivalents	60,713	30,181
Loans and borrowings - current	(8,260)	(59,596)
Loans and borrowings - non current	(70,423)	(169,683)
<b>Net debt</b>	<b>(17,970)</b>	<b>(199,098)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 27. COMPARATIVE BALANCES

In May 2020, the IFRS Interpretations Committee (IFRS IC) published its final agenda decision 'Multiple Tax Consequences of Recovering an Asset (IAS 12 *Income taxes*)' which considers how an entity accounts for deferred taxes on an asset that has two distinct tax consequences over its life that cannot be offset (taxable economic benefits from use and capital gains on disposal or expiry). The IFRS IC concluded that in these circumstances an entity identifies separate temporary differences (and deferred taxes) that reflect these distinct and separate tax consequences of recovering the assets carrying amount.

As a result, API has amended its accounting policy to align with the IFRS IC guidance and retrospectively adjusted the deferred tax accounting for impacted brand name intangible assets. The impact of this change in accounting policy for the comparative reporting period and the beginning of the earliest period presented is shown below. The change in accounting policy had no impact on the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 August 2019. All adjustments outlined below relate to the Australian segment.

#### Consolidated Balance Sheet As at 31 August 2019

*In thousands of AUD*

	Reported	Adjustments	Restated
<b>Assets</b>			
Intangible assets	280,271	21,630	301,901
Deferred tax assets	31,049	(31,049)	–
<b>Non-current assets</b>	<b>563,843</b>	<b>(9,419)</b>	<b>554,424</b>
<b>Total assets</b>	<b>1,665,214</b>	<b>(9,419)</b>	<b>1,655,795</b>
<b>Liabilities</b>			
Deferred tax liabilities	–	8,239	8,239
<b>Non-current liabilities</b>	<b>255,425</b>	<b>8,239</b>	<b>263,664</b>
<b>Total liabilities</b>	<b>1,142,906</b>	<b>8,239</b>	<b>1,151,145</b>
<b>Equity</b>			
Accumulated losses	(110,189)	(17,658)	(127,847)
<b>Total equity</b>	<b>522,308</b>	<b>(17,658)</b>	<b>504,650</b>

#### Consolidated Balance Sheet As at 1 September 2018

*In thousands of AUD*

	Reported	Adjustments	Restated
<b>Assets</b>			
Intangible assets	283,383	21,630	305,013
Deferred tax assets	22,838	(22,838)	–
<b>Non-current assets</b>	<b>435,515</b>	<b>(1,208)</b>	<b>434,307</b>
<b>Total assets</b>	<b>1,521,343</b>	<b>(1,208)</b>	<b>1,520,135</b>
<b>Liabilities</b>			
Deferred tax liabilities	292	16,450	16,742
<b>Non-current liabilities</b>	<b>192,969</b>	<b>16,450</b>	<b>209,419</b>
<b>Total liabilities</b>	<b>1,010,636</b>	<b>16,450</b>	<b>1,027,086</b>
<b>Equity</b>			
Accumulated losses	(104,664)	(17,658)	(122,322)
<b>Total equity</b>	<b>510,707</b>	<b>(17,658)</b>	<b>493,049</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 36 to 84, and the Remuneration Report set out on pages 23 to 34 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 2020 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 API 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 2020 pursuant to Section 295A of the *Corporations Act 2001*.

Dated 21 October 2020

Signed in accordance with a resolution of the Directors:

  
**Kenneth W. Gunderson-Briggs**  
Interim Chair

# INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 AUGUST 2020



## 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 2020 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 2020
- 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 Australian Pharmaceutical Industries Limited (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 (including Independence Standards) (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.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

# INDEPENDENT AUDITOR'S REPORT

CONTINUED



## Key Audit Matters

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

- Valuation of receivables (including assessment of financial guarantees)
- 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 \$537.9m (current) and \$21.9m (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</li> </ul>	<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 valuation expert appointed by the Group;</li> <li>○ Assessing the Group's analysis of the value for other security held by the Group such as retention of title of</li> </ul> </li> </ul>

## INDEPENDENT AUDITOR'S REPORT

CONTINUED



<p>trading situations of these customers was critical to our assessment.</p> <p>Under AASB 9, credit losses are recognised on an Expected Credit Loss (ECL) basis. Given the subjective judgements 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>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</p> <ul style="list-style-type: none"> <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 relating to COVID-19, the outputs compared to the historical write off rates, and the Group's disclosures of the results of the ECL model at year end.</li> </ul>
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Asset valuation (carrying value of goodwill and brand names of \$106.1m for Australia, \$98.9m for Clearskincare and carrying value of goodwill of \$16.4m for New Zealand)	
Refer to Note 11 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<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 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 and retail sales;</li> <li>• Discount rates which are inherently subjective and vary according to the conditions and environment the</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Evaluating the appropriateness of the 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 fair value less costs of disposal models used, including the mathematical accuracy of the underlying calculation formulas.</li> <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 fair value less costs of disposal EBITDA multiple to comparable companies.</li> <li>• Comparing the forecast cash flows contained in the 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 CGUs, such as variability in pharmacy and</li> </ul>

# INDEPENDENT AUDITOR'S REPORT

CONTINUED



<p>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</p> <ul style="list-style-type: none"> <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. 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 model used to perform impairment assessments include a range of inputs. Valuation models contain forward-looking assumptions, which 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>retail sales and the uncertain outcome of government reforms to the Pharmaceutical Benefits Scheme.</p> <ul style="list-style-type: none"> <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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## 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.

## INDEPENDENT AUDITOR'S REPORT

CONTINUED



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:

[https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 2020, 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 24 to 34 of the Directors' report for the year ended 31 August 2020.

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

21 October 2020



## SHAREHOLDER INFORMATION

AS AT 30 NOVEMBER 2020

Shareholder information in this section has been updated since the Group's Appendix 4E and FY20 Financial Report (which were lodged with ASX on 22 October 2020).

### 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 30 November 2020

##### 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	108,369,648	ordinary shares
Washington H Soul Pattinson and Company Limited	88,670,423	ordinary shares
Citicorp Nominees Pty Limited	61,387,221	ordinary shares
J P Morgan Nominees Australia Pty Limited	31,836,056	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.
- c. unless:
  - (i) permitted under the Listing Rules;
  - (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 30 November 2020

##### Category

Ordinary Shares	Number of Shareholders
1 – 1,000	3,742
1,001 – 5,000	4,765
5,001 – 10,000	2,312
10,001 – 100,000	2,967
100,001 and over	209
	<b>13,995</b>

The number of shareholders holding less than a marketable parcel at 30 November 2020 was 1173 (18 November 2019: 1031).

##### 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 30 November 2020\*

Name	Number of Ordinary shares held	Percentage of Capital held
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	108,369,648	21.99
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	88,670,423	17.99
CITICORP NOMINEES PTY LIMITED	61,387,221	12.46
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	31,836,056	6.46
NATIONAL NOMINEES LIMITED	18,272,238	3.70
WASHINGTON H SOUL PATTINSON&CO LTD	6,398,049	1.29
PRUDENTIAL NOMINEES PTY LTD	6,000,000	1.21
BNP PARIBAS NOMS PTY LTD	2,996,043	0.60
BNP PARIBAS NOMINEES PTY LTD	2,895,968	0.58
J & P CHICK PTY LIMITED	1,850,000	0.37
JUM PTY LIMITED	1,567,286	0.31
MR FREDERICK BENJAMIN WARMBRAND	1,345,000	0.27
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	1,248,065	0.25
DR JEFFREY ERIC DALE CHICK & DR PAMELA HAZEL CHICK	1,200,000	0.24
INVESTMENT CUSTODIAL SERVICES LTD	1,000,000	0.20
NULIS NOMINEES (AUSTRALIA) LIMITED	906,482	0.18
MR RAYMOND FRANCIS FREW & MRS GILLIAN MARGARET FREW	820,000	0.16
SOPHIA PTY LTD	736,245	0.14
NAVIGATOR AUSTRALIA LTD	730,034	0.14
EST JOHN JOSEPH MURPHY	681,879	0.13
	<b>338,910,637</b>	<b>68.79</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 are encouraged to elect to receive the Annual Report by email or by accessing the Company website. Shareholders (whether Issuer or Broker Sponsored) wishing to receive the Annual Report by email should advise Boardroom in writing so that their holding details can be added to the distribution list. Shareholders are encouraged to update their communication preferences via the Boardroom website. Shareholders can also elect to receive the Annual Report by e-mail or by accessing the Company website <https://www.investorserve.com.au>

### 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 a source of information for shareholders. Other sources of information include:

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

### Financial Calendar\*

Half year end	28 February 2021
Half year profit announcement	22 April 2021
Year end	31 August 2021
Full year profit announcement	21 October 2021
Annual General Meeting	20 January 2022

\* 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

#### 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



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