Appendix 4E
Final Report for the year ended 31 August 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The following information is presented in accordance with ASX listing rule 4.3A and should be read in conjunction with the attached Financial Report for the year ended 31 August 2016.

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

Current period	- the year ended 31 August 2016
Previous corresponding period	- the year ended 31 August 2015

2. Results for announcement to the market

		Year ended 31 August 2016 $'000	Year ended 31 August 2015 $'000	Increase %
2.1	**Revenue from ordinary activities**	**3,839,987**	**3,457,400**	**11.1%**
2.2	**Profit from ordinary activities after tax attributable to members**	**51,670**	**43,126**	**19.8%**
2.3	**Profit for the period attributable to members**	**51,670**	**43,126**	**19.8%**
	Profit before interest, tax, depreciation and associates	**113,574**	**94,407**	**20.3%**
	Profit before tax	**68,909**	**59,455**	**15.9%**
2.3a	**Underlying net profit after tax (Attachment 1)**	**51,419**	**43,557**	**18.0%**
2.4	Earnings per share (*in cents*)			
	Basic earnings per share	10.6	8.8	
	Diluted earnings per share	10.5	8.7	
	Underlying basic earnings per share	10.5	8.9	**18.0%**

2.5 Dividends

	Amount per Security	**Franking %**	**Franked amount per Security**
Interim Dividend (paid 3 June 2016)	2.50 cents	100	2.50 cents
Final Dividend (payable 9 Dec 2016)	3.50 cents	100	3.50 cents

2.6 The record date for determining entitlements to the dividend
5:00pm Sydney time 4 November 2016.

2.7 Supplementary comments of any figures in 2.1 to 2.4 above
Refer to the Results Announcement and Results Presentation issued 20 October 2016.

3. Income Statement

Please refer to the Income Statement in the attached Consolidated Financial Report for the year ended 31 August 2016.

4. Statement of Financial Position

Please refer to the Statement of Financial Position in the attached Consolidated Financial Report for the year ended 31 August 2016.

5. Statement of Cash Flows

Please refer to the Statement of Cash Flows in the attached Consolidated Financial Report for the year ended 31 August 2016.

6. Dividends Paid

	Amount per share	Franked amount per share	Total Amount	Date of payment
Paid during the year ended 31 Aug 2016				
Final August 2015 - Ordinary	2.50 cents	2.50 cents	12,202,907	4 December 2015
Interim February 2016 - Ordinary	2.50 cents	2.50 cents	12,227,433	3 June 2016
Paid during the year ended 31 Aug 2015				
Final August 2014 - Ordinary	2.00 cents	2.00 cents	9,762,318	12 December 2014
Interim February 2015 - Ordinary	2.00 cents	2.00 cents	9,762,318	5 June 2015
Declared in respect of the year ended 31 Aug 2016				
Final August 2016 - Ordinary	3.50 cents	3.50 cents	17,118,392	9 December 2016

7. Dividend Reinvestment Plan

There are no dividend reinvestment plans currently in operation.

8. Statement of Retained Earnings

Please refer to the Statement of Changes in Equity in the attached Consolidated Financial Report for the year ended 31 August 2016.

9. Net tangible asset backing (cents per share)

	31 Aug 2016	31 Aug 2015
Net tangible asset backing per ordinary security (cents)	70.9	63.9

10. Subsidiaries

There were no acquisitions, disposals or loss of control over any entities during the year ended 31 August 2016.

11. Associates and Joint Ventures

Refer to Note 13 of the attached Consolidated Financial Report for the year ended 31 August 2016.

12. Other significant information

Refer to the attached Consolidated Financial Report for the year ended 31 August 2016.

13. Foreign Entities

The New Zealand subsidiary adopts International Financial Reporting Standards which is consistent with the consolidated entity.

14. Commentary on the Results for the period

14.1 The earnings per security and the nature of any dilution.
Please refer to Note 8 of the attached Consolidated Annual Financial Report for the year ended 31 August 2016.

14.2 Returns to shareholders including distributions and buy backs.
Please refer to Note 8 and Note 21 of the attached Consolidated Financial Report for the year ended 31 August 2016.

14.3 Significant features of operating performance.
Please refer to the attached Consolidated Financial Report for the year ended 31 August 2016.

14.4 The results of segments that are significant to an understanding of the business as a whole.
Please refer to Note 3 of the attached Consolidated Financial Report for the year ended 31 August 2016.

14.5 A discussion of trends in performance.
Please refer to the Results Announcement and Results Presentation issued 20 October 2016.

14.6 Any other factors which have affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified.
Please refer to the Results Announcement and Results Presentation issued 20 October 2016.

15. Independent Audit Review

The accounts have been audited and the Auditor has given an unqualified opinion.

16. Annual Meeting

The annual meeting will be held as follows:

Place	Rydges Parramatta, 116-118 James Ruse Drive, ROSEHILL NSW 2142
Date:	Wednesday 25 January 2017
Time:	2:00pm
Approximate date the annual report will be available:	Friday 9 December 2016

17. Audit Committee

The entity has a formally constituted Audit and Risk Committee.

Attachment 1

Underlying Earnings Reconciliation

	31 August 2016	31 August 2015
Reported net profit/(loss)	**51,670**	**43,126**
Net after tax benefit relating to prior year write downs	(2,688)	-
Share of loss from associates	2,437	431
Underlying net profit after tax	**51,419**	**43,557**
Underlying basic earnings per share (*in cents*)	**10.5**	**8.9**

Underlying NPAT and underlying EBIT are a non-statutory measure used by the Chief Operating Decision Maker to measure the financial performance of the consolidated entity.

AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED
ABN: 57 000 004 320

Financial Report for the year ended
31 August 2016

Contents

The Directors present their report together with the financial report of Australian Pharmaceutical Industries Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the year ended 31 August 2016 and the Auditor's report thereon.

DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

Mr Peter R. Robinson, B.Com, FAICD

Chairman.

Non-executive director.

Director since 5 May 2000.

Appointed Chairman 8 July 2003.

Mr Robinson has held both executive and non-executive directorships for over 30 years. Mr Robinson also during this time has had extensive general management and chief executive officer experience in the pharmaceutical industry.

Other current listed company directorships:

- Clover Corporation Limited
- TPI Enterprises Ltd

Former listed company directorships in the past three years:

- Washington H Soul Pattinson and Company Limited (appointed 1984, resigned 31 March 2015)
- New Hope Corporation Limited (appointed August 1997, resigned 31 March 2015)
- Exco Resources Limited (appointed November 2012, company de-listed January 2013)

Mr Robert D. Millner, FAICD

Non-executive director.

Director since 5 May 2000.

Appointed member of the Remuneration Committee on 2 October 2007.

Appointed member of the Nomination Committee on 15 August 2012.

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

Other current listed company directorships:

- Brickworks Limited
- BKI Investment Company Limited
- Milton Corporation Limited
- New Hope Corporation Limited
- TPG Telecom Ltd
- Washington H Soul Pattinson and Company Limited

Former listed company directorships in the past three years:

- Exco Resources Limited (appointed November 2012, company de-listed January 2013)

Ms E. Carol Holley, B.A, FCA, FAICD

Independent non-executive director.

Director since 19 December 2006.

Appointed Chair of the Audit and Risk Committee on 19 December 2006.

Ms Holley is a non-executive director of the Australian Science and Technology Organisation and a member of the Audit and Risk Committee.

Ms Holley is also chair of the Audit and Risk Committees of the NSW Department of Finance Services and Innovation, the NSW Property and Advisory Group, Service NSW, The Parliament of NSW and National Health Funding Body and a member of the committees of the NSW Mental Health Commission.

Mr Stephen P. Roche, B.Bus, FAICD

Executive director.

Managing Director and Chief Executive Officer since 14 August 2006.

Mr Roche joined API in March 2005. Previously he was Group General Manager, Health Services for Mayne Group Limited with responsibility for pharmacy distribution, pathology and other business units. Previous roles included Chief Operating Officer, Healthcare Services for FH Faulding & Co and a number of management roles at CSR.

In October 2016, Mr Roche was appointed a Director of The Myer Family Investments Pty Ltd.

Mr Roche is also Chairman of Priceline Sisterhood Foundation Limited.

Ms Lee Ausburn, M.Pharm,B.Pharm, Dip.Hosp.Pharm, GAICD

Independent non-executive director.

Director since 7 October 2008.

Appointed member of the Audit and Risk Committee on 7 October 2008.

Appointed member of the Nomination Committee on 15 August 2012 and appointed Chair on 8 April 2015.

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 is also President, Pharmacy Faculty Foundation, University of Sydney.

Other current listed company directorships:

- NIB Holdings Limited
- Somnomed Limited

Mr Gerard J. Masters

Independent non-executive director.

Director since 7 September 2010.

Appointed member of the Nomination Committee on 15 August 2012.

Appointed member and Chair of the Remuneration Committee on 30 January 2014.

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

Mr Kenneth W. Gunderson-Briggs, B. Bus, FCA, MAICD

Senior Independent non-executive director.

Director since 6 May 2014.

Appointed member of the Audit and Risk Committee on 6 May 2014.

Appointed member of the Remuneration Committee on 8 April 2015.

Appointed Senior Independent Director on 2 September 2015.

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

Mr Gunderson-Briggs has been Chairman of Glenaeon Rudolf Steiner School Limited since 2013, having been a director on the Board since 2009.

Other current listed company directorships:

- Harvey Norman Holdings Limited

Company Secretary

Mr Peter Sanguinetti has been Company Secretary and General Counsel since November 2007. Mr Sanguinetti BJuris, LLB, GAICD has extensive experience and was previously Company Secretary and General Counsel of Kodak (Australasia) Pty Ltd for 9 years, responsible for legal and company secretarial activities for the Kodak group across Asia. Mr Sanguinetti was also a non-executive director of HPAL Limited from January 2005 to November 2007. On 2 June 2009, Ms Genevieve Ryan was appointed an Alternate Company Secretary. Ms Ryan BSc (Hons), LLB (Hons) is a qualified lawyer and supports the Company Secretary.

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the period were:

Director**	Board		Audit and Risk		Remuneration		Nomination	
	Number attended	Number Held*	Number attended	Number held*	Number attended	Number held*	Number attended	Number held*
Mr P R Robinson***	16	16	-	-	-	-	-	-
Mr R D Millner	14	16	-	-	3	3	2	2
Ms E C Holley	15	16	4	4	-	-	-	-
Mr S P Roche***	16	16	-	-	-	-	-	-
Ms L Ausburn	16	16	4	4	-	-	2	2
Mr G J Masters	16	16	-	-	3	3	2	2
Mr K W Gunderson-Briggs	16	16	4	4	3	3	-	-

* Number of meetings held during the time the director held office or was a member of the committee during the period.

** All Directors who are not members of Committees are invited to attend Committee Meetings.

*** Mr Robinson and Mr Roche attended all Committee meetings by invitation.

OPERATING AND FINANCIAL REVIEW

As required by Section 299A(1) of the Corporations Act, and in accordance with ASIC Regulatory Guide 247 Effective Disclosure in an Operating and Financial Review (RG247) issued in March 2013, the Board is required to include in the Directors Report an Operating and Financial Review (OFR) which includes information that shareholders would reasonably require to make an informed assessment of the consolidated entity's operations, financial position and business strategies, and prospects for future years. The OFR complements and supports the financial report.

Financial Performance

- Underlying net profit after tax up 18% to $51.4 million
- Reported net profit after tax up 19.8% to $51.7 million
- Earnings before interest and tax up 17.7% to $87.1 million
- Revenue up 11.1% to $3.839 billion
- Overall cost of doing business reduced by 70 basis points
- Net after tax benefit relating to prior year write downs $2.6 million
- Shareholding in CH2 business sold during the year for $4.36 million in cash and a net loss of $2.4 million
- Declared dividend of 3.5 cents per share fully franked.

The consolidated entity reported an underlying net profit after tax of $51.4 million, following strong contributions from Retail Operations, Supply Chain optimisation, general cost management along with maintaining the pharmacy distribution position in the sector.

Priceline / Priceline Pharmacy recorded overall reported register sales growth of 7.6% and comparable store sales growth of 2.8%. This performance was driven by the continued strength of the customer offer, with strong customer response to new products, promotions and service offers. For completeness it should be noted that 'register' sales made by franchisees do not form part of the financial results of the consolidated entity. Total retail register sales (excluding the dispensary) are in excess of $1.1 billion.

Due to the strong customer focus, demand for new stores from potential pharmacist franchise partners is high and new store openings also contributed to increased sales. The Priceline Pharmacy network numbers were 442 up from 420 at 31 August 2015. Engagement with customers across all forums, including online, social media and in stores, is a key driver of loyalty to the brand, shown demonstrably with the Sister Club loyalty program now having 6.4 million members. This loyalty program remains the pre eminent leader in health and beauty in Australia.

Pharmacy Distribution performed to expectations with sales growth of 11.2% (excluding HepC sales growth was flat) to $2.7 billion. Excluding the effect of Pharmaceutical Benefits Scheme (PBS) reforms, sales growth would have been 4.8% over the prior year period. The business grew independent accounts, demonstrating that pharmacists are choosing to deal with API due to the choice of programs that can be tailored to the individual needs of their business.

The New Zealand manufacturing segment recorded a profit of $2.3 million. Sales growth of 6.8% was largely driven by demand for private label products from the Australian market, which continues to be a source of growth.

The company's associated investments (CH2 Holdings Pty Ltd) were sold in November 2015 resulting in a net loss of $2.4 million.

Capital expenditure for the year was $20.7 million following last years significant investment in the SAP ERP system.

The Company's operating cash flow improved 3.5% to $82.9 million due to targeted cash and working capital management.

Financial Position

The Company's net debt reduced to $25.9 million which reflects a $44.9 million reduction on the prior year. The Company is currently operating comfortably within the Group's facility limits and associated banking covenants.

In line with the strong operational performance the Company has declared a fully franked final dividend of 3.5 cents per share, bringing the full year dividend to 6.0 cents per share fully franked, an increase of 33.3% on the prior year dividend of 4.5 cents.

Business Strategies and prospects for future financial years

During the year the Board undertook a review of its short and long term strategies. This review was performed to ensure that its strategies remained relevant and adaptable to the dynamic regulatory and economic environment that the Company operates in, and which may affect the future financial performance and position of the Company.

The strategic issues that the Company needs to address in order to achieve its Vision are, by their very nature, long term issues and remain unchanged.

The strategic review analysed a range of internal and external environmental elements which validated the range of identifiable strategic goals and supporting initiatives across all business units and functions. The overall business strategies relevant to the Company's future financial position and performance include:

- Leveraging the health and beauty competitive advantage
- Market insights driving innovation and the customer experience
- Providing a compelling business model for partners
- An agile business model driving superior value
- A safer place to work every day
- Excellence in leadership, learning and recognition

These strategic goals and supporting initiatives all are focused on the Company achieving its vision of '*Enriching life, as the most inspirational choice for health beauty and wellbeing*'.

By applying the strategic goals to the Company's business plans, there will be a continued emphasis on capitalising on the Company's strengths in the health and beauty retail market and to optimise its strong national community pharmacy wholesale distribution business. This means the Company intends to;

- Drive safety leadership throughout the business.
- Continue to promote the Priceline Pharmacy Franchise proposition and grow the store network. Priceline Pharmacy is seen as a compelling proposition for pharmacists who wish to offset the impact of PBS reform, leverage business , pharmacy and retail expertise, and drive further growth from integrated dispensary and retail programs;
- Transition from Company owned Priceline stores to Franchise owned Priceline Pharmacies including the execution of the "Next Generation" store concept across the network;
- Build loyalty and increase engagement of the Priceline Sister Club loyalty program, and generally promote increased customer engagement including the Priceline website and social media channels;
- Grow the Soul Pattinson and Club Premium independent pharmacy buying group programs;
- Expand the Company's Health and Beauty Retail Brand portfolio and offers, supported by an integrated marketing communication strategy;
- Ensure the benefits, delivery and process improvements arising from the OneERP Project implementation;
- Optimise the value of the business portfolio through investment, divestment and acquisition;
- Build on the Company's merchandising strategy by sourcing pharmaceutical and health and beauty products that focus on superior delivery performance, exclusive product offerings and private brand products, and ranging products that are relevant to everyday needs and deliver value for money enhanced health outcomes;
- Maintain earnings margins within Pharmacy Distribution during a period of ongoing government PBS reforms in the Pharmacy sector;

- Embed values and behaviours by continuing to develop Personal, Team, Business and Community Leadership capability;
- Continue to invest in supply chain and information technology platforms to drive efficient and cost effective operating cost structures.

The Company expects to sustain improvements in earnings performance through the implementation of its core strategies and supporting initiatives. This outlook is subject to no material change in consumer or customer demand, a stable economic climate and no unforseen adjustments to either the regulatory environment or the PBS.

Specific details about the Company's business strategies and prospects that could give rise to likely material detriment to the Company, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage has not been included in this Annual Report. Other than the information set out in this document, information about other likely developments in the Company's operations in future financial years has not been included.

Material Business Risks

The Company continues to be influenced by a number of general economic and business conditions including levels of consumer spending, interest and exchange rates and government regulatory policies. The Company has a distinctive positioning in the Community Pharmacy wholesaling sector in Australia as well as being well positioned in the mass market Health and Beauty retail sector.

Despite its strengths in these sectors the Company faces challenges including:

- Ongoing government reforms to the PBS in the Pharmacy sector; and
- Macro-economic factors contributing to volatile retail sales and increasing cost pressures in key areas such as labour.

As part of the Company's risk management process, the risk profile of the Company is reviewed by Management with the assistance of the Risk and Internal Audit team at least annually. The results of this review are provided to the Audit and Risk Committee for its consideration and recommendation to the API Board.

The Company's risk management process is integrated with its strategic planning process and involves identifying the risk universe and documenting those factors that contribute to the inherent risk environment. Inherent risk is determined by combining likelihood and consequences assessments determined in the absence of any controls within the business.

The effectiveness of current controls in place to manage the identified risks is then assessed to determine residual risk. Where residual risk is deemed to be greater than the business risk appetite, risk treatment plans are developed and specific personnel assigned responsibility for the management of those risks. The status of risk treatment plans is monitored and reported to the Audit and Risk Committee at regular intervals.

The most recent update was in June 2016 against a backdrop of continued PBS reforms, challenging retail trading conditions and the exploitation of its information technology platforms as it transitioned to a one enterprise approach.

The following is a summary of the contemporary risks facing the Company as assessed by the recent update of the Company's risk profile:

- *Structural reforms within the Australian Community Pharmacy sector*

  This relates to the risk of continued Government PBS reforms. The Company monitors the changes to PBS medicines and responds with a combination of reduced discounts to Pharmacy customers and operational adjustments. The Company also closely monitors costs associated with the Community Service Obligation (CSO).

- *Execution of Retail Pharmacy strategy with associated growth of Priceline Pharmacy stores.*

  There is a risk that the expansion of the Company's Priceline Pharmacy franchise network is unsuccessful or the expected growth in the next five years is slower than expected. Existing key business processes and responses to mitigate this risk include dedicated Retail Pharmacy Business Development teams, the inclusion of landlords, banks and industry accountants in pharmacist familiarisation and recruitment forums. Tracking measures to monitor growth rates are reported to the Managing Director and the Board on a monthly basis.

- *One Enterprise Restructure and Information systems upgrade.*

  In 2011 the Company undertook a restructure of its Australian business and has transitioned from a multiple Business Unit structure to One Enterprise functional structure. This transition included an upgrade of the company's enterprise management information platforms in the latter part of the 2015 financial year.

  As this successful initiative progresses, the next challenge the company faces is to further optimise this platform and realise even greater potential.

- *Financial Risk and Long Term Customer Loans.*

  The Company's activities expose it to a number of financial risks including customer payment defaults, financial guarantees to banks supporting certain Pharmacy customers being called, and general retail trading conditions. The Company adopts a financial risk management program which seeks to minimise potential adverse impacts on the financial performance of the Company. The Company has undrawn funding lines throughout the year to manage any unforeseen financial risks.

REMUNERATION REPORT – AUDITED

The API Board is committed to transparent disclosure of its remuneration strategy and this report details the processes used in remuneration decisions and their outcomes for Key Management Personnel (KMP) for the 2016 financial year. This report is prepared in accordance with Section 300A of the Corporations Act 2001 (as amended) for the Company and its subsidiaries.

In 2015, the Board engaged Guerdon Associates as its independent external remuneration consultant to undertake a benchmarking review of Executive Remuneration, including the Managing Director and Chief Executive Officer. In addition, Guerdon Associates undertook a review of Non-Executive Director Fee policies. The Board is committed to seeking independent review of the company's remuneration structure as required from time to time to ensure its remuneration practices remain consistent with peer market practices. For this purpose, it is intended that Guerdon Associates will provide advice to the Board as required.

With respect to the Executive Short Term Incentive Plan (STIP) and Long Term Incentive Plan (LTIP), a review was conducted during the 2015 financial year to ensure those Plans continued to meet market practices. As a consequence of this review, the Board approved changes to the respective plans as summarised below:

1. Short Term Incentive Plan (STIP) for the 2014/2015 award
   - The number of performance rights issued will no longer be increased by 10% as compensation for forgone dividends. Instead, a cash payment will be made at the time of vesting of the performance rights equivalent to the Company's actual dividend paid during the 12 month vesting period.
2. Long Term Incentive Plan (LTIP) for the 2015/2016 award
   - the number of performance right entitlements will no longer be increased by 10% as compensation for forgone dividends, and no other compensation will be payable for forgone dividends.
3. Long Term Incentive Plan (LTIP) for the 2016/2017 award and thereafter
   - A cash payment will be made at the time of vesting of the performance rights equivalent to the Company's actual dividend paid during the 3 year vesting period. No payment will made on unvested rights.

More details regarding the changes to STIP and LTIP arrangements can be found in Section 2 of the Remuneration Report.

Key Management Personnel

Key Management Personnel (KMP) have the authority and responsibility for planning, directing and controlling the activities of the consolidated entity, and comprise:

1. Non-executive Directors;
2. Managing Director and Chief Executive Officer;
3. Chief Financial Officer; and
4. Group General Manager Business Development and Operations.

Following a review during the 2015 financial year, it is not considered other Executives of the Company are within the scope of KMP having regard to the definition in AASB 124 and the definitions of "chief executive function" and "chief financial officer function" as set out in Section 295A (4) and (6) Corporations Act 2001.

Non-executive director KMP

Peter Robinson	Chairman
Lee Ausburn	Director
Carol Holley	Director
Gerard Masters	Director
Robert Millner	Director
Kenneth Gunderson-Briggs	Director

Executive KMP

Stephen Roche	Managing Director and Chief Executive Officer
Peter Mendo	Chief Financial Officer
Richard Vincent	Group General Manager Business Development and Operations.

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

The Remuneration Committee is governed by its Charter (available on www.api.net.au) which was developed in line with ASX Corporate Governance Principles and Recommendations. The Charter specifies the purpose, authority, membership and activities of the Remuneration Committee, and the Charter is annually reviewed by the Committee to ensure it remains consistent with regulatory requirements.

Membership of the Committee consists of Non-executive Directors. During 2015-2016 members of the Committee were Mr Gerard Masters (Chairman), Mr Robert Millner and Mr Kenneth Gunderson-Briggs.

The Remuneration Report is in sections as follows:

Section 1 Non-executive Director KMP Remuneration

A Policy and Principles

B Remuneration Details (excluding the Chief Executive Officer)

Section 2 Executive KMP Remuneration

A Policy and Principles

B Remuneration Structure

C Short Term Incentive Plan (STIP)

D Long Term Incentive Plan (LTIP)

E Summary of KMP Employment Contracts

F KMP Remuneration Details

Section 3 Other matters

A Comments on Remuneration Report at the Company's most recent AGM

B Appointment of Remuneration Consultant

SECTION 1 NON-EXECUTIVE DIRECTOR KMP REMUNERATION

A Policy and Principles

Non-executive Directors' fees are determined within an aggregate Non-executive Directors' pool limit. An annual total fee pool of $850,000 was approved by shareholders at the 30 January 2014 Annual General Meeting. Total Non-executive Directors remuneration including Board Committee fees, non-monetary benefits and superannuation paid at the statutory prescribed rate for the year ended 31 August 2016 was $691,576 which is within the approved annual fee pool. This is a 2.7% increase on the prior year, and attributable to an increase in base board and committee fees. Non-executive Directors' remuneration is based on the data provided by independent remuneration consultants, the need to attract and retain appropriately qualified Non-executive Directors, fee levels applied in similarly sized companies, and board judgement as to whether any adjustments are appropriate. Non-executive Directors do not receive performance related remuneration.

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

Annual Board fees (including superannuation) were structured as follows with effect from March 2014:

Role	Annual Fee Structure
Board chairman	$170,000
Board member	$80,000
Audit and Risk Committee chair	$35,000
Audit and Risk Committee member	$6,000
Remuneration Committee chair	$12,500
Remuneration Committee member	$6,000
Nomination Committee chair	(no fee)
Nomination Committee member	(no fee)
Senior Independent Director	$12,500

The Board Chairman does not receive Committee fees.

B Remuneration of Directors (excluding the Chief Executive Officer)

	Short Term											
	Salary and Fees	Cash - Short-term incentives	Non-monetary benefits	Total	Post-employment superannuation	Other long term	Termination payments	Equity Value of rights granted under STIP	Equity Value of rights granted under LTIP	Total	Proportion of remuneration performance related	Value of rights as proportion of remuneration (%)
DIRECTORS	$	$	$	$	$	$	$	$	$	$	%	%
Non-executive												
Mr P R Robinson												
31 August 2016	158,718	-	23,012	181,730	15,078	-	-	-	-	196,808	-	-
31 August 2015	155,606	-	1,261	156,867	14,783	-	-	-	-	171,650	-	-
Mr R D Millner												
31 August 2016	80,294	-	-	80,294	7,628	-	-	-	-	87,922	-	-
31 August 2015	79,539	-	-	79,539	7,478	-	-	-	-	87,017	-	-
Ms E C Holley												
31 August 2016	107,368	-	-	107,368	10,200	-	-	-	-	117,568	-	-
31 August 2015	105,263	-	-	105,263	10,000	-	-	-	-	115,263	-	-
Ms L Ausburn												
31 August 2016	80,294	-	-	80,294	7,628	-	-	-	-	87,922	-	-
31 August 2015	78,719	-	-	78,719	7,478	-	-	-	-	86,197	-	-
Mr G Masters												
31 August 2016	86,361	-	-	86,361	8,204	-	-	-	-	94,565	-	-
31 August 2015	84,668	-	-	84,668	8,043	-	-	-	-	92,711	-	-
Mr K Gunderson-Briggs												
31 August 2016	97,526	-	-	97,526	9,265	-	-	-	-	106,791	-	-
31 August 2015	80,089	-	-	80,089	7,608	-	-	-	-	87,697	-	-

Retirement benefits for Non-executive Directors are included on an accrual basis. The benefits are paid on a pro rata basis up to 10 years' service to a maximum of three times the average annual remuneration in the three years preceding retirement. The retirement benefit is capped at $220,000 and does not apply to Directors first appointed after 9 September 2003. On 31 August 2009 the Directors agreed to freeze this benefit.

Post employment superannuation contributions are inclusive of the super guarantee increase effective 1 July 2014.

Non-monetary benefits are excluded from the board fees.

SECTION 2 EXECUTIVE REMUNERATION INCLUDING THE MANAGING DIRECTOR

A Policy and Principles

API's remuneration strategy is to:

- Offer a remuneration structure that will attract, focus, retain and reward highly capable people;
- Ensure that remuneration decisions are based on a fair and transparent position evaluation process that is linked to comparative market data and the experience of the individual in the position;
- Have a clear and transparent link between performance and remuneration;
- Encourage and integrate risk management within the reward framework; and
- Build employee engagement and align management and shareholder interests through the ownership of Company shares.

Executive remuneration is set with regard to the size and nature of the position with reference to market median benchmarks and the performance of the individual.

Remuneration will incorporate at risk elements to:

- Link Executive reward with the achievement of API's business objectives and financial performance; and
- Ensure total remuneration is competitive by market standards.

The Remuneration Committee has the role of reviewing and making recommendations to the Board on Executive remuneration at API. The Remuneration Committee may seek independent advice on the appropriateness of remuneration levels given trends in comparable companies. The Remuneration Committee is authorised to seek advice if and when required.

B Remuneration Structure

The Executive Remuneration Framework as it applies to the Managing Director and Senior Executives comprises:

- Fixed Remuneration; and
- Performance linked remuneration in the form of a Short Term Incentive Plan (STIP) and a Long Term Incentive Plan (LTIP).

Fixed Remuneration

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

Fixed remuneration levels are reviewed annually. Fixed remuneration levels are set in reference to each position's accountability and the median level for similar positions in the market. Any adjustment needs to also consider individual segment results and overall performance of the consolidated entity. In addition, external consultants provide analysis and advice to ensure that Executive remuneration is appropriate given market practice.

Performance Linked Remuneration

Performance linked remuneration includes both short term and long term incentives and is designed to reward KMP's for meeting or exceeding their financial and non-financial objectives. The short term incentive is provided in the form of a cash payment and deferred rights to acquire shares while the long term incentive is provided as deferred rights to acquire shares ("Performance Rights").

The Group has a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. Entering into such arrangements has been prohibited by law since 1 July 2011.

C Short Term Incentive Plan (STIP)

The STIP is an annual at risk incentive plan for Executives and other designated senior employees who are considered to be in business critical roles.

Prior to the start of the Company's financial year the Remuneration Committee recommends for Board approval the size of the STIP pool which is the maximum amount payable under the STIP. The size of the pool is determined as a percentage of target EBIT for the year. Prior to any payment under the STIP, Company performance must pass an acceptable minimum gateway requirement of Group Net Profit After Tax before associates (NPAT).

At the start of each year the Remuneration Committee sets a 'scorecard' of performance conditions for the STIP as follows:

- NPAT; and
- Other financial and non-financial measures tailored for each business segment.

Other performance measures vary by business segment, however each scorecard includes a measure related to Earnings Before Interest and Tax (EBIT), Return on Capital Employed (ROCE) and individual performance measures. Multiple measures of performance help diversify risk.

Each year, the Board establishes NPAT performance hurdles of which base, target and maximum STIP entitlements will be payable. The current practice is that base equates to budget less 10%, the target equates to budget and the maximum equates to 110% of budget.

After the conclusion of the financial year, the Board assesses performance against Group and Segment Scorecards with 80% of the total maximum percentage based on key financial objectives and 20% based on individual objectives. Prior to any consideration of a STIP payment, the Company must meet a target NPAT performance. The Board has discretion for a STIP payment where achievement is 90% of target NPAT levels.

The precise number of performance rights granted will be determined by dividing the value of the deferred component of the STIP award by the volume weighted average closing price of API shares on the ASX in the 10 day period after announcement of full year results.

Offers made for the 2014/2015 STIP award and the 2015/2016 STIP award and thereafter will no longer include an increase in the number of rights granted on account of compensation for forgone dividends during the vesting period. Instead a cash payment will be made based on the Company's actual dividends paid during the 12 month vesting period. The reason for the change is to ensure the deferred STI reflects the actual value received by shareholders rather than an estimate.

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 Company benefit. The API Board has the discretion to clawback any unvested rights or unvested cash due to excessive risk taking, material misstatement of financial statements or fraudulent or gross misconduct.

For members of the Executive Leadership Team with STIP performance scorecard measures established after 1 September 2015 and any resulting award, the 50% 12 month deferred component of any STIP award will continue to be paid in performance rights. In addition, participants will be eligible to receive at the time of vesting a cash payment based on the Company's actual dividend paid during the 12 month vesting period.

On vesting and exercise of a performance rights, an employee will be provided with fully paid ordinary shares in API. No amount will be payable for the API shares upon vesting and exercise of the performance right.

More broadly, the Board retains absolute discretion over all awards made under the incentive award plans at API, including the STIP.

Managing Director and Chief Executive Officer

At base, Mr Roche's STIP equates to 32.5% of fixed remuneration, at target it equates to 65% of fixed remuneration and if NPAT is at a level that is 110% of budget, the STIP provides for a maximum payment of 100% of fixed remuneration.

Mr Roche's STIP scorecard is varied by the Board from year to year and is drawn from financial measures such as NPAT (before associates), Return on equity (ROE) and Return on capital employed (ROCE). Non-financial measures may include retail sales growth, Priceline Pharmacy network growth, pharmacy distribution market share and set improvement targets relating to workplace safety.

Other Executive KMP

At base, Executive KMP STIP equates to 10% of fixed remuneration, at target it equates to 20% of fixed remuneration and if NPAT is at a level that is 110% of budget, the STIP provides for a maximum of 40% of fixed remuneration. The Remuneration Committee recommends to the board, the financial measures for Executive KMP STIP which includes divisional EBIT, and ROCE.

During the 2014-15 financial year, the NPAT result exceeded the NPAT gateway and the Board approved the following Short Term Incentive payments.

In making the Short Term award to the Executive KMP the Board had regard to the following factors:

- Company performance
- Meeting the performance criteria set out in the STIP offer.

	Maximum STIP Opportunity as a % of Fixed Remuneration	Awarded STIP as a % of Fixed Remuneration	STIP Cash Entitlement	STIP Deferred Equity[1]
EXECUTIVES	%	%	$	$
Mr S Roche – Managing Director				
31 August 2016	100%	78.4%	397,791	397,791
31 August 2015	100%	100%	490,543	490,543*
Mr R Vincent – Group General Manager, Business Development and Operations				
31 August 2016	40%	27.7%	83,732	83,732
31 August 2015	40%	40%	117,452	117,452
Mr P Mendo – Chief Financial Officer ^				
31 August 2016	40%	27.7%	63,664	63,664
31 August 2015	Nil	Nil	-	-

1. 50% of the deferred equity has been recognised in remuneration for the year in accordance with AASB 2 Share Based Payments.

* On vesting and exercise of STIP performance rights, the Managing Director will be provided with fully paid ordinary shares purchased on-market.

D Long Term Incentive Plan (LTIP)

The Remuneration Committee has responsibility for API's Long Term Incentive Plan (LTIP). The Plan was established during the year ended 30 April 2006. The Remuneration Committee is responsible for awards to be granted under the Plan as well as overseeing administration of the Plan. Part of the administration is the determination of the performance conditions associated with each grant. The LTIP involves the granting of rights to acquire API shares.

Rights are granted to the Managing Director and Chief Executive Officer (which are subject to approval at the following AGM) and to certain executives as soon as practicable after the full year results are announced. This ensures that the allocation of rights reflects the market's best informed assessment of Company value and share price. The number of Rights granted is derived by calculating a value representing the relevant percentage of a participant's Fixed Remuneration, and dividing that value by the unit value per Right. This unit value is determined by calculating the 10 day Volume Weighted Average Closing Price of API shares immediately after announcement of full year results.

For LTIP performance scorecard measures established after 1 September 2015, performance rights no longer include additional rights to shares that would otherwise accrue from dividend reinvestment during the three year vesting period. Executives do not receive dividends on unvested shares.

If performance conditions are satisfied, the Rights vest and convert to API shares on a one-for-one basis. If performance conditions are not met, the Rights lapse. Under the LTIP, shares can be purchased on market on behalf of the participant or new shares issued by the Company. If any vesting is satisfied through the achievement of performance criteria, a participant will be provided with shares in API. Performance conditions will be tested only once and any Performance Rights that do not meet the performance conditions will lapse and will not be re-tested. The Company has a policy whereby directors and employees are prohibited from dealing in financial products issued or created over or in respect of securities (e.g. hedges or derivatives) which have the effect of reducing or eliminating the risk associated with any equity incentives that may be offered from time to time.

If the holder of an LTIP entitlement ceases to be employed before the end of the Performance Period for reasons other than redundancy, death, disability or illness, then the Performance Rights will automatically lapse, subject to Board discretion. If the holder of an LTIP entitlement ceases to be employed, before the Performance Period and the date of employment ceasing is on or after the first anniversary date of the Commencement Date, due to redundancy, death, disability or illness, then the number of Performance Rights will be reduced pro-rata to reflect the length of time during the Performance Period the employee was employed.

More broadly, the Board retains absolute discretion over all awards made under the incentive award plans at API, including the LTIP. The LTIP is in the form of a grant of 'rights to shares' for exceptional performance over a three year period.

For grants made prior to 31 August 2014, the performance condition is based on the actual Return on Equity (ROE) achieved by the consolidated entity during the three year period commencing at the beginning of the performance period when compared to the target ROE set by the Board for the same period (Target ROE). In both cases, ROE is expressed as a percentage created by dividing the net profit after tax for the relevant financial period by total shareholder equity for the relevant financial year. The target ROE is derived from the Corporate Plan for the three years commencing at the beginning of the performance period.

Grants made after 1 September 2014 will include a target measure of 3 year earnings per share (EPS) compound annual growth (CAGR), in addition to the existing ROE measure. Each of the two measures (EPS and ROE) will contribute equally to a LTIP award. If ROE is achieved and EPS is not achieved, or vice versa, then the total available award would be halved. This means 50% of the award is dependent on the ROE metric, and 50% of the award is dependent on the EPS metric. EPS is derived from the Corporate Plan for the three years commencing at the beginning of the performance period. The EPS performance condition compares the actual EPS growth achieved by the API group during a three year performance period, against the target amount of EPS growth set by the Board for the same period. The EPS is the basic earnings per share disclosed in the Income Statement of the Financial Statements of API for each financial year during the performance period. The initial benchmark EPS that serves as the basis for calculating EPS growth, and the target EPS may be varied by the Board in its absolute discretion.

Managing Director and Chief Executive Officer

The LTIP provides for Performance Rights equivalent in value to 60% of Fixed Remuneration.

Senior Executives

The LTIP provides for Performance Rights equivalent in value to 30% of Fixed Remuneration.

2013 grant

During the 2015-16 financial year the Performance Rights relating to the 2013 grant lapsed as the hurdles set for this grant were not achieved.

2014 grant

At 16 December 2014, performance rights (the 2014 grant) were granted with a performance period commencing on 1 September 2014 and ending 31 August 2017. Performance rights granted to the Managing Director and Chief Executive Officer were approved by shareholders at the 2014 Annual General Meeting. The performance condition, being API's return on equity (ROE) and earnings per share (EPS) for the exercise of performance rights will be assessed at the Remuneration Committee meeting after 31 August 2017, being the end of the performance period.

The ROE performance condition has the effect that:

- if a cumulative ROE of 21.38% is achieved for the three year period ending 31 August 2017, then 20% of the Rights subject to the ROE Performance Condition will vest;
- if a cumulative ROE of 34.74% is achieved for the three year period ending 31 August 2017, then 100% of the Rights subject to the ROE Performance Condition will vest; and
- if the cumulative ROE is between these two levels, then the number of rights that vest will be calculated on a straight line proportional basis.

The EPS Compound Annual Growth Rate (CAGR) performance condition has the effect that:

- if CAGR of 7.5% is achieved for the three year period ending 31 August 2017, then 20% of the Rights subject to the CAGR Performance Condition will vest;
- if a CAGR of 10.0% is achieved for the three year period ending 31 August 2017, then 100% of the Rights subject to the CAGR Performance Condition will vest; and
- if the CAGR is between these two levels, then the number of rights that vest will be calculated on a straight line proportional basis.

2015 grant

At 13 January 2016, performance rights (the 2015 grant) were granted with a performance period commencing on 1 September 2015 and ending 31 August 2018. Performance rights granted to the Managing Director and Chief Executive Officer were approved by shareholders at the 2015 Annual General Meeting. The performance condition, being API's return on equity (ROE) and earnings per share (EPS) for the exercise of performance rights will be assessed at the Remuneration Committee meeting after 31 August 2018, being the end of the performance period.

The ROE performance condition has the effect that:

- if a cumulative ROE of 25.07% is achieved for the three year period ending 31 August 2018, then 20% of the Rights subject to the ROE Performance Condition will vest;
- if a cumulative ROE of 40.74% is achieved for the three year period ending 31 August 2018, then 100% of the Rights subject to the ROE Performance Condition will vest; and
- if the cumulative ROE is between these two levels, then the number of rights that vest will be calculated on a straight line proportional basis.

The EPS Compound Annual Growth Rate (CAGR) performance condition has the effect that:

- if CAGR of 7.5% is achieved for the three year period ending 31 August 2018, then 20% of the Rights subject to the CAGR Performance Condition will vest;
- if a CAGR of 10.0% is achieved for the three year period ending 31 August 2018, then 100% of the Rights subject to the CAGR Performance Condition will vest; and
- if the CAGR is between these two levels, then the number of rights that vest will be calculated on a straight line proportional basis.

E Employment Contracts

The Company has entered into service contracts with Executive KMP. These contracts outline the components of remuneration paid to them but do not prescribe how remuneration levels are modified from year to year. 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 Company's remuneration policy outlined earlier.

Mr Stephen Roche, the Company's Managing Director and Chief Executive Officer, has a contract of employment with the Company dated 27 September 2006. The contract continues until the employment is terminated in accordance with the contract. The contract states the following in respect of cessation of his employment:

- Mr Roche may resign from the Company by giving three months written notice;
- The Company may summarily terminate Mr Roche's employment in specified circumstances with immediate effect and no termination benefits will apply other than accrued entitlements; and
- The Company may terminate Mr Roche's employment by the giving of twelve months written notice and may make a termination payment in lieu of notice of up to twelve months fixed remuneration.

Mr Roche's service contract has no fixed term.

Subsequent to the financial year end, Mr Roche has given notice of his retirement from the Company as Managing Director and Chief Executive Officer effective mid February 2017. Mr Roche will be succeeded by Mr Richard Vincent (currently holding the position of Group General Manager - Business Development and Operations).

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

KMP	Terms of Contract	Notice Period by Company	Notice Period by Employee
Peter Mendo	No fixed duration	6 months	6 months
Richard Vincent	No fixed duration	12 months	3 months

The Company may terminate an employment contract without cause by providing written notice, or making a payment in lieu of the notice period. Each employment contract provides for termination of employment without notice in circumstances sufficient to warrant summary termination. Each employment contract provides for a non-compete restriction of up to twelve months after cessation of employment.

F Remuneration of Executives including the CEO

Details of the nature and amount of each major element of remuneration of each of the Key Management Personnel of the consolidated entity (including the Chief Executive Officer) are:

	Short Term											
	Salary and Fees	Cash - Short-term incentives	Non-monetary benefits	Total	Post-employment superannuation	Other long term (ii)	Termination payments	Equity Value of rights granted under STIP	Equity Value of rights granted under LTIP (i)	Total	Proportion of remuneration performance related	Value of rights as proportion of remuneration (%)
EXECUTIVES	$	$	$	$	$	$	$	$	$	$	%	%
Mr S P Roche – Managing Director and CEO												
31 August 2016	989,338	397,791	22,810	1,409,939	19,359	26,169	-	444,123	239,453(iii)	2,139,043	50.6	32.0
31 August 2015	954,899	490,453	9,889	1,455,241	18,871	28,611	-	245,227	157,811	1,905,761	46.9	21.1
Mr R Vincent – Group General Manager, Business Development and Operations												
31 August 2016	582,684	83,732	-	666,416	19,359	14,952	-	100,592	52,055	853,374	27.7	17.9
31 August 2015	566,382	117,452	2,535	686,369	18,871	15,037	-	87,168	37,736	845,181	28.7	14.8
Mr P Mendo – Chief Financial Officer (appointed 21 January 2015)												
31 August 2016	440,641	63,664	-	504,305	19,359	-	-	31,832	46,000	601,496	23.5	12.9
31 August 2015	363,750	-	1,140	364,890	-	-	-	-	-	364,890	-	-

I. *The value of performance rights is calculated at grant date using the Black-Scholes Option Pricing model. The value is allocated to each reporting period evenly over the performance period.*

II. *Other long term benefits are the amounts charged against profits for the year for accrued Long Service Leave entitlements.*

III. *On vesting and exercise of 2015/2016 LTIP performance rights, the Managing Director will be provided with fully paid ordinary shares purchased on-market*

Specific Bonus and Equity Remuneration Analysis - Audited

Analysis of Performance Rights over Equity Instruments granted as Compensation

Details of the vesting profile of performance rights awarded as remuneration to each key management person are detailed below.

	Performance Rights granted						
Executive Director	Number	Value	Performance period commences	Included in Remuneration	% vested in the period	% forfeited in the period*	Financial period in which grant vests
Mr S Roche							
LTIP	777,088	357,460	1 September 2013	(238,306)	0%	100%	31 August 2016
	993,644	824,725	1 September 2014	274,908	0%	0%	31 August 2017
	332,543	605,228	1 September 2015	202,851	0%	0%	31 August 2018
STIP Deferred Equity	268,007	490,453	1 September 2014	245,227	0%	0%	31 August 2017
STIP Deferred Equity^		397,791	1 September 2015	198,896	0%	0%	31 August 2018
Executive Officers							
Mr R Vincent							
LTIP	295,888	136,108	1 September 2013	(90,738)	0%	100%	31 August 2016
	297,444	246,879	1 September 2014	82,293	0%	0%	31 August 2017
	99,180	180,508	1 September 2015	60,500	0%	0%	31 August 2018
STIP Deferred Equity	81,262	56,884	1 September 2013	-	100%	0%	31 August 2016
STIP Deferred Equity	64,182	117,452	1 September 2014	58,726	0%	0%	31 August 2017
STIP Deferred Equity^		83,732	1 September 2015	41,866	0%	0%	31 August 2018
Mr P Mendo							
LTIP	75,410	137,246	1 September 2015	46,000	0%	0%	31 August 2018
STIP Deferred Equity^		63,664	1 September 2015	31,832	0%	0%	31 August 2018

** 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.*

^ The precise number of performance rights awarded in respect of STIP for year ended 31 August 2016 will be determined by dividing the value of the deferred component of the STIP award by the volume weighted average closing price of API shares on the ASX in the 10 day period after announcement of full year results.

- The LTIP performance rights granted on 10 December 2013 (the 2013 grant) lapsed on 31 August 2016 without vesting.
- LTIP performance rights were granted on 16 December 2014 with a performance period commencing on 1 September 2014 and ending 31 August 2017 (the 2014 grant). The performance conditions for the exercise of performance rights will be assessed shortly after on 31 Oct 2017. The fair value of the performance rights is dependent upon the ROE and EPS performance conditions for the entire grant and is $0.95 per share.
- LTIP performance rights were granted on 13 January 2016 with a performance period commencing on 1 September 2015 and ending 31 August 2018 (the 2015 grant). The performance conditions for the exercise of

performance rights will be assessed shortly after 31 October 2017. The fair value of the performance rights is dependent upon the ROE and EPS performance conditions for the entire grant and is $1.82 per share.

- Performance rights relating to the STIP program commencing on 1 September 2013 and ending 31 August 2015 were granted on 7 October 2014. The performance rights were valued at $0.77 per share reflecting the volume weighted average closing price of API shares on the ASX in the 10-day period after announcement of full year 31 August 2014 results. These rights fully vested and were satisfied by the issue of fully paid ordinary shares in the Company on 9 November 2015.
- Performance rights relating to the STIP program commencing on 1 September 2014 and ending 31 August 2016 were granted on 7 October 2015. The performance rights were valued at $1.83 per share reflecting the volume weighted average closing price of API shares on the ASX in the 10-day period after announcement of full year 31 August 2015 results. Performance rights will only vest if the Executive remains employed with the Company at the exercise date subject to forfeiture conditions.
- Performance rights relating to the STIP program commencing on 1 September 2015 and ending 31 August 2017 were granted on 5 October 2016. The precise number of performance rights awarded will be determined by dividing the value of the deferred component of the STIP award by the volume weighted average closing price of API shares on the ASX in the 10 day period after announcement of full year 31 August 2016 results. Performance rights will only vest if the Executive remains employed with the Company at the exercise date subject to forfeiture conditions.
- The performance rights were provided at no cost to the recipient.

Performance rights over equity instruments

The movement during the reporting period in the number of performance rights over ordinary shares in Australian Pharmaceutical Industries Limited held directly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 Sept 15	Granted as Compensation*	Exercised	Other changes**	Held at 31 Aug 16	Vested during the year	Vested and exercisable at 31 Aug 16
Directors							
Mr S P Roche	1,770,732	600,550***	-	(777,088)	1,594,194	-	-
Executives							
Mr R Vincent	674,595	163,362	(81,262)	(295,889)	460,806	81,262	-
Mr P Mendo	-	75,410	-	-	75,410	-	-

	Held at 1 Sept 14	Granted as Compensation	Exercised	Other changes**	Held at 31 Aug 15	Vested during the year	Vested and exercisable at 31 Aug 15
Directors							
Mr S P Roche	1,734,862	993,644	-	(957,774)	1,770,732	-	-
Executives							
Mr R Vincent	749,839	297,444	-	(372,688)	674,595	-	-

* Total KMP grants of 839,322 of rights during the period over new issue shares were equal to 0.2% of common shares outstanding

** Other changes represent performance rights that expired or were forfeited during the year.
No options held by key management personnel are vested but not exercisable at 31 August 2014 or 2015.

*** 321,608 performance rights with respect to the Company's Long Term Incentive Plan was approved by shareholders at the 2015 Annual General Meeting held on 28 January 2016, and 10,935 performance rights was approved by the Board of Directors on 8 February 2016.

MOVEMENTS IN SHARES

The movement during the reporting period in the number of ordinary shares of the Company, held directly, indirectly or beneficially, by each key management person, including their personally related parties is as follows:

In shares	**Held at 1 September 2015**	**Purchases/issues**	**Sales**	**Held at 31 August 2016**
Directors				
Mr P R Robinson	302,168	-	-	302,168
Ms E C Holley	16,667	-	-	16,667
Mr R D Millner	1,455,001	150,619	-	1,605,620
Mr S P Roche	676,667	-	-	676,667
Ms L Ausburn	83,334	-	-	83,334
Mr G Masters	218,000	-	-	218,000
Mr K Gunderson-Briggs	-	-	-	-
Executives				
Mr R Vincent	-	81,262*	-	81,262
Mr P Mendo	-	-	-	-

* Issued in November 2015 pursuant to the Company's Short Term Incentive Plan award for year ended 31 August 2014.

The movement during the previous reporting period in the number of ordinary shares of the Company, held directly, indirectly or beneficially, by each key management person, including their personally related parties is as follows:

In shares	**Held at 1 September 2014**	**Purchases**	**Sales**	**Held at 31 August 2015**
Directors				
Mr P R Robinson	302,168	-	-	302,168
Ms E C Holley	16,667	-	-	16,667
Mr R D Millner	1,155,001	300,000	-	1,455,001
Mr S P Roche	676,667	-	-	676,667
Ms L Ausburn	83,334	-	-	83,334
Mr G Masters	218,000	-	-	218,000
Mr K Gunderson-Briggs	-	-	-	-
Executives				
Mr R Vincent	-	-	-	-
Mr P Mendo (appointed 21 January 2015	-	-	-	-

Consequences Of Performance On Shareholders' Wealth

In considering the consolidated entity's performance and the benefits for shareholder wealth, the Remuneration Committee has regard to a range of indicators in respect of senior executive remuneration and linked these to the previously described short and long term incentives.

The following table presents these indicators over 5 periods, spanning 31 August 2012 to 31 August 2016, showing the impact of the Company's performance on shareholder wealth, taking into account dividend payments, share price changes and returns of capital during the financial years:

	31 August 2016	31 August 2015	31 August 2014	31 August 2013	31 August 2012
Net profit/(loss)after tax ($ thousand)	51,670	43,126	(90,771)	24,292	30,283
Dividends declared for the period ended – cents per share (franked)	6.00	4.50	3.50	3.25	3.00
Share price at	1.77	1.62	0.59	0.49	0.38

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

A Comments on Remuneration Report at the Company's most recent AGM

The Company's previous AGM was held on 28 January 2016. At this meeting:

(a) no comments were made on the Remuneration Report that was considered at this AGM;

(b) when the resolution that the Remuneration Report be adopted, at least 75% of the votes cast were in favour of adoption of that report; and

(c) performance rights issued to the Chief Executive Officer and Managing Director were approved.

B Engagement of Remuneration Consultant

The Remuneration Committee did not require a remuneration recommendation by an external remuneration adviser be undertaken during the year ended 31 August 2016.

The Remuneration Report concludes at this point.

ENVIRONMENTAL REGULATION

The consolidated entity's operations are subject to environmental regulation under Commonwealth, State and New Zealand government legislation in relation to its manufacture of pharmaceutical products, retail stores and pharmaceutical distribution facilities.

Pharmaceutical and toiletries product manufacture – manufacturing plants operate under licence requirements relating to waste disposal, water and air pollution.

Wholesale distribution – distribution facilities operate under licence requirements relating to waste disposal, water and air pollution.

The Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any significant breach of these environmental requirements as they apply to the consolidated entity.

CORPORATE SOCIAL RESPONSIBILITY

The Company has continued its involvement with the Priceline Sisterhood and has supported the establishment of The Priceline Sisterhood Foundation as a public ancillary fund registered with the Australian Charities and Not-for Profits Commission and registered with the ATO as a deductible gift recipient. The Sisterhood Foundation Board has a majority of independent directors who are responsible for deciding the strategic direction of the Foundation as well as determining appropriate policies dealing with fund raising and distribution of funds to chosen diverse charities.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS.

There were no significant changes in the nature of the activities of the consolidated entity during the period.

DIVIDENDS

A dividend was paid during the year ended 31 August 2016 in respect of the year ended 31 August 2015. The dividend was at the rate of 2.5 cents per share, fully franked. The dividend totalled $12.203 million and was paid on 4 December 2015.

An interim dividend of 2.5 cents per share amounting to $12.227 million, fully franked in respect of half year ended 29 February 2016 was paid out of Profit Reserves on 3 June 2016.

On 20 October 2016, a final dividend of 3.5 cents per share, fully franked to be paid out of the Profits Reserve on 9 December 2016, amounting to $17.118 million was declared.

EVENTS SUBSEQUENT TO REPORTING DATE

On 20 October 2016, a final dividend of 3.5 cents per share, fully franked to be paid out of the Profits Reserve on 9 December 2016, amounting to $17.118 million was declared.

Other than above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future years.

LIKELY DEVELOPMENTS

The consolidated entity 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.

Further information regarding the business strategies of the consolidated entity and the expected results of those 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 consolidated entity.

DIRECTORS' INTERESTS

The relevant direct and indirect and beneficial interest of each director, in the share capital of the Company, as notified by the Directors to the Australian Securities Exchange in accordance with section 205G(1) of the Corporations Act 2001 at the date of this report is as follows:

	Ordinary Shares	Performance Rights over Ordinary Shares
Mr P R Robinson	302,168	-
Ms E C Holley	16,667	-
Mr R D Millner	1,605,620	-
Mr S P Roche	676,667	1,594,194
Ms L Ausburn	83,334	-
Mr G J Masters	218,000	-
Mr K Gunderson-Briggs	-	-

PERFORMANCE RIGHTS GRANTED TO DIRECTORS AND OFFICERS OF THE COMPANY

Details of the performance rights granted to Directors and officers of the Company are set out in the Remuneration Report.

INSURANCE AND INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the year the Company paid a premium in respect of a contract insuring its Directors and officers against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The contract covers any past, present or future director, secretary, executive officer or employee of the Company and its controlled entities. Further details have not been disclosed due to confidentiality provisions of the contract of insurance. The Directors are each parties to a Director's Access and Insurance Deed. This Deed includes an indemnity 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 on officer of the Company.

NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

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

- All non-audit services were subject to the corporate governance procedures adopted by the Company 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 Company, acting as an advocate for the Company, or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the period are set out in Note 29 to the financial statements.

Lead Auditor's Independence Declaration

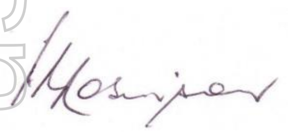
The Lead Auditor's Independence Declaration is set out on page 26 and forms part of the Directors' report for the financial year ended 31 August 2016.

Rounding off of Amounts

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

Dated at Sydney, 20 October 2016

Signed in accordance with a resolution of the Directors:



Peter R. Robinson
Director

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

To: the Directors of Australian Pharmaceutical Industries Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 August 2016 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

KPMG

M. Bisetto

Maurice Bisetto
Partner

Melbourne
20 October 2016

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.

Income Statement

In thousands of AUD	*Note*	Consolidated Year ended 31 August 2016	 Year ended 31 August 2015
Revenue	*4*	3,839,987	3,457,400
Cost of sales		(3,362,053)	(3,003,613)
Gross profit		**477,934**	**453,787**
Other income and expense	*4*	5,621	5,416
Warehousing and distribution expenses		(128,416)	(128,083)
Marketing and sales expenses		(178,168)	(170,258)
Administration and general expenses		(89,840)	(86,836)
Result from operating activities		**87,131**	**74,026**
Financial income		1,237	924
Financial expenses		(17,022)	(15,064)
Net financing costs	*6*	**(15,785)**	**(14,140)**
Loss from investment in associates	*13*	(2,437)	(431)
Profit before tax		**68,909**	**59,455**
Income tax expense	*7*	(17,239)	(16,329)
Profit for the period		**51,670**	**43,126**

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

Earnings per share for profit attributable to the ordinary shareholders of the Company (cents):			
Basic - profit per share	*8*	10.6	8.8
Diluted - profit per share	*8*	10.5	8.7

Notes to the Income Statement are annexed.

Statement of Comprehensive Income

In thousands of AUD	Consolidated Year ended 31 August 2016	Consolidated Year ended 31 August 2015
Profit after income tax for the period	**51,670**	**43,126**
Items that will not be reclassified subsequently to the income statement		
Remeasurements of defined benefit liability, net of tax	33	41
Items that may be reclassified subsequently to the income statement		
Exchange fluctuations on translation of foreign operations, net of tax	1,990	75
Effective portion of changes in fair value of cash flow hedges, net of tax	240	(555)
Other comprehensive income/(expense) for the period, net of income tax	**2,230**	**(480)**
Total comprehensive income for the period attributable to equity holders of the parent company	**53,933**	**42,687**

Notes to the Statement of Comprehensive Income are annexed.

Statement of Financial Position

In thousands of AUD	*Note*	Consolidated As at 31 August 2016	 As at 31 August 2015
Assets			
Cash and cash equivalents	*27*	25,489	28,047
Trade and other receivables	*9*	689,695	592,330
Inventories	*10*	413,782	364,206
Income tax receivable	*12*	-	2,426
Asset held for sale	*13*	-	6,798
Total current assets		**1,128,966**	**993,807**
Trade and other receivables	*9*	10,882	30,380
Deferred tax assets	*14*	19,223	22,722
Property, plant and equipment	*15*	100,129	101,946
Intangible assets	*16*	189,975	193,693
Total non-current assets		**320,209**	**348,741**
Total assets		**1,449,175**	**1,342,548**
Liabilities			
Trade and other payables	*17*	799,237	665,933
Loans and borrowings	*18*	2,978	58,254
Employee benefits	*19*	22,402	23,288
Provisions	*20*	7,656	30,245
Income tax payable	*12*	13,359	-
Total current liabilities		**845,632**	**777,720**
Trade and other payables	*17*	8,436	8,616
Loans and borrowings	*18*	48,420	40,613
Employee benefits	*19*	5,339	5,215
Provisions	*20*	4,653	4,982
Total non-current liabilities		**66,848**	**59,426**
Total liabilities		**912,480**	**837,146**
Net assets		**536,695**	**505,402**
Equity			
Share capital		566,461	566,461
Reserves		74,898	43,605
Accumulated losses		(104,664)	(104,664)
Total equity		**536,695**	**505,402**

Notes to the Statement of Financial Position are annexed.

Statement of Cash Flows

In thousands of AUD	*Note*	Consolidated Year ended 31 August 2016	Consolidated Year ended 31 August 2015
Cash receipts from customers		4,140,016	3,778,874
Cash payments to suppliers and employees		(4,043,355)	(3,677,051)
Cash generated from operations		**96,661**	**101,823**
Interest received		1,237	924
Financing costs paid		(16,954)	(15,102)
Income taxes refund/(paid)		1,913	(7,589)
Net cash from operating activities	*27*	**82,857**	**80,056**
Cash flows from investing activities			
Proceeds from sale of stores, property, plant and equipment		2,115	691
Acquisition of property, plant and equipment		(14,417)	(8,034)
Proceeds from divestment of associates		4,361	-
Deferred consideration received		-	15
Proceeds from employee loan		-	69
Payment for intangibles		(5,128)	(22,600)
Net cash used in investing activities		**(13,069)**	**(29,859)**
Cash flows from financing activities			
Proceeds from borrowings		1,327,196	1,089,845
Repayment of borrowings		(1,374,147)	(1,114,591)
Payment of finance lease liabilities		(1,455)	(1,466)
Dividends paid		(24,430)	(19,525)
Net cash used in financing activities		**(72,836)**	**(45,737)**
Net (decrease)/increase in cash and cash equivalents		(3,048)	4,460
Cash and cash equivalents at the beginning of the period		28,047	23,526
Effect of exchange rate fluctuations on cash held		490	61
Cash and cash equivalents at the end of the period	*27*	**25,489**	**28,047**

Notes to the Statement of Cash Flows are annexed.

Statement of Changes in Equity

In thousands of AUD	Share Capital	Retained Losses	Profits* Reserve	Translation Reserve	Hedging Reserve	Equity Reserve	Total Equity
Balance at 1 September 2015	566,461	(104,664)	40,819	(375)	(593)	3,754	505,402
Total comprehensive income for the period							
Profit after tax	-	-	51,670	-	-	-	51,670
Total other comprehensive income	-	-	33	1,990	240	-	2,263
Total comprehensive income for the period	-	-	51,703	1,990	240	-	53,933
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	(24,430)	-	-	-	(24,430)
Share based payment transactions	-	-	-	-	-	1,790	1,790
Total contributions by and distributions to owners	-	-	(24,430)	-	-	1,790	(22,640)
Balance at 31 August 2016	**566,461**	**(104,664)**	**68,092**	**1,615**	**(353)**	**5,544**	**536,695**

In thousands of AUD	Share Capital	Retained Losses	Profits* Reserve	Translation Reserve	Hedging Reserve	Equity Reserve	Total Equity
Balance at 1 September 2014	566,461	(104,664)	17,177	(450)	(38)	2,251	480,737
Total comprehensive income for the period							
Profit after tax	-	-	43,126	-	-	-	43,126
Total other comprehensive income/(expense)	-	-	41	75	(555)	-	(439)
Total comprehensive income/(expense) for the period	-	-	43,167	75	(555)	-	42,687
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	(19,525)	-	-	-	(19,525)
Share based payment transactions	-	-	-	-	-	1,503	1,503
Total contributions by and (distributions) to owners	-	-	(19,525)	-	-	1,503	(18,022)
Balance at 31 August 2015	**566,461**	**(104,664)**	**40,819**	**(375)**	**(593)**	**3,754**	**505,402**

Notes to the Statement of Changes in Equity are annexed.

***Profits reserve**

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. Such profits will be available to enable payment of franked dividends in the future should the directors declare by resolution.

1. BASIS OF PREPARATION

(a) Reporting Entity

Australian Pharmaceutical Industries Limited (the 'Company') is a company domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange. The summarised information from the Company's financial statements is included in note 11.

The consolidated financial report (the 'financial report') of the Company included herein comprises the Company and its subsidiaries (together referred to as the 'consolidated entity' or the 'Group') and the consolidated entity's interest in associates. The financial report was authorised for issue by the Directors on 19 October 2016.

(b) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') – including Australian Interpretations and the Corporations Act 2001.

Compliance with IFRS

The financial report of the consolidated entity also complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

(c) Basis of Measurement

The financial report is presented in Australian dollars, which is the Company's and consolidated entity's functional currency.

The financial report is prepared on the historical cost basis except for derivative financial instruments and share based payments which are stated at their fair value.

The consolidated entity is of a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and in accordance with that Class Order, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(d) Accounting estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements include:

Carrying value of goodwill and brand names

Management judgement is applied to identify the CGUs and determine their recoverable amounts using a "value in use" calculation. These 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 the Group's expectations for the future. The Group's cash flow projections are based on a maximum five-year Board approved budgets and strategic plan. The forecasts use management estimates to determine revenue, expenses, working capital movements, capital expenditure and associated cash flows for each CGU. Refer Note 16.

Carrying value of receivables and loans to Pharmacy customers

The consolidated entity assesses whether trade receivables and pharmacy loans are appropriately provided for at each reporting date. These calculations involve estimates and assumptions around specific customers and to the best of management's knowledge impairment of receivables and pharmacy loans have been correctly and fairly recorded as at 31 August 2016. Refer Note 22.

1. BASIS OF PREPARATION (CONTINUED)

(d) Accounting estimates and judgements (continued)

Carrying value of inventory

The consolidated entity assesses whether inventory is recorded at the lower of cost and Net Realisable Value and ensures all obsolete or slow moving stock is appropriately provided for at each reporting date. These calculations involve estimates and assumptions around specific inventories and to the best of management's knowledge inventories have been correctly and fairly recorded as at 31 August 2016.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical and industry experience and lease terms (for leased equipment). Adjustments to useful life are made when considered necessary.

Lease make good provision

The consolidated entity assesses its provision for rehabilitation ("dismantling provisions") under its lease agreements on distribution centres and support offices at each reporting date. Estimates and assumptions are made in determining the provision as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, cost increases and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at balance date represents the best estimate of the present value of the future make good costs required.

Share based payments

The Company measures the cost of equity settled securities allocated to employees by reference to the fair value of the equity instruments at the date at which they are granted.

For the Executive long term incentive plans, the fair value of the performance share rights is determined using the Black Scholes pricing model.

(e) Going concern basis of accounting

The Directors have prepared the financial report on a going concern basis having considered the continuity of business operations, realisation of assets and settlement of liabilities in the ordinary course of business.

(f) New accounting standards and interpretations

Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 September 2016; however the Group has not applied the following new or amended standards in preparing these consolidated financial statements:

1. BASIS OF PREPARATION (CONTINUED)

(f) New accounting standards and interpretations (continued)

AASB 9 Financial Instruments (2014)

AASB 9, approved in December 2014, replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted.

The Group is assessing the potential impact on its financial report resulting from the application of AASB 9.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and AASB Interpretation 13 Customer Loyalty Programmes..

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its financial report resulting from the application of AASB 15.

AASB 16 Lease

AASB 16 removes the classification of leases as either operating leases or finance leases, treating all leases as finance leases, except the short-term leases and leases of low-value assets which are exempt from the requirements.

The Group is assessing the potential impact on its financial report resulting from the application of AASB 16.

The accounting policies set out below have been applied consistently to all periods presented in financial report unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The subsidiaries are fully consolidated from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost, less any impairment, in the Company's financial statements.

(ii) Transactions Eliminated on Consolidation

Intra-group balances, income and expenses and unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are also eliminated, but only to the extent that there is no evidence of impairment.

Accounting policies of the Company and all subsidiaries in the Group are consistent.

(iii) Associates

Associates are those entities for which the consolidated entity has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has an obligation or has made payments on behalf of an associate.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the "Investment in associates" and "Share of associate's net profit" accounts.

Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

In the Company's financial statements, investments in associates are carried at cost.

(b) Foreign Currency

(i) Foreign Currency Transactions

Transactions in foreign currencies are initially translated into Australian currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Australian currency at the exchange rate ruling at that date. Foreign exchange gains and losses arising on translation are recognised in the income statement in other income and expense. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign Currency (continued)

(ii) Foreign Operations

The assets and liabilities of foreign controlled subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated to Australian currency at foreign exchange rates current at the balance sheet date, while revenues and expenses are translated at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences arising on translation are recognised in other comprehensive income, and taken to the foreign currency translation reserve in equity.

(c) Financial Instruments

(i) Non-derivative Financial Instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Financial instruments subject to material deferred settlement terms are recognised at their present value discounted using an interest rate that reflects the credit risk applicable to the counterparty equivalent to the extent of any underlying security. The unwinding of discounting is recognised in net finance costs.

Receivables

The majority of trade debtors are settled within 40-120 days of the invoice date and are carried at amounts due less provision for impairment. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

When receivables are considered to be impaired, the carrying amount of the asset is reduced through the use of a provision for impairment account and the amount of the loss is recognised in profit or loss.

When a trade receivable is uncollectible, it is written off against the provision for impairment account for trade receivables. Subsequent recoveries of amounts previously written off are credited in profit or loss.

Trade payables

Liabilities are recognised for amounts to be paid in the future for goods or services provided prior to the end of the reporting period. Trade accounts payable are normally settled within 30-60 days of the invoice date.

Interest bearing liabilities

Interest bearing liabilities are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs.

Cash and cash equivalents

These comprise of cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial Instruments (continued)

(ii) Derivative Financial Instruments

The consolidated entity sometimes holds derivative financial instruments to hedge its interest rate and foreign currency risk exposures.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequently derivatives are measured at fair value~~,~~ and changes therein are accounted for as described below.

Cash Flow Hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(iii) Ordinary Shares

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Incremental costs directly attributable to the issue of new shares are recognised as a reduction from equity, net of any related tax benefit.

Dividends

Dividends are recognised as a liability when an obligation to pay a dividend arises, following declaration of the dividend by the Company's Board of Directors.

(iv) Financial guarantees

Financial guarantee contracts are recognised as a financial liability when it becomes probable that guarantees would be called upon in the foreseeable future, for the maximum potential obligation that the consolidated entity has an obligation to meet. The liability is not discounted.

(v) Securitised receivables

Securitised receivables are recognised on the balance sheet to reflect the fact that the consolidated entity assumes risks and rewards of the receivables collection performance.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, Plant and Equipment

(i) Recognition and Measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Purchased software that is integral to the functionality of the equipment is capitalised as part of that equipment.

Subsequent expenditure is added to the carrying value of the asset when it is probable that future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the consolidated entity. All other subsequent expenditure is expensed in the period in which it is incurred.

(ii) Disposal and de-recognition of property, plant and equipment

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the income statement in the period the item is derecognised.

(iii) Depreciation

Property, plant and equipment, other than freehold land, are depreciated or amortised on a straight-line basis at various rates dependent upon the estimated average useful life for that asset. The estimated useful lives of each class of asset are as follows:

- buildings 40 years
- plant and equipment 3-15 years
- fixtures and fittings 10 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(e) Intangible Assets and Goodwill

Intangibles are carried 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.

(i) Goodwill

Business Combinations prior to 1 May 2004

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP.

Business Combinations since 1 May 2004

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Acquisition-related costs are recognised in the income statement as incurred.

Goodwill is stated at cost less any accumulated impairment losses. An impairment loss recognised for goodwill is not reversed in subsequent periods.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. Negative goodwill arising on an acquisition is recognised directly in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Intangible Assets and Goodwill (continued)

(ii) Brand Names

Brand names acquired are included in the financial statements at cost less accumulated impairment losses.

Brand names are not amortised as the Directors believe the useful lives of these assets are considered indefinite at this point of time. The consolidated entity's brand names have an unlimited legal life and based on industry experience it is rare for leading brand names to disappear or become commercially or technically obsolete. If an event occurs which results in an impairment of the value of a brand name then the difference between recoverable amount and carrying value is charged against profit and loss in the year in which the event occurred.

Independent valuations of brand names are obtained during the year of acquisition. Expenditure incurred in developing, maintaining and enhancing brand names is charged against profit and loss in the year in which it is incurred.

(iii) Research and Development

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, whereby 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 consolidated entity 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 in profit and loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Capitalised development are initially recorded at cost and amortised on a straight line basis over the estimated useful lives but not greater than a period of 4 years.

(iv) Software

Capitalised software are initially recorded at cost and amortised on a straight line basis over the estimated useful lives but not greater than a period of 7 years.

(v) Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is generally determined on a weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition net of any rebates or trade discounts received or receivable. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment

Financial Assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the consolidated entity on terms that the consolidated entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate, including cash flows from the realisation of security held, if applicable.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

In determining the appropriate provision for impairment of pharmacy receivables, consideration is given to financial guarantees provided to individual debtors and debtor groups which are recorded as current liabilities where it is considered probable that the guarantees will be called. In assessing collective impairment the consolidated entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

All impairment losses are recognised in profit or loss.

Non-Financial Assets

The carrying amounts of the consolidated entity's tangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (refer below).

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated annually and whenever there is an impairment indicator.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed 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 asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leases

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified operating leases. Assets, subject to finance leases, are capitalised. The initial amount of the lease asset is the lower of fair value and the present value of the minimum lease payments. The corresponding liability represents the future rental obligations net of finance charges. The leased assets are amortised on a straight-line basis over the life of the relevant lease.

Lease liabilities are reduced by repayments of principal. The interest components of lease payments are charged against profit or loss.

Operating leases are not capitalised. Operating lease payments are charged to profit or loss as incurred on a straight-line basis. Lease incentives received are recognised as an integral part of the total lease expense and spread over lease term.

(i) Employee Benefits

(i) Wages, Salaries, Annual Leave and Non-monetary Benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Benefits expected to be settled after 12 months from the reporting date are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. Non-accumulating non-monetary benefits, such as cars and free or subsidised goods and services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(ii) Long Service leave

The provision for long service leave represents the present value of the estimated future cash outflows to be made by the consolidated entity resulting from employees services provided up to the reporting date. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using corporate bonds rates at the reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expenses.

(iii) Defined Contribution Plans

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit and loss as incurred.

(iv) Defined Benefit Plans

The consolidated entity's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the yield at the balance sheet date on corporate bonds that have maturity dates approximating the terms of the consolidated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit and loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Employees benefits (continued)

(iv) Defined Benefit Plans (continued)

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, and the return on plan assets (excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual reporting period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

(v) Share-based Payment Transactions

Share Performance Rights granted to employees are recorded at fair value and recognised as an expense with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the options/performance rights reserve. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value of the Share Performance Rights is measured based on the Black-Scholes Option Pricing model for the ROE performance hurdle, taking into account the terms and conditions upon which the instruments were granted.

(j) Provisions

A provision is recognised when the consolidated entity has a present legal or constructive obligation and can be reliably measured as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Onerous leases

A provision for onerous leases is recognised when the expected benefits to be derived by the consolidated entity from a lease contract are lower than the unavoidable cost of meeting its obligations under the lease contract. The provision is measured at the present value of the lower of the expected cost of terminating the lease contract and the expected net cost of continuing with the lease contract.

(ii) Dismantling and Make Good

The provision is the best estimate of the present value of the expenditure required to complete dismantling and make good obligations in relation to properties held under operating leases at the reporting date. Future dismantling and make good costs are reviewed annually and any changes are reflected in the present value of the Make Good provision at the end of the reporting period.

The amount of the provision for future dismantling is capitalised and is depreciated over the useful life. Make Good costs are provided for over the lease term as the make good obligation arises. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(iii) Provision for Sister Club

The provision for Sister Club points which are convertible quarterly by customers in the form of gift vouchers is based upon the expected cost to the consolidated entity on redemption of Sister Club vouchers. A redemption rate is applied based on historical experience and is updated quarterly.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Revenue

(i) Sale of goods

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, usually when goods are delivered to manufacturing and wholesale customers or the point of sale for retail customers.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods, or there is continuing management involvement with the goods. Revenue is recognised net of returns, allowances, trade discounts and volume rebates.

(ii) Community Service Obligation ("CSO")

A Community Service Obligation is an arrangement whereby the government provides a pool of funding which is available to qualifying wholesalers to provide services that would not otherwise be provided by that organisation in the pursuit of its other objectives. In the Group's case this requirement is around minimum delivery obligations Australia wide. The Government provides income to the Group to compensate for the higher expenditure incurred to meet these minimum delivery obligations.

Revenue from CSO is recognised when the consolidated entity has complied with the conditions attached to the obligation and has reasonable assurance that the income will be received

(iii) Other revenue

Membership and brand fees

The Priceline, Soul Pattinson and Pharmacist Advice banner stores pay fees to the Group. These fees entitle the stores to access certain Group's discounts (specifically applicable to banner members) and other benefits including participation in Group catalogue advertising. This revenue is recognised over the period of the year which matches the period over which the services are rendered.

Franchise service charges

This category primarily covers fees billed by the Group to franchisees for various operational services including stores development, lease negotiation, human resource & information technology assistance. This revenue is recognised once the delivery service has been performed.

Marketing services and promotional income

This category relates to income received from suppliers relating to promotional services rendered. This revenue is recognised once the service obligations have been performed.

Loyalty Card (Sister Club formerly known as Clubcard)

A provision for loyalty card deferred revenue is recognised as a reduction in sales revenue when the underlying products or services are sold. The deferred revenue is based on historical loyalty card data and a weighting of all possible outcomes against their associated probabilities. Revenue is then earned when loyalty card awards are redeemed.

(iv) Interest on overdue accounts

Interest revenue is recognised on financial assets on an accrual basis when it is considered probable of being recovered. Interest fee revenue includes interest earned on loans to customers and late fee charges on overdue debtors.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Net Financing Costs

Finance costs are recognised as expenses in the period in which they are incurred, unless directly attributable to the acquisition of, or production of, a qualifying asset which are capitalised as part of the cost of that asset using the weighted average cost of borrowings. Finance costs include:

- interest on bank overdrafts, short-term and long-term borrowings;
- interest payable on debtors' securitisation programs;
- finance lease charges; and
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

(m) Income Tax

Income tax on the profit or loss for the year comprises 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 is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that arises in a transaction that is not a business combination and affects neither accounting nor taxable profit at the time of the transaction, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred income tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that the sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(n) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Operating Segment

An operating segment is a component of the consolidated entity 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 consolidated entity's other components. All operating segments' operating results are regularly reviewed by the consolidated entity's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment to the gross profit level.

3. OPERATING SEGMENTS

AASB 8 Operating Segments requires a management approach under which segment information is presented on the same basis as that used for internal reporting provided to the Chief Operating Decision Maker (CODM) of the Group. The CODM has been identified as the Chief Executive Officer (CEO).

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

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

Australia

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

The consolidated entity predominantly operates within Australia. Monthly management reports provided to the CEO report Australian segment performance at a gross margin level only, with functional costs not allocated by business unit.

New Zealand

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

3. OPERATING SEGMENTS (CONTINUED)

In thousands of AUD	Australia		New Zealand***		Eliminations		Consolidated	
	Aug 16	**Aug 15****	**Aug 16**	**Aug 15**	**Aug 16**	**Aug 15**	**Aug 16**	**Aug 15**
Revenue								
External revenue	3,653,903	3,281,644	45,213	42,354	-	-	3,699,116	3,323,998
External services	140,871	133,402	-	-	-	-	140,871	133,402
Inter-segment revenue*	-	-	8,294	5,975	(8,294)	(5,975)	-	-
Total segment revenue	3,794,774	3,415,046	53,507	48,329	(8,294)	(5,975)	3,839,987	3,457,400
Reportable segment gross profit	454,291	431,090	23,643	22,697	-	-	477,934	453,787
Reportable segment profit	-	-	2,305	2,838	-	-	-	-

Reconciliation of reportable segment profit

In thousands of AUD	**Year ended 31 August 2016**	**Year ended 31 August 2015**
Total gross profit for reportable segments	477,934	453,787
Unallocated amounts		
Other income and expense	5,621	5,416
Warehousing and distribution expenses	(128,416)	(128,083)
Marketing and sales expenses	(178,168)	(170,258)
Administration and general expenses	(89,840)	(86,836)
Results from operating activities	**87,131**	**74,026**
Net financing costs	(15,785)	(14,140)
Loss from investments in associates	(2,437)	(431)
Consolidated profit before tax	**68,909**	**59,455**

* All inter- segment sales are on an arm's length basis.

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

*** Previously disclosed as Manufacturing New Zealand.

4. REVENUE, OTHER INCOME AND EXPENSE

In thousands of AUD	Year ended 31 August 2016	Year ended 31 August 2015
Revenue		
Sales revenue	3,699,116	3,323,998
Service revenue	140,871	133,402
	3,839,987	**3,457,400**
Other income and expense		
Gain on disposal of stores, property, plant and equipment	1,305	346
Interest fee income	4,685	4,959
Net foreign exchange (loss)/gain	(369)	111
	5,621	**5,416**

5. PERSONNEL EXPENSES

In thousands of AUD	Year ended 31 August 2016	Year ended 31 August 2015
Wages and salaries	177,242	171,606
Other associated personnel expenses	18,143	17,790
Contributions to defined contribution superannuation funds	13,084	12,745
Expenses related to defined benefit superannuation funds	61	62
Equity settled share based payment transactions	1,790	1,503
	210,320	**203,706**

6. FINANCE INCOME AND COSTS

Recognised in Profit and Loss

In thousands of AUD	Year ended 31 August 2016	Year ended 31 August 2015
Interest income on bank deposits	666	924
Other interest income	571	-
Finance income	**1,237**	**924**
Interest expense	(8,942)	(6,954)
Borrowing costs	(2,446)	(3,156)
API Rewards	(5,339)	(4,697)
Finance charges – leased assets	(295)	(257)
Finance costs	**(17,022)**	**(15,064)**
Net finance costs	**(15,785)**	**(14,140)**

Interest fee income on overdue debts is presented in other income in Note 4 rather than in net finance costs.

7. INCOME TAX EXPENSE

Numerical reconciliation between tax expense and pre-tax net profit

In thousands of AUD	**Year ended 31 August 2016**	**Year ended 31 August 2015**
Profit before tax	68,909	59,455
Income tax using the domestic corporation tax rate of 30% (2015: 30%)	20,673	17,837
Increase in income tax expense due to:		
Non-deductible expenses		
- Impairment losses on long term debts	-	223
- Share of associate's net losses	-	129
- Share based payment transactions	531	775
- Entertainment and other sundry items	286	209
- Dismantling costs	95	177
Other		
- Capital loss on sale of shares in associate	731	-
Decrease in income tax expense due to:		
Bad debt write-offs	(4,138)	-
Capital gain on sales of business	(290)	-
Effect of tax rate in foreign jurisdictions	(24)	(33)
Research and development benefit	(500)	(1,191)
	17,364	18,126
Adjustment for prior years		
Research and development benefit	-	(1,455)
Other	(125)	(342)
Income tax expense on pre-tax net profit	**17,239**	**16,329**

Recognised in the Income Statement

In thousands of AUD	**Year ended 31 August 2016**	**Year ended 31 August 2015**
Current tax expense		
Current year	13,553	5,049
Adjustments for prior years	404	(149)
	13,957	4,900
Deferred tax expense		
Current year-origination and reversal of temporary differences	3,811	13,077
Adjustment for prior years	(529)	(1,648)
	3,282	11,429
Total income tax expense in income statement	**17,239**	**16,329**

7. INCOME TAX EXPENSE (CONTINUED)

Deferred tax recognised in equity

In thousands of AUD	**Year ended 31 August 2016**	**Year ended 31 August 2015**
Relating to		
Derivatives	103	(238)
Defined benefit superannuation fund	14	17
Unrealised foreign exchange gains	100	11
	217	**(210)**

8. EARNINGS PER SHARE

In thousands of AUD	**Year ended 31 August 2016**	**Year ended 31 August 2015**
Profit attributable to ordinary shareholders	51,670	43,126
In thousands of shares		
Basic weighted average number of ordinary shares for the period	488,911	488,116
Effect of potential ordinary shares on issue	5,057	7,177
Diluted weighted average number of ordinary shares for the period	493,968	495,293
In cents		
Basic earnings per share	10.6	8.8
In cents		
Diluted earnings per share	10.5	8.7

9. TRADE AND OTHER RECEIVABLES

In thousands of AUD	**As at 31 August 2016**	**As at 31 August 2015**
Current		
Trade receivables	678,959	580,933
Provision for impairment	(18,688)	(13,482)
	660,271	567,451
Amounts receivable as deferred consideration	-	145
Other receivables and prepayments	29,424	24,598
Trade receivables due from associates	-	136
	689,695	**592,330**
Non-current		
Trade receivables, non-current	10,136	-
Loans receivable from pharmacy customers	-	48,186
Provision for impairment	-	(18,548)
	10,136	29,638
Pension asset	746	742
	10,882	**30,380**

10. INVENTORIES

In thousands of AUD	As at 31 August 2016	As at 31 August 2015
Raw materials and consumables	4,726	3,558
Work in progress	241	179
Finished goods	415,608	365,759
Less: provision for obsolescence and shrinkage	(6,793)	(5,290)
	413,782	**364,206**

11. SUMMARISED PARENT ENTITY FINANCIALS

In thousands of AUD	As at 31 August 2016	As at 31 August 2015
Current assets	477,611	438,341
Total assets	923,256	935,304
Current liabilities	453,234	462,769
Total liabilities	500,359	510,765
Net assets	**422,897**	**424,539**
Equity		
Share capital	566,461	566,461
Reserves	5,191	3,161
Retained earnings	(190,383)	(190,383)
Profits reserve	41,628	45,300
Total equity	**422,897**	**424,539**
Profit after tax	20,725	51,113
Other comprehensive income	33	41
Total comprehensive income	**20,758**	**51,154**
Capital commitments of the parent entity at year end	**635**	**1,713**

Details of any guarantees and contingencies of the parent entity are included in note 24.

12. CURRENT TAX ASSETS AND LIABILITIES

The current tax liability for the consolidated entity of $13,359,000 (31 August 2015: $2,426,000 current tax asset) represents the amount of income taxes payable (last year – recoverable) in respect of current and prior financial periods. In accordance with the Australian tax consolidation legislation, the Company as the head entity of the Australian tax consolidated group has assumed the current tax asset/liability initially recognised by the members in the Australian consolidated tax group.

13. OTHER INVESTMENTS

Investments in Associates

The consolidated entity divested its shareholding in hospital supplies distributor, CH2 Holdings Pty Ltd (CH2) during the half year ended 31 August 2016 for $4.36 million resulting in a loss of $2.44 million at the consolidated level.

14. DEFERRED TAX ASSETS AND LIABILITIES

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	**Assets**		**Liabilities**		**Net**	
In thousands of AUD	**31 August 2016**	**31 August 2015**	**31 August 2016**	**31 August 2015**	**31 August 2016**	**31 August 2015**
Property, plant and equipment	-	-	(7,279)	(7,544)	(7,279)	(7,544)
Unrealised foreign exchange losses	-	-	(93)	(20)	(93)	(20)
Employee benefits	8,272	8,069	(14)	(17)	8,258	8,052
Provisions	12,095	17,061	-	-	12,095	17,061
Derivatives	152	254	-	-	152	254
Other items	6,090	4,919	-	-	6,090	4,919
Tax loss carried forward	-	-	-	-	-	-
Tax assets / (liabilities)	**26,609**	**30,303**	**(7,386)**	**(7,581)**	**19,223**	**22,722**

Change in Deferred Tax Asset

In thousands of AUD	**31 August 2016**	**31 August 2015**
Balance at 1 September	22,722	33,934
Recognised in income statement	(3,282)	(11,429)
Employee benefits transferred from store acquisitions	-	7
Recognised directly in equity	(217)	210
Balance as at 31 August	**19,223**	**22,722**

15. PROPERTY, PLANT AND EQUIPMENT

In thousands of AUD	**Land and Buildings**	**Plant and Equipment**	**Leased Plant and Equipment**	**Capital Works in Progress**	**Total**
Year ended 31 August 2015					
Opening net book value	5,472	103,502	3,614	4,232	116,820
Additions	-	2,443	-	7,876	10,319
Disposals	-	(952)	(37)	-	(989)
Depreciation charge for the period	(269)	(13,613)	(1,055)	-	(14,937)
Reclassification of assets	-	6,829	2,279	(9,108)	-
Transfer of assets to intangibles^	-	(9,342)	-	-	(9,342)
Effect of movement in foreign exchange	36	39	-	-	75
Closing net book amount	**5,239**	**88,906**	**4,801**	**3,000**	**101,946**
Comprised of:					
Cost	10,201	205,963	7,627	3,000	226,791
Accumulated depreciation	(4,962)	(117,057)	(2,826)	-	(124,845)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In thousands of AUD	Land and Buildings	Plant and Equipment	Leased Plant and Equipment	Capital Works in Progress	Total
Year ended 31 August 2016					
Opening net book value	5,239	88,906	4,801	3,000	101,946
Additions	-	88	-	20,579	20,667
Disposals	-	(1,775)	(62)	-	(1,837)
Depreciation charge for the period	(270)	(14,432)	(1,884)	-	(16,586)
Impairment gain	-	498	-	-	498
Reclassification of assets	-	14,689	1,034	(15,723)	-
Transfer of assets to intangibles^				(5,128)	(5,128)
Effect of movement in foreign exchange	241	258	-	70	569
Closing net book amount	**5,210**	**88,232**	**3,889**	**2,798**	**100,129**
Comprised of:					
Cost	10,711	206,060	8,511	2,798	228,080
Accumulated depreciation	(5,501)	(117,828)	(4,622)	-	(127,951)

^ Following the implementation of OneERP and a review of asset classifications, certain assets were re-classified from property, plant and equipment to intangibles.

Financing costs are expensed in the income statement except where the costs relate to the financing of projects under construction, where the costs are capitalised up to the date of commissioning.

16. INTANGIBLE ASSETS

In thousands of AUD	Goodwill	Brand Names	Software	Development Costs	Capital Works in Progress	Total
Year ended 31 August 2015						
Opening net book value	45,407	96,360	309	219	24,937	167,232
Transfer from property, plant and equipment^	-	-	9,342	-	-	9,342
Other acquisitions*	339	-	36	-	22,564	22,939
Reclassification	-	-	47,409	92	(47,501)	-
Disposals	-	-	(610)	-	-	(610)
Amortisation for the period	-	-	(5,382)	(62)	-	(5,444)
Effect of movements in foreign exchange	233	-	-	1	-	234
Closing net book amount	**45,979**	**96,360**	**51,104**	**250**	**-**	**193,693**
Comprised of:						
Cost	102,339	99,000	96,808	905	-	299,052
Accumulated Amortisation	(56,360)	(2,640)	(45,704)	(655)	-	(105,359)
Year ended 31 August 2016						
Opening net book value	45,979	96,360	51,104	250	-	193,693
Transfer from property, plant and equipment	-	-	4,920	208	-	5,128
Disposals	-	-	(3)	-	-	(3)
Amortisation for the period	-	-	(9,755)	(102)	-	(9,857)
Effect of movements in foreign exchange	994	-	-	20	-	1,014
Closing net book amount	**46,973**	**96,360**	**46,266**	**376**	**-**	**189,975**
Comprised of:						
Cost	103,333	99,000	101,724	1,175	-	305,232
Accumulated Amortisation	(56,360)	(2,640)	(55,458)	(799)	-	(115,257)

^ Following the implementation of OneERP and a review of asset classifications, certain assets were re-classified from property, plant and equipment to intangibles.

* Includes the capitalisation of interest of $NIL (31 August 2015: $2,759,281) within Capital Works in Progress.

16. INTANGIBLE ASSETS (CONTINUED)

Amortisation and Impairment Charge

The amortisation charge was recognised within administration and general expenses in the income statement.

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

The following cash generating units have significant carrying amounts of goodwill and brand names:

Goodwill

In thousands of AUD	31 August 2016	31 August 2015
Australia	29,757	29,757
New Zealand	17,216	16,222
	46,973	**45,979**

Brand names

In thousands of AUD	As at 31 August 2016	As at 31 August 2015
Australia		
- Soul Pattinson brand name	37,500	37,500
- Priceline brand name	58,860	58,860
	96,360	**96,360**

The recoverable amount of each asset and CGU is determined based on a "value in use" calculation which uses cash flow projections based on earnings (i.e. EBITDA) covering a five-year period. Cashflow projections have been based on Board approved budgets and the Board endorsed five-year strategic plan. These forecasts use management estimates to determine income, expenses, working capital movements, capital expenditure and cashflows for each CGU. The projected cashflows for each CGU are discounted using an appropriate discount rate. The discount rate represents the post-tax weighted average cost of capital (WACC) applied to the cash flow projections and reflects the specific risks relating to the CGU. Cash flows beyond that five-year period have been extrapolated using long-term growth rate. The long-term growth rate is based on the Group's expectation of the CGUs' long-term performance in its market.

Assumptions

The key assumptions applied to the value in use model for each CGU are described below:

16. INTANGIBLE ASSETS (CONTINUED)

AUSTRALIA-CGU

During the year, the Company reviewed the carrying value of the Australian CGU. The recoverable amount for the CGU continues to exceed the carrying value.

Assumption	Description
Budgeted EBITDA growth rate (average of next 5 years)	The Budgeted EBITDA growth includes: - Pharmaceutical distribution business growth reflects the Board approved financial plan and is based on recent past history. - New store rollout estimates derived from management's analysis of the likely net annual increase in 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 stores is based on management's estimates of net contribution from individual stores, including working capital, marketing and supply chain costs. - Comparable stores sales growth is based on management estimates and recent past history of 3% in FY17-21.
Discount Rate	The discount rate of 14.4% represents the pre-tax discount rate applied to the cash flow projections, based on a market-determined, risk adjusted post-tax discount of 10.1%.
Terminal Growth rate	The terminal growth rate of 2.5% represents the growth rate applied to extrapolate cash flows beyond the five year forecast period. The terminal growth rate is based on management expectations of the CGU's long term performance after considering current conditions and available external market data.

NZ CGU

The NZ CGU's impairment testing results in no impairment at 31 August 2016. The estimated recoverable amount for the CGU continues to exceed the carrying value.

Assumption	Description
Budgeted EBITDA growth rate (average of next 5 years)	The budgeted EBITDA growth rate reflects the Directors' view of the likely success of new sales opportunities and an associated improvement in EBITDA including the advantages of utilising available capacity in the existing manufacturing facilities and the ongoing impact of implemented cost reduction programs.
Discount Rate	The discount rate of 15.7% represents the pre-tax discount rate applied to the cash flow projections, based on a market-determined, risk adjusted post-tax discount of 11.0%.
Terminal Growth rate	The terminal growth rate of 2.5% represents the growth rate applied to extrapolate cash flows beyond the five year forecast period. The growth rate is based on expectations of the CGU's long term performance.

Reasonably possible change
Material adverse movement in any of the key assumptions noted above may result in an impairment of goodwill.

17. TRADE AND OTHER PAYABLES

In thousands of AUD	As at 31 August 2016	As at 31 August 2015
Current		
Trade payables	748,749	609,422
Accrued expenses and other payables	50,488	56,511
	799,237	**665,933**
Non-current		
Lease payable	**8,436**	**8,616**

18. LOANS AND BORROWINGS

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings.

In thousands of AUD	As at 31 August 2016	As at 31 August 2015
Current liabilities		
Customer deposits	-	7
Insurance premium funding	1,457	1,592
Finance lease liabilities	1,521	1,233
Securitisation of trade receivables	-	50,000
Cash advance facility - secured	-	5,422
	2,978	**58,254**
Non-current liabilities		
Finance lease liabilities	2,428	3,229
Securitisation of trade receivables	40,237	37,384
Cash advance facilities - secured	5,755	-
	48,420	**40,613**
Financing Facilities		
Bank overdraft - secured	8,877	5,711
Standby letters of credit	500	500
Cash advance facilities - secured	33,756	76,422
Securitisation of trade receivables	295,000	320,000
	338,133	**402,633**
Facilities utilised at reporting date [1]		
Bank overdraft – secured	-	-
Standby letters of credit	-	-
Cash advance facilities – secured	5,755	5,422
Securitisation of trade receivables	40,237	87,384
	45,992	**92,806**
Facilities not utilised at reporting date[2]		
Bank overdraft – secured	8,877	5,711
Standby letters of credit	500	500
Cash advance facilities – secured	28,001	71,000
Securitisation of trade receivables	254,763	232,616
	292,141	**309,827**

1. Average used facilities during the year was $205,041,989 (2015:$ 180,167,314).
2. Average unused facilities during the year was $169,554,786 (2015:$ 224,209,928).

18. LOANS AND BORROWINGS (CONTINUED)

Bank Overdraft

The Company is a guarantor to a bank facility agreement which provides a total overdraft facility of $8,877,000 (31 August 2015: $5,711,007) to entities in the Australian Pharmaceutical Industries Limited Group. The facility is subject to set off arrangements between companies within the consolidated entity. Interest on bank overdrafts is charged at prevailing market rates. The bank overdraft is repayable on demand and subject to annual review.

Standby Letter of Credit

The standby letter of credit facility is available to be drawn down over the next year and is subject to annual review.

Finance Lease Facility

The consolidated entity's lease liabilities are secured by the leased assets. In the event of default, the assets revert to the lessor.

Cash Advances

The consolidated cash advance facilities total $33,756,058 (31 August 2015: $76,422,160). The borrowings are secured by way of fixed and floating charge over the assets of the consolidated entity. Interest is based on the bank-bill reference rate plus a margin charged by the lender.

Securitisation

Refer Note 22.

Reclassification of facilities

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

Finance Lease Liabilities

Finance lease liabilities of the consolidated entity are payable as follows:

	Minimum Lease Payments	Interest	Principal	Minimum Lease Payments	Interest	Principal
	31 August	31 August	31 August	31 August	31 August	31 August
In thousands of AUD	**2016**	**2016**	**2016**	**2015**	**2015**	**2015**
Less than one year	1,730	209	1,521	1,493	260	1,233
Between one and five years	2,618	190	2,428	3,539	310	3,229
	4,348	**399**	**3,949**	**5,032**	**570**	**4,462**

The consolidated entity leases plant and equipment under finance leases expiring within five years. At the end of the lease term the consolidated entity has the option to purchase the leased equipment at a price considered to be a bargain purchase option.

Under the terms of the lease agreements no contingent rents are payable.

19. EMPLOYEE BENEFITS

Current

In thousands of AUD	As at 31 August 2016	As at 31 August 2015
Short-term incentive payments	4,050	5,247
Liability for long service leave	7,142	6,963
Liability for annual leave	11,210	11,078
	22,402	**23,288**
Non-current		
Liability for long service leave	**5,339**	**5,215**

(a) Defined Benefit Plan

The consolidated entity makes contributions to a defined benefit superannuation fund that provides defined benefit amounts for employees upon retirement.

In thousands of AUD	31 August 2016	31 August 2015
Fair value of fund assets - funded	1,506	1,435
Present value of funded obligations	(760)	(693)
Present value of net fund assets	**746**	**742**

Movements in the net asset for defined benefit obligations recognised in the balance sheet

In thousands of AUD	31 August 2016	31 August 2015
Net defined benefit asset at beginning of the period	742	722
Contributions received	18	24
Gains allocated to Other Comprehensive Income	47	58
Expense recognised in the income statement	(61)	(62)
Net defined benefit asset at end of the period	**746**	**742**

(b) Defined Contribution Superannuation Funds

In addition to the contributions to the defined benefit plan outlined above, the consolidated entity makes contributions to various defined contribution superannuation funds. The amount recognised as expense was $13,084,000 for the year ended 31 August 2016 (31 August 2015: $12,745,000).

(c) Share Based Payments

Share performance rights

The consolidated entity granted equity settled performance rights that entitle key management personnel and senior employees to receive shares in the Company if defined performance conditions are achieved.

The performance rights granted on 10 February 2013 (2013 grant) did not vest and lapsed on 31 August 2016.

19. EMPLOYEE BENEFITS (continued)

On 16 December 2014, performance rights (the 2014 grant) were granted with a performance period commencing 1 September 2014 and ending 31 August 2017. The performance conditions, being API's return on equity ('ROE') and earnings per share ('EPS') for the exercise of performance rights will be assessed at the Remuneration Committee meeting following the 31 August 2017 year end.

On 13 January 2016, performance rights (the 2015 grant) were granted with a performance period commencing 1 September 2015 and ending 31 August 2018. The performance conditions, being API's return on equity ('ROE') and earnings per share ('EPS') for the exercise of performance rights will be assessed at the Remuneration Committee meeting following the 31 August 2018 year end.

Performance conditions will be tested once only, and any performance rights that do not meet the performance conditions will lapse and will not be re-tested.

The terms and conditions of the grants at 31 August 2016 are as follows. All performance rights are settled by physical delivery of shares:

Grant date/employee entitled	**Number of instruments**	**Vesting conditions**	**Contractual life of Performance Rights**
Performance rights to key management personnel and senior employees – Performance period to Aug 2017	2,970,348	Three years of service. Cumulative ROE with a minimum of 21.38% permitting exercise of 20% of the rights subject to the ROE Performance Condition and 34.74% achievement to exercise 100% of the rights subject to the ROE Performance Condition and proportionate between these two levels. Compound Annual Growth Rate (CAGR) in EPS with a minimum of 7.5% permitting exercise of 20% of the rights subject to the EPS Performance Condition and 10.0% achievement to exercise 100% of the rights subject to the EPS Performance Condition and proportionate between these two levels.	3 years
Performance rights to key management personnel and senior employees – Performance period to Aug 2018	1,103,290	Three years of service. Cumulative ROE with a minimum of 25.07% permitting exercise of 20% of the rights subject to the ROE Performance Condition and 40.74% achievement to exercise 100% of the rights subject to the ROE Performance Condition and proportionate between these two levels. Compound Annual Growth Rate (CAGR) in EPS with a minimum of 7.5% permitting exercise of 20% of the rights subject to the EPS Performance Condition and 10.0% achievement to exercise 100% of the rights subject to the EPS Performance Condition and proportionate between these two levels.	3 years
	4,073,638		

19. EMPLOYEE BENEFITS (continued)

(c) Share Based Payments (continued)

The number of performance rights outstanding in the period is as follows:

In thousands of performance rights	Number of performance rights 31 August 2016	Number of performance rights 31 August 2015
Outstanding at the beginning of the period	6,196	7,621
Forfeited/lapsed during the period	(3,225)	(4,626)
Exercised during the period	-	-
Granted during the period	1,103	3,201
Outstanding at the end of the period	**4,074**	**6,196**
Exercisable at the end of the period	-	-

Fair value of performance rights and assumptions	Key Management Personnel and Senior Managers	
	31 August 2016	
Performance period commences and performance conditions	**1 Sept 2015 EPS/ROE**	**1 Sept 2014 EPS/ROE**
Grant date	13 Jan 16	16 Dec 14
Fair value at measurement date	$1.82	$0.83
Share price	$1.98	$0.95
Exercise price	-	-
Expected volatility (expressed as weighted average)	40%	40%
Performance Rights life (expressed as weighted average life)	3yrs	3yrs
Expected dividends	3.0%	5.0%
Risk-free interest rate (based on national government bonds)	1.98%	2.25%

The expected volatility is based on the historic volatility (calculated based on the weighted average expected life of the share performance rights), adjusted for any expected changes to future volatility due to publicly available information.

Share performance rights are granted under a service condition and, for grants to key management personnel and, senior executives market and non-market performance conditions apply. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

Executive Short Term Incentive Option Plan

The short term incentive plan (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 12 months have resulted in sustainable Company benefit. Further details of the STIP are set out in the Remuneration Report.

19. EMPLOYEE BENEFITS (continued)

(c) Share Based Payments (continued)

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

Grant Date	Expiry Date	Value at Grant Date	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
2014								
7 Oct 14	30 Oct 15	$0.77[1]	981,033	-	981,033	(15,339)	965,694	100%
2015								
21 Oct 15	30 Oct 16	$1.83[1]	-	983,725	-	-	983,725	-

[1] **Performance rights are valued on a volume weighted average closing price of API shares on the ASX in the 10-day period after announcement of full year results. The vesting period for 2014 grant of performance rights commenced on 1 September 2013 and the vesting period for the 2015 grant of performance rights commenced on 1 September 2014.**

The grant of performance rights in relation to the 2016 STIP program was approved by the Board on 5 October 2016. The rights are subject to a 12 month deferral period and vest upon the announcement of the 2017 financial results (subject to Board approval). The approved value of the grant is $975,549 and the number of performance rights will be determined by dividing the value of the deferred component of the STIP award by the volume weighted average closing price of API shares on the ASX in the 10-day period after announcement of full year results for 2016. The vesting period for these performance rights commenced on 1 September 2015.

Employee Expenses

Total expenses arising from share-based payment transactions attributable to employees recognised during the period as part of total share-based payment expenses were as follows:

In thousands of AUD	**31 August 2016**	**31 August 2015**
Performance rights granted in 2012 – equity settled	-	(1,033)*
Performance rights granted in 2013 – equity settled	(918)*	392
Performance rights granted in 2014 – equity settled	659	886
Performance rights granted in 2015 – equity settled	661	-
Deferred component 2014 – STIP program	-	358
Deferred component 2015 – STIP program	900	900
Deferred component 2016 – STIP program	488	-
Total expense recognised as employee costs	**1,790**	**1,503**

*Reflects the reversal of expenses previously recognised for performance rights forfeited.

20. PROVISIONS

In thousands of AUD	Directors' retirement scheme	Provision for dismantling	Provision for financial guarantees	Provision for onerous leases	Provision for Loyalty Programs	Total
Balance at 1 September 2015	**351**	**5,216**	**23,288**	**930**	**5,442**	**35,227**
Provisions made during the year	-	89	-	-	23,893	23,982
Provisions used during the year	-	(328)	-	(862)	(22,527)	(23,717)
Provision reversed during the year	-	-	(23,288)	-	-	(23,288)
Unwind of discount	-	105	-	-	-	105
Balance at 31 August 2016	**351**	**5,082**	**-**	**68**	**6,808**	**12,309**
Current	-	780	-	68	6,808	7,656
Non-current	351	4,302	-	-	-	4,653
	351	**5,082**	**-**	**68**	**6,808**	**12,309**

Directors' Retirement Scheme

Retirement benefits for non-executive Directors are included on an accrual basis. They are paid on a pro-rata basis up to 10 years service to a maximum of three times the average annual remuneration in the three years preceding retirement. The retirement benefit is capped at $220,000 per director and applies only to Directors appointed prior to 9 September 2003. On 31 August 2009 the Directors agreed to freeze this benefit.

Dismantling

The consolidated entity provides for the estimated costs to cover its obligations to lessors to restore premises to the condition that existed when leases of real property were entered into.

Financial guarantees

Guarantees are issued to financial institutions of pharmacists on the basis of being fully recoverable from the pharmacist. Guarantees are typically recovered in line with pharmacy refinancing timetables. Guarantees are provided for when it is assessed that it is probable that settlement under the terms of the guarantees is expected to result in a payment after taking into account the value of the security held by the Group.

The financial guarantee provision reversed in the year was transferred to the provision for impairment losses in respect of trade and long term receivables associated with the guarantees. Upon consideration of the status of ongoing negotiations with the Pharmacy customers, it was determined that it was appropriate to reverse the provision for financial guarantee and transfer the amount to the provision for impairment losses in respect of trade and long term receivables based on the Directors' best estimate of the realisation of these assets (refer Note 22) . The consolidated entity's exposure under the financial guarantees are disclosed in Note 24 as a contingent liability.

Onerous leases

In 2006 the Group entered into non-cancellable property leases as part of a wider pharmacy lease arrangement. The facilities have been sublet for the remaining lease term, however as the rental income is lower than the rental expense, the obligation for the discounted future payments, net of expected rental income, has been provided for against earnings.

Loyalty Programs

Consists of the provision for Sister Club points in the Retail Division which are convertible quarterly by customers in the form of gift vouchers. The provision is based upon the expected cost to the consolidated entity on redemption of Sister Club vouchers. A redemption rate is applied based on historical experience and is updated quarterly.

21. CAPITAL AND RESERVES

Share capital

In thousands of shares	Ordinary shares 31 August 2016	31 August 2015
Shares on issue at the beginning of the period – fully paid	488,116	488,116
Shares issued as a consequence of the Company's 2014 Short Term Incentive Plan	981	-
Shares on issue at the end of the period – fully paid	489,097	488,116

Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings. In the event of a winding up of the Company, ordinary shareholders rank after all other creditors and are fully entitled to any proceeds of liquidation.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Equity reserve

The equity reserve relates to share-based payment transactions measured at fair value.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

Dividends

During the year the company recognised the following dividends:

On 4 December 2015 a final dividend of $12,203,000 in respect of the year ended 31 August 2015 was paid out of the Profits Reserve. It was at the rate of 2.5 cents per share, fully franked.

An interim dividend (paid out of the profits Reserve) in respect of the half year ended 28 February 2016 amounting to $12,227,000 paid on 3 June 2016. It was at the rate of 2.5 cents per share, fully franked.

On 20 October 2016 a final dividend of 3.5 cents per share (payable out of the Profits Reserve), fully franked to be paid on 9 December 2016, amounting to $17,118,000 was declared.

Dividend Franking Account

In thousands of AUD	The Company 31 August 2016	31 August 2015
30 per cent franking credits available to shareholders of the Company for subsequent financial years	**42,960**	**37,656**

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) Franking credits that will arise from the payment of the current tax liabilities;

(b) Franking debits that will arise from the payment of dividends recognised as a liability at the year end;

(c) Franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year end;

(d) Franking credits that the entity may be prevented from distributing in subsequent years; and

(e) Franking debits that will arise from receipt of the current income tax receivable.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The future reduction in the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability at year end is $6,861,590 (31 August 2015: $5,229,813).

22. FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT

Overview

The consolidated entity has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the consolidated entity's risk management framework. The Board has established an Audit and Risk Committee, which is responsible for developing and monitoring the consolidated entity's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The consolidated entity's risk management policies are established to identify and analyse the risks faced by the consolidated entity, 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 consolidated entity's activities.

The Audit and Risk Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks. The Audit and Risk Committee is assisted in its oversight by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the consolidated entity's receivables from customers and financial guarantees.

Trade and other receivables

The consolidated entity's exposure to credit risk is mainly influenced by the individual characteristics of each customer.

The consolidated entity has established a credit policy under which new customers are analysed individually for credit worthiness including using external ratings, where available. Purchase limits are established for each customer, which represents the maximum open amount available and limits are reviewed on a needs-basis. Customers that fail to meet the benchmark credit worthiness may transact with the consolidated entity only on a prepayment 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.

Goods sold under some customer arrangements are subject to retention of title clauses, so that in the event of non-payment the consolidated entity may have a secured claim.

The consolidated entity establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main component of this allowance is a specific loss component that relates to individually significant exposures (after consideration of any collateral held).

Guarantees

Financial guarantees are initially recognised at fair value. The fair value is amortised as an expense through the income statement over the life of the guarantee. Subsequent to initial measurement, the guarantee is measured at the higher of the amortised balance of the guarantee or the value of the guarantee determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

22. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

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

The Company and consolidated entity have varying borrowing levels based on seasonal requirements of the business. Any obligations can be met by the unused facilities.

Market risk

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

Currency risk

The consolidated entity 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 consolidated entity companies.

Interest rate risk

The consolidated entity is exposed to interest rate risk as a consequence of its financing facilities. The consolidated entity adopts a policy that up to 80% of its exposure to the changes in interest rates on its long term variable rate borrowings relating to the securitised trade receivables may be hedged on a fixed rate basis. At 31 August 2016, the consolidated entity had interest rate swaps with a notional contract amount of $100,000,000, with maturity between October 2016 and December 2017 and fixed rates ranging from 2.65% to 2.75%.

The consolidated entity classifies interest rate swaps as cash flow hedges. The notional contracted interest cash flows are consistent with highly probable forecast interest cash flows to December 2017 based on the forecast used facilities for the securitised trade receivables.

Capital Management

The Board's policy 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 consolidated entity's approach to capital management during the period.

Securitisation

The consolidated entity has access to funds as a result of the securitisation of current trade receivables provided the receivables meet certain criteria. There are two separate programs which have limits of $275,000,000 and $20,000,000 (31 August 2015: $275,000,000 and $45,000,000). As part of these programs, the program provider charges a monthly variable interest rate plus margin based on the drawn down portion of this program. As at 31 August 2016 the weighted average rate was 3.98% (31 August 2015: 4.03%). Settlement of the funds is monthly and daily respectively. These programs expire in May 2018.

22. FINANCIAL INSTRUMENTS (CONTINUED)

The funds able to be drawn down under either securitisation facility are limited by the existence of qualifying trade receivables at the time of drawdown which may be less than the unutilised amount otherwise available under the facility (set out in Note 18). The trade receivables are collaterised in full against amounts drawn down.

The facility imposes rights and obligations on API with respect to the quality and maintenance of the receivables, collection of receivables, settlement and reporting to the financier. API has complied with its obligations under the facility throughout the financial year.

At 31 August 2016, $28,000,000 and $12,237,064 respectively were drawn down on these programs by the consolidated entity (31 August 2015: $75,000,000 and $12,384,305). The trade receivables and loans and borrowings relating to these transactions are recognised on the statement of financial position.

Credit Risk

Exposure to credit risk

The consolidated entity's exposure to credit risk as at the reporting date was in relation to the carrying amounts of current and non-current trade receivables (note 9), other receivables (note 9), cash deposits and the amount disclosed in respect of financial guarantees provided to pharmacy customers (note 20).

Concentrations of credit risk

Concentrations of credit risk arise from customers that have similar characteristics and are affected in a similar manner where there are changes in economic, regulatory or other conditions. In this regard, the economic entity has a significant concentration of credit risk associated with the pharmacy and retail industries in Australia.

Trade Receivables

Details of the ageing of Trade Receivables and the impairment losses recorded at the reporting date are set out below:

In thousands of AUD	**31 August 2016**	**31 August 2015**
Not past due	624,507	519,082
Past due 0-30 days	26,736	26,599
Past due 31+ days	27,716	35,252
Sub-total	678,959	580,933
Impairment	(18,688)	(13,482)
	660,271	**567,451**

The movement in the provision for impairment losses in respect of Trade Receivables was as follows:

In thousands of AUD	**31 August 2016**	**31 August 2015**
Balance at start of year	13,482	10,324
Amounts provided during the year	9,709	9,414
Amounts transferred from provision for financial guarantees	-	1,451
Amounts written off during the year	(4,503)	(7,707)
Balance at end of year	**18,688**	**13,482**

22. FINANCIAL INSTRUMENTS (CONTINUED)

Loans receivable from Pharmacy customers

Historically, the consolidated entity had provided financial assistance to certain pharmacy customers in the form of long term loans.

The consolidated entity obtained collateral wherever long term funding arrangements are agreed to. This collateral included personal guarantees, property mortgages and formal charges over pharmacy assets. The security held by the consolidated entity over the charged assets was generally in the form of a second-ranking charge after the security held by the pharmacist's financiers. The consolidated entity continue to hold collateral for any remaining loans and as security for other contractual obligations of those pharmacy customers and as security for the performance of contractual and other obligations of those pharmacy customers.

In determining the provision for impairment for the Loans receivable from Pharmacy customers, the Directors have taken into account the value of collateral held and the specific circumstances of individual pharmacy customers.

The aggregate exposure to pharmacy loans is:

Non-current loans receivable

In thousands of AUD	**31 August 2016**	**31 August 2015**
Loans receivable from pharmacy customers	-	48,186
Provision for Impairment	-	(18,548)
	-	**29,638**

22. FINANCIAL INSTRUMENTS (CONTINUED)

Loans receivable from Pharmacy customers (continued)

The determination of the impairment provisions is based on a number of best-estimate assumptions and is subject to inherent uncertainties based on information available at balance date. These uncertainties include general economic and trading conditions, the valuation of assets held as security (and the priority rights of other financiers over those assets), the potential impact on asset values of enforcing the company's security rights through liquidation of the assets, disposal costs, the regulatory environment, the ability of pharmacy customers to obtain external finance, estimates of the timing of repayment or enforcement of security rights and other factors impacting the pharmacy industry. The impact of these uncertainties could reduce or increase the potential recoverable value of these assets. As disclosed in Note 20, during the financial year the amounts provided for and subsequently written off include a transfer from provisions for financial guarantees in respect of trade and long term receivables associated with the guarantees.

The movement in the provision for impairment losses in respect of non-current loans receivable was as follows:

In thousands of AUD	**31 August 2016**	**31 August 2015**
Balance at start of year	18,548	22,390
Amounts provided during the year	27,292	-
Amounts written off during the year	(45,840)	(3,842)
Balance at end of year	**-**	**18,548**

Liquidity Risk

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements.

In thousands of AUD	**Carrying Amount**	**Contract Cash Flows**	**1 year or less**	**1-2 years**	**2-5 years**	**More than 5 years**
31 August 2016						
Non-derivative financial liabilities						
Finance lease liabilities	3,949	4,348	1,730	1,240	1,378	-
Insurance premium funding	1,457	1,457	1,457	-	-	-
Trade and other payables	807,673	807,673	799,237	1,284	3,641	3,511
Cash Advance facility	5,755	5,755	-	-	5,755	-
	818,834	**819,233**	**802,424**	**2,524**	**10,774**	**3,511**
31 August 2015						
Non-derivative financial liabilities						
Finance lease liabilities	4,462	5,032	1,493	1,542	1,997	-
Customer deposits	7	7	7	-	-	-
Insurance premium funding	1,592	1,592	1,592	-	-	-
Trade and other payables	674,549	674,549	665,933	1,105	3,267	4,244
Cash Advance facility	5,422	5,422	5,422	-	-	-
	686,032	**686,602**	**674,447**	**2,647**	**5,264**	**4,244**

22. FINANCIAL INSTRUMENTS (CONTINUED)

Cash Flow Hedges

The only financial assets or financial liabilities carried at fair value are derivative financial instruments designated as cash flow hedges. The Company considers the derivatives to be Level 2 financial instruments because, unlike Level 1 financial instruments, their measurement is derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices). There have been no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year. The derivative fair values have been obtained from third party valuations derived from forward interest rates at the balance sheet date.

The fair value of the derivatives designated as cash flow hedges at 31 August 2016 was a net liability of $504,090 (31August 2015: liability of $846,344).

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:

31 August 2016

In thousands of AUD

Consolidated and the Company	Carrying Amount	Expected Cash Flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Interest Rate Swap-Liability	(519)	(519)	(382)	-	(137)	-	-
Foreign Exchange Forward-Asset	15	15	15	-	-	-	-

31 August 2015

In thousands of AUD

Consolidated and the Company	Carrying Amount	Expected Cash Flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Interest Rate Swap-Liability	(1,195)	(1,195)	-	-	(776)	(419)	-
Foreign Exchange Forward-Asset	349	349	349	-	-	-	-

22. FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Risk

Effective Interest Rates and Repricing Analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

Consolidated				**31 August 2016**						**31 August 2015**			
In thousands of AUD	**Note**	**Effective interest rate**	**Total**	**1 year or less**	**1-2 years**	**2-5 years**	**More than 5 years**	**Effective interest rate**	**Total**	**1 year or less**	**1-2 years**	**2-5 years**	**More than 5 years**
Cash and cash equivalents	27	1.03%	25,489	25,489	-	-	-	1.67%	28,047	28,047	-	-	-
Restricted cash (Aspire cash reserve)	9	1.60%	4,895	4,895	-	-	-	2.10%	4,335	4,335	-	-	-
Loans receivable from pharmacy customers	9	-	-	-	-	-	-	Nil**	46,792	-	-	46,792	-
Trade receivables, non current*	9	12.0%	9,991	7,730	2,261	-	-	12.0%	1,394	992	402	-	-
Securitised trade receivables	18	3.98%	(40,237)	-	-	(40,237)	-	4.03%	(87,384)	-	-	(87,384)	-
Finance lease liabilities*	18	6.66%	(3,949)	(1,521)	(1,126)	(1,302)	-	5.11%	(4,462)	(1,244)	(1,357)	(1,861)	-
Bank overdrafts and cash advance facility	18	5.66%	(5,755)	-	-	(5,755)	-	6.22%	(5,422)	(5,422)	-	-	-
Insurance premium funding*	18	3.98%	(1,457)	(1,457)	-	-	-	1.55%	(1,592)	(1,592)	-	-	-
			(11,023)	**35,136**	**1,135**	**(47,294)**	**-**		**(18,292)**	**25,116**	**(955)**	**(42,453)**	**-**

* Fixed rate income earning financial assets and interest bearing financial liabilities. Remaining balances are variable rates.

** The effective interest rate on loans receivable from pharmacy customers was nil during the prior year, as agreement on the form and conditions of the loans was not complete.

22. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value sensitivity analysis for fixed rate instruments

The consolidated entity does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the consolidated entity does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at reporting date would not affect profit and loss unless any hedges became ineffective.

Cash flow sensitivity analysis for variable rate instruments

A strengthening by 100 basis points in interest rates at the reporting date would have increased (or in the event of a commensurate weakening, decreased) profit or loss and equity (pre-tax) at the end of the reporting period by the amounts shown below for the consolidated entity. This analysis assumes that all other variables remain constant.

	Profit/(loss)		Equity	
In thousands of AUD	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
31 August 2016				
Interest rate swap	-	-	455	(455)
Cash flow sensitivity (net)	**-**	**-**	**455**	**(455)**
31 August 2015				
Interest rate swap	-	-	1,442	(1,442)
Cash flow sensitivity (net)	**-**	**-**	**1,442**	**(1,442)**

Fair values

The fair values of financial assets and liabilities are not materially different from the carrying amounts shown in the balance sheet.

Estimation of Fair Values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Loans and Borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance Lease Liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

Trade and other Receivables / Payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

22. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rates used for determining fair value

The entity uses the government yield curve as of the year end, plus an adequate constant credit spread, to discount financial instruments. The interest rates used are as follows:

	31 August 2016	31 August 2015
Loans and borrowings	4.0%-6.0%	4.0%-6.5%
Leases	6.0%-7.0%	5.0%-5.5%
Receivables	Nil	Nil

23. COMMITMENTS

Operating Leases - Leases as Lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	31 August 2016	31 August 2015
Less than one year	47,828	45,734
Between one and five years	103,345	103,070
More than five years	26,251	30,007
	177,424	**178,811**

The consolidated entity leases property and plant under non-cancellable operating leases expiring from two to fifteen years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

During the year ended 31 August 2016, $64,345,429 was recognised by the consolidated entity as an expense in the profit and loss in respect of operating leases and other related occupancy costs (31 August 2015: $62,980,803).

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

With certain franchise arrangements, the consolidated entity continues to hold the head lease and recharges the franchisee the appropriate rental charge. For those leases, the franchisee is invoiced in advance and offset against the rental charge from the landlord.

Capital Expenditure Commitments

In thousands of AUD	31 August 2016	31 August 2015
Contracted but not provided for or payable:	1,636	2,003

24. CONTINGENT LIABILITIES

Contingent liabilities

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

		Consolidated		The Company	
In thousands of AUD		**Year ended 31 August 2016**	**Year ended 31 August 2015**	**Year ended 31 August 2016**	**Year ended 31 August 2015**
Guarantee of bank facilities to controlled entities	(i)	-	-	8,632	8,133
Financial guarantees to pharmacists	(i)	19,243	-	19,243	-

(i) These guarantees all relate to the parent entity.

The parent entity has entered into a deed of cross guarantee with the effect that Australian Pharmaceutical Industries Limited guarantees debts in respect of its subsidiaries.

Further detail of the Deed of Cross Guarantee and the nominated subsidiaries subject to the deed are disclosed in Note 26.

Financial guarantees of $19,243,000 have been provided to financial institutions of individual debtors and debtor groups. The consolidated entity has strict controls over the approval of guarantees of pharmacy customers and takes security over the assets of the relevant pharmacy. The Directors are of the opinion that provisions are not required in respect of these guarantees, as it is not probable that the consolidated entity's exposure is greater than the value of the security over the assets of the relevant pharmacy. (refer Note 20 & Note 22).

25. CONSOLIDATED ENTITIES

	Note	Ownership interest	
		31 August 2016	31 August 2015
Parent Entity			
Australian Pharmaceutical Industries Limited			
Subsidiaries			
API Services Australia Pty Ltd		100	100
Australian Pharmaceutical Industries (Queensland) Pty Limited	(ii)	100	100
API Victoria Pty Limited	(ii)	100	100
Soul Pattinson (Manufacturing) Pty Limited		100	100
API Financial Services Australia Pty Limited	(ii)	100	100
Pharma-Pack Pty Limited		100	100
API (Canberra) Pty Limited		100	100
Canberra Pharmaceutical Supplies Trust		100	100
Stevens KMS Equities Limited	(i)	100	100
API Healthcare Holdings (NZ) Limited	(i)	100	100
Priceline (NZ) Pty Ltd	(i)	100	100
PAF (New Zealand) Ltd	(i)	100	100
The Medicine Shoppe Limited	(i)	100	100
PSM Healthcare Limited	(i)	100	100
Pharmaceutical Sales and Marketing Ltd	(i)	100	100
Garrett Investments Limited	(i)	100	100
Healthcare Manufacturing Group Limited	(i)	100	100
Synapse Finance Pty Ltd	(ii)	100	100
New Price Retail Finance Pty Ltd	(ii)	100	100
New Price Retail Pty Ltd		100	100
New Price Retail Services Pty Ltd		100	100
Priceline Unit Trust		100	100
Second Priceline Unit Trust		100	100
Priceline Proprietary Limited	(ii)	100	100
Making Life Easy - Mobility and Independent Living Superstores Pty Ltd		100	100
MLE Unit Trust		100	100

(i) These controlled entities are incorporated in New Zealand and carry on business predominantly in New Zealand.
All other controlled entities are incorporated and carry on business predominantly in Australia.

(ii) These controlled entities have each entered into a Deed of Cross Guarantee with Australian Pharmaceuticals Industries Limited in respect of relief granted from specific accounting and financial reporting requirements in accordance with ASIC Class Order 98/1418.

All subsidiaries have a balance date equivalent to the parent entity.

26. DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- API Financial Services Australia Pty Ltd
- API Victoria Pty Ltd
- Australian Pharmaceutical Industries (Queensland) Pty Ltd
- New Price Retail Finance Pty Ltd
- Priceline Pty Ltd
- Synapse Finance Pty Ltd

A condensed consolidated income statement and consolidated balance sheet comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 31 August 2016 is set out as follows:

Summarised Statement of Comprehensive Income, Retained Profits and Reserves

	Closed Group	
In thousands of AUD	**Year ended 31 August 2016**	**Year ended 31 August 2015**
Profit before tax	37,854	36,188
Income tax expense	(6,794)	(14,881)
Profit after tax	**31,060**	**21,307**
Other comprehensive (expense)/income	240	(555)
Total comprehensive income for the period	**31,300**	**20,752**
Accumulated losses at beginning of the year	(120,516)	(120,516)
Loss after tax	-	-
Remeasurements of Defined Benefit Liability, net of tax	-	-
Accumulated losses at end of the year attributable to equity holders	**(120,516)**	**(120,516)**
Reserves at beginning of the year	6,491	3,720
Profits reserve	31,060	21,307
Dividend paid out of profits reserve	(24,430)	(19,525)
Other comprehensive income/(expense)	240	(555)
Remeasurements of Defined Benefit Liability, net of tax	33	41
Share based payment transactions	1,790	1,503
Reserves at the end of the year attributable to equity holders	**15,184**	**6,491**

26. DEED OF CROSS GUARANTEE (CONTINUED)

Summarised Statement of Financial Position

In thousands of AUD	Closed Group As at 31 August 2016	Closed Group As at 31 August 2015
Assets		
Cash and cash equivalents	13,705	15,639
Trade and other receivables	605,148	547,873
Inventories	316,120	282,452
Other Investments	-	6,798
Total current assets	934,973	852,762
Trade and other receivables	37,342	46,013
Investments	134,757	133,356
Other investments	-	-
Deferred tax assets	3,359	9,603
Property, plant and equipment	51,884	57,135
Intangible assets	109,289	111,580
Total non-current assets	336,631	357,687
Total assets	**1,271,604**	**1,210,449**
Liabilities		
Trade and other payables	725,920	605,176
Loans and borrowings	2,408	52,409
Employee benefits	14,829	16,075
Provisions	68	24,151
Income tax payable	13,445	8,290
Total current liabilities	756,670	706,101
Trade and other payables	5,795	5,699
Loans and borrowings	40,862	38,921
Employee benefits	3,018	2,946
Provisions	4,129	4,346
Total non-current liabilities	53,804	51,912
Total liabilities	**810,474**	**758,013**
Net assets	**461,130**	**452,436**
Equity		
Share capital	566,461	566,461
Reserves	5,191	3,161
Profit reserves	9,994	3,330
Accumulated losses	(120,516)	(120,516)
Total equity	**461,130**	**452,436**

27. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

In thousands of AUD	Year ended 31 August 2016	Year ended 31 August 2015
Cash Flows from Operating Activities		
Profit for the period	51,670	43,126
Adjustments for:		
Depreciation	16,586	14,937
Amortisation	9,857	5,444
Reversal of impairment loss on property, plant and equipment	(498)	(108)
Foreign exchange loss/(gains)	369	(111)
Share of loss of associates net of dividends received	-	431
Loss in divestment of associates	2,437	-
Net (gain)/loss on sale of stores, property, plant and equipment	(292)	1,046
Equity-settled share-based payment expenses	1, 790	1,503
Net finance cost	15,785	14,140
Income tax expense	17,239	16,329
Operating profit before changes in working capital and provisions	**114,943**	**96,737**
Increase in trade and other receivables	(77,946)	(25,462)
Increase in inventories	(49,576)	(21,724)
Increase in trade and other payables	133,008	50,940
(Decrease)/increase in provisions and employee benefits	(23,768)	1,332
	96,661	**101,823**
Net interest paid	(15,717)	(14,178)
Income taxes refunded/(paid)	1,913	(7,589)
Net Cash from Operating Activities	**82,857**	**80,056**

In thousands of AUD	As at 31 August 2016	As at 31 August 2015
Cash at bank	25,489	28,047
Cash and cash equivalents in the statement of cash flows	**25,489**	**28,047**

28. RELATED PARTIES

Key management personnel compensation

The key management personnel compensation included in 'Personnel Expenses' is as follows

In AUD	Year ended 31 August 2016	Year ended 31 August 2015
Short-term employee benefits	3,214,233	3,261,715
Post employment benefits	157,201	486,105
Share based payments	914,055	391,918
	4,285,489	**4,139,738**

Individual Directors and executives compensation disclosures

Information regarding individual Directors and executives' compensation and some 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 the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

Other Key Management Personnel transactions with the Company or its Controlled Entities

Certain members of key management personnel are Directors of an associate entity (as discussed in Note 13) that result in them having influence over the financial or operating policies of that entity. The associate transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with that party were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related entities on an arm's length basis.

Certain Directors of the Company are also directors of companies that have entered into transactions with the Company and its controlled entities during the financial year. These transactions may include purchasing of inventories from the Company or its controlled entities. All transactions with the Directors and the companies they represent are on the same terms and conditions as those entered into by other entities, employees or customers and are trivial or domestic in nature.

No shares were granted during the period to Directors.

Mr R D Millner is a director of, and Mr P R Robinson was (resigned 31 March 2015) a director of Washington H Soul Pattinson and Company Limited. Washington H Soul Pattinson and Company Limited holds 120,214,969 shares (31 August 2015: 120,214,969 shares) in the Company at year end 31 August 2016.

During the year, further performance rights were issued by the Company to key management personnel and certain senior executives. Share rights forfeited by and issued to key management personnel have been disclosed in the Remuneration Report contained within the Directors Report of this report.

Non Key Management Personnel Disclosures

Associates

During the year ended 31 August 2016, associates purchased goods from the consolidated entity in the amount of $91,862 (31 August 2015: $410,252. The Company's investment in associates was divested during the year ended 31 August 2016. Associates owed the consolidated entity $136,464 at 31 August 2015. Transactions with associates were priced on an arm's length basis.

No dividends were received from associates during the period ended 31 August 2016 nor for the period ended 31 August 2015.

29. AUDITORS' REMUNERATION

In AUD	Consolidated Year ended 31 August 2016	Year ended 31 August 2015
Audit services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	525,000	605,000
Overseas KPMG firms:		
Audit and review of financial reports	45,800	38,000
	570,800	**643,000**
Other services		
Auditors of the Company		
KPMG Australia:		
Other assurance services	81,250	19,775
Other advisory services	-	1,500
Taxation services	180,820	289,754
Overseas KPMG firms:		
Taxation services	11,100	11,794
	843,970	**965,823**

30. SUBSEQUENT EVENTS

On 20 October 2016, a final dividend of 3.5 cents per share, fully franked to be paid out of the Profits Reserve on 9 December 2016, amounting to $17.118 million was declared.

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 27 to 80, and the Remuneration Report set out on pages 8 to 22 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 2016 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(b); 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 25 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

2 The Directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 31 August 2016 pursuant to Section 295A of the Corporations Act 2001.

Dated at Sydney, 20 October 2016

Signed in accordance with a resolution of the Directors:

Peter R. Robinson

Director

KPMG

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

Report on the Financial Report

We have audited the accompanying financial report of Australian Pharmaceutical Industries Limited (the Company), which comprises the consolidated statements of financial position as at 31 August 2016, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 30 comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the Financial Report

The Directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In Note 1(b), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent auditor's report to the members of Australian Pharmaceutical Industries Limited (continued)

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 August 2016 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(b)

Report on the remuneration report

We have audited the Remuneration Report included in pages 8 to 22 of the Directors' report for the year ended 31 August 2016. 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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Australian Pharmaceutical Industries Limited for the year ended 31 August 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

M. Bisetto

Maurice Bisetto

Partner

Melbourne

20 October 2016

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings as at 19 October 2016

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Washington H Soul Pattinson and Company Limited	120,214,969	ordinary shares
Citicorp Nominees Pty Limited	76,715,351	ordinary shares
J P Morgan Nominees Australia Limited	56,114,343	ordinary shares
HSBC Custody Nominees (Australia) Limited	47,464,558	ordinary shares
National Nominees Limited	24,686,515	ordinary shares

Voting rights

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

(a) on a show of hands:

(i) if a member has appointed two proxies, neither of those proxies may vote;

(ii) a member who is present and entitled to vote and is also a proxy, attorney or representative of another member has one vote; and

(iii) subject to paragraphs (a)(i) and (a)(ii), every individual present who is a member, or a proxy, attorney or representative of a member, entitled to vote has one vote;

(b) on a poll every member entitled to vote who is present in person or by proxy, attorney or representative:

(i) has one vote for every fully paid share held; and

(ii) subject to paragraph (c), in respect of each partly paid share held has a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share; and

(c) unless:

(i) permitted under the Listing Rules; and

(ii) otherwise provided in the terms on which shares are issued,

in calculating the fraction of a vote which the holder of a partly paid share has, the Company must not count an amount:

(iii) paid in advance of a call; or

(iv) credited on a partly paid share without payment in money or money's worth being made to the Company.

On-market share buy-back

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

Shareholders information continued

Distribution of Shareholders as at 19 October 2016

Category Ordinary Shares	Number of Shareholders
1 – 1,000	2,325
1,001 – 5,000	3,122
5,001 – 10,000	1,215
10,001 – 100,000	1,662
100,001 and over	211
	8,511

The number of shareholders holding less than a marketable parcel at 19 October 2016 was 538 (21 October 2015: 528).

Stock Exchange

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

Other Information

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

Twenty largest Shareholders as at 19 October 2016 *

Name	Number of Ordinary shares held	Percentage of Capital held
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	120,214,969	24.58
CITICORP NOMINEES PTY LIMITED	76,715,351	15.68
J P MORGAN NOMINEES AUSTRALIA LIMITED	56,114,343	11.47
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	47,464,558	9.70
NATIONAL NOMINEES LIMITED	24,686,515	5.05
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	9,203,785	1.88
BNP PARIBAS NOMS PTY LTD	8,416,839	1.72
BNP PARIBAS NOMINEES PTY LTD	8,097,900	1.66
PRUDENTIAL NOMINEES PTY LTD	8,000,000	1.64
RBC INVESTOR SERVICES AUSTRALIA PTY LIMITED	3,624,481	0.74
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	2,812,093	0.58
BNP PARIBAS NOMINEES PTY LTD	2,069,559	0.42
CS FOURTH NOMINEES PTY LIMITED	2,022,993	0.41
HSBCCUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 3	1,957,544	0.40
MR FREDERICK BENJAMIN WARMBRAND	1,500,000	0.31
JUM PTY LIMITED	1,417,286	0.29
MR RAYMOND FRANCIS FREW & MRS GILLIAN MARGARET FREW	1,369,000	0.28
CITICORP NOMINEES PTY LIMITED	1,218,517	0.25
AMP LIFE LIMITED	865,908	0.17
MR JOHN JOSEPH MURPHY	681,879	0.14
	378,453,520	**77.34**

* 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
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

Shareholders can also send queries to the share registry via email: enquiries@boardroomlimited.com.au

You can access information about your API shareholding and download forms via the internet by visiting: www.boardroomlimited.com.au

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 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 reason, shareholders should keep their Security Holder Reference Numbers confidential.

Annual Report Mailing List

Shareholders (whether Issuer or Broker Sponsored) wishing to receive the Annual Report should advise Boardroom in writing so that their names can be added to the mailing list. Shareholders are able to update their preference via the

Boardroom website. Shareholders can also elect to receive the Annual report by e-mail or by accessing the Company website.

Change of Address

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

Share Trading and Price

API shares are traded on the Australian Stock Exchange Limited ('ASX'). 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.

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

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

- Interim results
- Annual results
- The Annual General Meeting - the Chairman and the Managing Director address the meeting
- ASX announcements

Financial Calendar*

Half year end	28 February 2017
Half year profit announcement	20 April 2017
Year end	31 August 2017
Full year profit announcement	19 October 2017
Annual General Meeting	25 January 2018

* 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

Enquiries can also be made via email by accessing

www.api.net.au – "contact us"

Corporate Directory

Offices and Officers

Company Secretary

Mr Peter Sanguinetti B.Juris, LLB GAICD

Principal Registered Office

Australian Pharmaceutical Industries Limited

Level 5
250 Camberwell Road
Camberwell Vic 3124

Telephone: (03) 8855 3000
Facsimile: (03) 8855 3401

Location of Share Registry
Boardroom Pty Limited
Grosvenor Place
Level 12
225 George Street
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