



## A better future together

Annual Report 2017/18





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# Directors' Report

The Directors present their report on Sigma Healthcare Limited (the 'Company') and its controlled entities (the 'Group') for the year ended 31 January 2018.

## Directors

The names of the Directors of the Company during the full year and until the date of this report were:

Mr B Jamieson  
Mr M Hooper  
Mr D Bayes  
Mr R Gunston  
Mr D Manuel  
Ms K Spargo  
Ms C Bartlett

## Directors' Interests in Share Capital, Options and Performance Rights of the Company

Details of the Directors' relevant interests in shares, options and performance rights of the Company at the date of this Report are as follows:

	Number of Fully Paid Ordinary Shares	Number of Performance Rights/Options Over Fully Paid Ordinary Shares
Mr B Jamieson	753,956	-
Mr M Hooper	8,348,250	28,902,221
Mr D Bayes	326,112	-
Mr R Gunston	212,058	-
Mr D Manuel	211,192	-
Ms K Spargo	117,163	-
Ms C Bartlett	30,262	-

## Board and Committee Meeting Attendance

The following table sets out the number of Directors' meetings held during the year and the number attended by members of the Board or relevant committee. During the year, 11 Board meetings, five Risk Management and Audit Committee meetings and four People and Remuneration Committee meetings were held.

Directors	Board of Directors		Risk Management and Audit Committee		People and Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Mr B Jamieson	11	11	-	-	-	-
Mr M Hooper	11	11	-	-	-	-
Mr D Bayes <sup>1,2</sup>	11	11	5	5	4	4
Mr R Gunston <sup>1,2</sup>	11	11	5	5	4	4
Mr D Manuel <sup>2</sup>	11	11	-	-	4	4
Ms K Spargo <sup>1</sup>	11	10	5	5	-	-
Ms C Bartlett <sup>2</sup>	11	11	-	-	4	4

1. Risk Management and Audit Committee members.

2. People and Remuneration Committee members.

## Operating and Financial Review

### Overview of Operations

The Group is one of the largest full line pharmaceutical wholesaler and distribution businesses in Australia, delivering daily to pharmacies Australia wide. The Group also operates Australia's largest pharmacy-led network, across the brands Amcal, Chemist King, Discount Drug Stores, Guardian, and PharmaSave.

Through its Sigma Hospital Services business, the Group also has an expanding national presence in the hospital pharmacy distribution market, as well as the provision of third party logistics services through its subsidiary Central Healthcare Pty Limited (CHS). The Group manages and promotes a range of over-the-counter Private and Exclusive Label products made available to brand member customers, as well as the Pharmacy Care Private Label range that is made available to all pharmacy customers.

During the year, the Group commenced providing dose administration aid and related services through its acquisition of the Medication Packaging Systems (**mps**) business, and supplying medical and allied products through its acquisition of the Medical Industries Australia business.

# Directors' Report continued

## Operating and Financial Review continued

### Financial Performance

The Group consolidated Net Profit After Tax (NPAT) attributable to owners of the Company for the year ended 31 January 2018 of \$55,059,000 was up 3.5% from the prior year (\$53,184,000).

	31 January 2018 \$'000	31 January 2017 \$'000
<b>Reported NPAT attributable to owners of the Company</b>	<b>55,059</b>	53,184
Add back:		
Restructuring and dual operating costs after tax	2,601	-
Acquisition and due diligence costs after tax	2,239	-
Litigation settlement expense after tax	-	7,958
Provision for doubtful debtors – single pharmacy group after tax	-	5,783
<b>Underlying NPAT attributable to owners of the Company</b>	<b>59,899</b>	66,925
<b>Reported EBIT</b>	<b>83,747</b>	80,955
Add back:		
Restructuring and dual operating costs before tax	3,715	-
Acquisition and due diligence costs before tax	3,199	-
Litigation settlement expense before tax	-	11,368
Provision for doubtful debtors – single pharmacy group before tax	-	8,262
<b>Underlying EBIT</b>	<b>90,661</b>	100,585
Less: Non-controlling interests before interest and tax	(409)	(357)
<b>Underlying EBIT attributable to owners of the Company</b>	<b>90,252</b>	100,228

Reported Earnings Before Interest and Tax (EBIT) of \$83,747,000 was up 3.4% on the prior year. The underlying EBIT attributable to owners of the Company of \$90,252,000 was down 10.0% from \$100,228,000 reported in the prior year.

Both periods were impacted by significant non-operating items. In the current period, expenses totalling \$6,914,000 before tax (\$4,840,000 after tax) resulted from restructuring, acquisition and due diligence costs. The prior year included an expense of \$11,368,000 before tax (\$7,958,000 after tax) that resulted from the insurance reimbursement relating to the 2012 class action settlement, and a doubtful debt provision that was raised against a single pharmacy group, totalling \$8,262,000 before tax (\$5,783,000 after tax).

Removing the impact of the non-operating adjustments discussed above, the underlying NPAT attributable to owners of the Company was down 10.5% to \$59,899,000 (\$66,925,000 in the prior year).

Sales revenue was \$4,129,819,000 for the period, down 5.4% from \$4,366,208,000 in the prior year. The decrease in sales revenue was heavily influenced by the reduction in demand for high cost Hepatitis C medications compared to the prior year, which was as anticipated and in line with broader market trends. Adjusting for sales of Hepatitis C medications in the current period, sales revenue was consistent with the prior year, although there were several factors that impacted sales over the period, including:

- a decrease in volumes (excluding Hepatitis C) of 3.1%;
- reduced prices from the ongoing Pharmaceutical Benefits Scheme (PBS) price reform;
- the move by two manufacturers to distribute a short range of high value products direct to pharmacy; and
- the loss of a large customer group in Queensland.

Gross profit for the period of \$284,363,000 was down 1.8% from \$289,546,000 in the prior year. Total gross margin of 6.9%, up from 6.6%, reflects the reduction in sales of the high cost and low margin Hepatitis C medications. Excluding the influence of Hepatitis C sales, underlying gross margin remained steady year on year at 7.7%.

Other revenue was up 8.2% to \$83,478,000 (\$77,153,000 in the prior year). Other revenue includes pharmacy brand member fees, supplier rebates, promotional and marketing income and data analytics services. This increase was driven by increased fees and rebates from suppliers and the contribution from (mps) since acquisition.

Warehouse and delivery expenses of \$145,055,000 for the current period were up 10.0% from the prior year (\$131,817,000). This increase mainly reflected the expansion of the CHS business to include costs associated with the new Western Australian distribution centre, Linton Street, and increases in people costs in accordance with our EBA agreements. During the second half, operating costs were also incurred in establishing Sigma's new distribution centre in Berrinba, Queensland, whilst continuing to fully operate the existing metro Queensland facility in Mansfield.

Investment in the Group's key distribution centres is expected to drive operational efficiencies, with the site at Berrinba in Queensland commencing operation in February 2018, the new Western Australian distribution centre at Canning Vale expected to be completed in the second half of the 2018 calendar year, and a new New South Wales distribution centre in Kemps Creek in the western suburbs of Sydney scheduled to commence construction in the first half of the 2018 calendar year, with completion expected early in the 2020 calendar year.



Sales and marketing expenses of \$64,343,000 for the period were down 13.8% from \$74,665,000 in the prior year. The decrease was largely driven by a reduction in the expense associated with the provision for doubtful debts compared to the prior year, combined with reductions in bonus expenses and other people costs across this area.

Administration costs of \$65,609,000 for the period were up 10.1% from \$59,607,000 in the prior year. The cost increase was driven by increased investment in CHS and the supply chain and business development functions to support future growth, in addition to non-operating costs associated with due diligence and business development activities, additional legal and redundancy costs.

Net interest expense of \$5,012,000 was up from \$4,286,000 in the prior year, reflecting additional average monthly and year-end net debt to facilitate business acquisitions and the capital investment in the distribution network.

Income tax expense of \$23,349,000 (effective tax rate of 29.7%) was up from \$23,163,000 (effective tax rate of 30.2%) in the prior year, in line with the increase in reported profit before tax.

### Financial Position

The Group's net assets in the last 12 months decreased from \$538,587,000 to \$515,259,000 as a result of the purchase of shares during the financial year for both the Employee Share Plan and the share buy-back program.

The working capital balance of \$378,826,000 was down from \$387,132,000 in the prior year, with the Cash Conversion Cycle (CCC), being the net of days sales outstanding, days inventory on hand and days payable outstanding, increasing by one day for the current period. Adjusting for the influence of the high cost Hepatitis C medications, the CCC improved by one day to 35 days.

Underlying Return on Invested Capital<sup>1</sup> (ROIC) was 16.6% for the current period compared to 17.7% for the prior year. ROIC remains a strong focus for management, with the decrease representing additional capital employed because of business investment activities.

The continuation of the on market share buy-back program saw \$12,019,000 invested to acquire and cancel 14,584,073 shares. Since the program commenced in October 2012, the Company has invested \$98,618,000 to acquire and cancel 130,721,675 shares, at an average of \$0.75 per share. This equates to 11.0% of issued capital at the commencement of the program.

1. Underlying pre-tax ROIC is based on the last 12 months of underlying earnings (EBIT) excluding non-operating items and net assets adjusted for capital work in progress on new distribution centres.

### Changes in State of Affairs

During the year, the Group acquired the assets of the following businesses:

#### Medication Packaging Systems (mps)

On 6 September 2017, the Group acquired the assets and business of (mps) for \$17.9 million. mps is Australia's largest provider of dose administration services to the residential aged care sector, and also services community pharmacies across Australia. Completion of the acquisition was effective from 30 September 2017.

#### Medical Industries Australia (MIA)

On 1 December 2017, the Group acquired the assets and business of Medical Industries Australia (MIA) for \$10.0 million. MIA supplies medical and allied products to government and private hospitals, clinics, medical and dental practitioners and pharmacies across Australia. Completion of the acquisition was effective from 1 December 2017.

Refer to Note 18 in the financial report for further disclosure of these acquisitions.

### Likely Developments and Expected Results of Operations

Consistent with our overarching vision, the Group maintains a proactive business development program that continues to seek opportunities to expand the Group's operations. The Group also continues to invest in the core business to drive improved operational efficiencies and broaden the business to reduce the reliance on income derived from distributing PBS-listed medicines.

The Group is currently transitioning operations from the Mansfield distribution centre to the newly completed distribution centre on owned land in Berrinba in South East Queensland. This process is expected to be completed by May 2018. During the financial year, the Group also commenced construction of a new distribution centre on owned land in Canning Vale in Western Australia. This new distribution centre is anticipated to be operational in the last quarter of the 2018 calendar year. The Group has also acquired land at Kemps Creek in New South Wales. Construction of a new distribution centre is expected to commence in April 2018, and is anticipated to be operational in the first quarter of the 2020 calendar year.

A number of business enhancement programs and initiatives are continuing, focused on driving operational improvements across the Group. This includes Project Renew, which is a whole of business review of end to end processes to streamline and enhance the way the Group does business, which may also lead to the eventual implementation of a new enterprise resource planning (ERP) system. The Group remains confident these strategic initiatives will contribute to growth for the medium and long term.

# Directors' Report continued

## Operating and Financial Review continued

### Material Risks

A final report from the Review of Pharmacy Remuneration and Regulation (PRRR) was provided to the Federal Health Minister during the 2017 calendar year. The PRRR is a far reaching examination of the pharmacy operating environment, from manufacturer, wholesaler, pharmacy and consumer. Any recommendations from this review may form the basis of the negotiation for the Seventh Community Pharmacy Agreement in 2020.

During the 2017 calendar year, a supplier of PBS products, Astra Zeneca, notified wholesalers that it intended to commence exclusive only direct to pharmacy distribution for a narrow range of profitable products, retaining all other products within the wholesaler network. The Group and industry bodies are in discussions with government regarding the impact such an anti-competitive exclusive model has on the supply chain. Should the exclusive direct to pharmacy model be allowed to continue to flourish, this may have a material impact on the wholesale supply chain.

In May 2017, the Group announced the commencement of legal proceedings against a major customer group in relation to the operation of certain aspects of the supply agreement. As a result of the parties entering into formal negotiations and subsequently reaching a commercial resolution, this proposed legal action ceased. The current agreement between the Group and the major customer is due to expire in June 2019, and is subject to ongoing discussions and negotiation for a new agreement. These discussions may or may not lead to the parties entering into a new agreement.

Other than as highlighted above, there has not been a material change in the Group's risk profile since 31 January 2017.

### Environmental Regulations

The Group is not licensed or otherwise subject to conditions for the purposes of environmental legislation or regulation.

### Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 23.

### Dividends

A fully franked interim dividend of 2.5 cents, amounting to \$26,607,000, was paid on 5 October 2017.

Since the end of the year, the Board of Directors has resolved to pay a final dividend of 2.5 cents per share fully franked, to be paid on 20 April 2018 to shareholders on the register at the ex-dividend date of 5 April 2018. The total amount payable is \$26.5 million.

### Rounding of Amounts

The Company is a company of the kind referred to in the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

### Non-audit Services

The Company's Risk Management and Audit Committee (RMAC) is responsible for the maintenance of audit independence.

Specifically, the RMAC Charter ensures the independence of the auditor is maintained by:

- limiting the scope and nature of non-audit services that may be provided; and
- requiring that permitted non-audit services must be pre-approved by the Chairman of the RMAC.

During the current year, the external auditor did not provide any non-audit services.

### Directors' and Executive Officers' Remuneration Policy

Details of the Group's Remuneration Policy in respect of the Directors and Senior Managers are included in the Remuneration Report on pages 6 to 22. Details of the remuneration paid to each Non-Executive Director, the CEO and Managing Director and other Senior Managers are detailed in the Remuneration Report. The Remuneration Report is incorporated in and forms part of this Directors' Report.

## Directors' and Officers' Indemnities and Insurance

As provided under the Constitution, the Company indemnifies Directors and officers to the extent permitted by law for any liability incurred to persons other than the Company or its related bodies corporate in their capacity as Directors or officers unless the liability arises out of conduct involving a lack of good faith.

During the year, the Company paid an insurance premium in respect of a contract insuring its Directors and officers against a liability of this nature. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amounts of premiums paid are confidential.

## Subsequent Events

Subsequent to 31 January 2018 the following events and transactions have occurred:

### Dividend

Since the end of the year, the Directors have resolved to pay a final dividend of 2.5 cents per share fully franked, to be paid on 20 April 2018 to shareholders on the register at the ex-dividend date of 5 April 2018. The total amount payable is \$26.5 million.

### Closure of the Mansfield Distribution Centre

In February 2018, the Group announced the closure of the Mansfield distribution centre in Queensland, with its operations being transferred to the Group's new distribution centre in Berrinba, Queensland. The site will be marketed for sale. Redundancy payments of between \$4 million and \$5 million are expected to be paid out to the employees of the facility in the first half of the 2018 calendar year.

Other than the matters discussed above, there has not been any other matter or circumstance that has arisen since 31 January 2018 that has significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years not otherwise disclosed.

## CEO and Managing Director and Chief Financial Officer Declaration

The CEO and Managing Director and the Chief Financial Officer have given a declaration to the Board concerning the Group's financial statements under Section 295A(2) of the *Corporations Act 2001* and recommendations 4.1 and 7.2 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations in regards to the integrity of the financial statements.

Signed in accordance with a resolution of the Directors made pursuant to Section 306(3) of the *Corporations Act 2001*, dated 21 March 2018.



**Mr Brian Jamieson**  
Chairman



**Mr Mark Hooper**  
CEO and Managing Director

Melbourne  
21 March 2018

# Remuneration Report

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<b>Abbreviation</b>	<b>Item</b>
AGM	Annual General Meeting
CEO	Chief Executive Officer
EBIT	Earnings Before Interest and Tax
KMP	Key Management Personnel
KPI	Key Performance Indicators
LTI	Long Term Incentive
NPAT	Net Profit After Tax
ROIC	Return On Invested Capital
STI	Short Term Incentive
TSR	Total Shareholder Return



## Introduction

Dear Shareholders,

On behalf of the Sigma Board I present the Remuneration Report (Report) for the year ended 31 January 2018 (financial year).

Sigma's remuneration philosophy is to ensure we attract, retain and motivate the right talent to deliver on our strategic priorities. Our Executive remuneration framework is based on a total reward structure comprising a mix of fixed salary, an at-risk STI and a LTI scheme. The LTI is currently provided in the form of a Loan Funded Share Plan, which is designed to align Executive remuneration with the achievement of strategic and financial objectives that create shareholder value.

During the financial year, on behalf of the Board, the People and Remuneration Committee commissioned an external review of our Executive remuneration framework to test its currency with contemporary practice and alignment for driving the organisation's strategy. The review confirmed our view that Sigma's Executive remuneration framework remains fit for purpose for our current position and strategy.

As outlined in the Annual Review, the Company has had a challenging year with the business result being below our expectations. Whilst the circumstances leading to this are regarded by the Board as largely outside of management's control, consistent with our commitment to ensuring remuneration is linked to Company performance, no Executive remuneration increases or STI (other than those relating to safety) were paid this year.

In January 2018, the Board reviewed the vesting of the 2015 LTI Plan. The Return On Invested Capital (ROIC) performance condition was met fully, therefore 50% of the shares subject to this condition vested and became exercisable. The absolute Total Shareholder Return (TSR) performance condition was 48%, below the minimum hurdle of 50%. The Board exercised its discretion under the plan rules to allow pro-rata vesting, resulting in 48% of the shares under the TSR component to vest and become exercisable. The Board believed that the nature and significance of the impact of MyChemist/Chemist Warehouse events on Company performance this year was unforeseeable. The Board was cognisant of the impact of this decision, and was in full support of the management behaviour and action, that in the opinion of the Board, protect and enhance long term shareholder interests.

The Board also reviewed the 2013 LTI Plan exercise period, which was similarly impacted by the MyChemist/Chemist Warehouse events. As reported in the Company's 2015/16 Annual Report, the 2013 LTI Plan vested in full with a two-year exercise period ended 31 January 2018. Consistent with the rationale applied to the 2015 TSR performance condition, the

Board also exercised its discretion to extend the exercise period of the 2013 LTI Plan for a further 12 months. This decision was made to encourage management to act in long term shareholder interests and not be disadvantaged for making such decisions. Details of the arrangements are set out on page 20 of the Report.

## CEO and Managing Director Remuneration Outcomes

In line with the Company performance and decision to freeze executive salaries and withhold STI, Mr Hooper's fixed remuneration (base salary and superannuation) remained unchanged. Mr Hooper was awarded \$93,978 under the STI Plan for the achievement of safety performance targets.

During the financial year, 98% of Mr Hooper's 2015 LTI vested. Mr Hooper has two years from the date of vesting to repay the outstanding loan.

## Non-Executive Director Remuneration Outcomes

The Non-Executive Director base fees were reviewed by the People and Remuneration Committee during the financial year, with Non-Executive Director fees increased by 2.5% consistent with the salary increases applied across salaried members of the Company. The Non-Executive Director maximum fee pool remained unchanged.

In line with ASX Corporate Governance Principles and Recommendations, we again continued our Board review activities including a review of Board skills mix and independence.

## Summary

The remuneration outcomes for the financial year reflect the challenging year the business has had. The People and Remuneration Committee will continue to monitor the Company's remuneration strategy, ensuring its alignment to shareholder interests and effectiveness in motivating and rewarding our team.

### David Bayes

Chairman – People and Remuneration Committee

# Remuneration Report continued

## Remuneration Report

The Directors of Sigma Healthcare Limited (Company) are pleased to present the Remuneration Report (Report) for the Company and its subsidiaries (Group) for the financial year ended 31 January 2018 (financial year). This Report has been prepared and audited in accordance with the requirements of the *Corporations Act 2001*.

For the purpose of this Report KMP are defined as persons having authority and responsibility for planning, directing and controlling the major activities of the Group, and include all Non-Executive Directors of the Company and Executives who are listed in the table below.

### Non-Executive Directors

Mr B Jamieson	Chairman
Ms C Bartlett	Non-Executive Director
Mr D Bayes	Non-Executive Director
Mr R Gunston	Non-Executive Director
Mr D Manuel	Non-Executive Director
Ms K Spargo	Non-Executive Director

### Executives

Mr M Hooper	CEO/Managing Director
Mr G Dunne	Chief Operating Officer (ceased to be a KMP on 31 August 2017)
Ms I MacPherson	Chief Financial Officer
Mr J Sells	Executive General Manager, Strategy and Business Development

The above Non-Executive Directors and Executives were the KMP for the whole of the financial year, unless otherwise indicated.

## Remuneration Governance

The Board is responsible for determining Non-Executive Director and Senior Executive remuneration. The People and Remuneration Committee (Committee) is responsible for providing advice and recommendations to the Board in regard to the remuneration strategy, policies and practices applicable to Non-Executive Directors, the CEO/Managing Director and Senior Executives.

The Committee is governed by its Charter, which is published on the Company's website at [www.sigmahealthcare.com.au](http://www.sigmahealthcare.com.au). The Committee is comprised of a minimum of three Non-Executive Directors. For the financial year the Committee members were:

Name	Role
------	------

Mr D Bayes	Chairman
Ms C Bartlett	Member
Mr R Gunston	Member
Mr D Manuel	Member

In accordance with Section 206K of the *Corporations Act 2001*, the Committee has a process for engaging remuneration consultants. The Committee, on behalf of the Board commissions and receives information, advice and recommendations directly from remuneration consultants, ensuring remuneration recommendations are free of undue influence by management.

During the financial year, the Committee, on behalf of the Board engaged KPMG 3DC to review its current executive remuneration framework. No remuneration recommendations as defined in Section 206k of the *Corporations Act 2001* were provided.

## Remuneration Strategy and Principles

The Company's remuneration strategy is designed to attract, retain, motivate and reward employees by providing fair and reasonable rewards for achieving high performance and creating sustained value for shareholders. The remuneration strategy is underpinned by four principles:



## Non-Executive Director Remuneration

Remuneration for the Company's Non-Executive Directors reflects the size and complexity of the Company's operations as well as the responsibilities, accountabilities and time commitments of the Non-Executive Directors. It consists of base fees, committee fees and superannuation within the current maximum aggregate fee limit of \$1.5 million, as approved by shareholders at the Company's 2015 Annual General Meeting.

Having considered external market movements, a 2.5% increase to base fees and committee fees was approved effective 1 May 2017. Total fees and superannuation actually paid to the Non-Executive Directors for the financial year were \$1,241,175, as set out in Table 1 on page 18.

The remuneration of Non-Executive Directors is not incentive based and Non-Executive Directors do not participate in Employee Share Plans or receive performance shares, rights or options over the Company's shares.

To ensure the interests of Non-Executive Directors are aligned with those of shareholders and in accordance with the rules of the Non-Executive Directors Share Plan (Plan), 25% of each Non-Executive Director's post-tax fees are used to purchase Sigma shares on-market every three months. Shares purchased under the Plan cannot be transferred or sold until the Non-Executive Director ceases being a Director of the Company, or the first day of the financial year following the third anniversary of the purchase date, or a change of control of the Company, whichever occurs first. Non-Executive Director share holdings and movements under the Plan for the financial year are set out in Table 4a on page 21.

The table below shows the structure and level of Non-Executive Director fees for the current and preceding financial year as approved by the Board.

Role	Annual Fee Structure <sup>1</sup>	
	2017/18 \$	2016/17 \$
Chairman	311,681	304,079
Non-Executive Director	123,523	120,510
Risk Management and Audit Committee – Chair	52,788	51,500
People and Remuneration Committee – Chair	42,230	41,200
Risk Management and Audit Committee – Member	26,394	25,750
People and Remuneration Committee – Member	21,115	20,600

1. Includes the 25% of Non-Executive Director fees used for share acquisition.

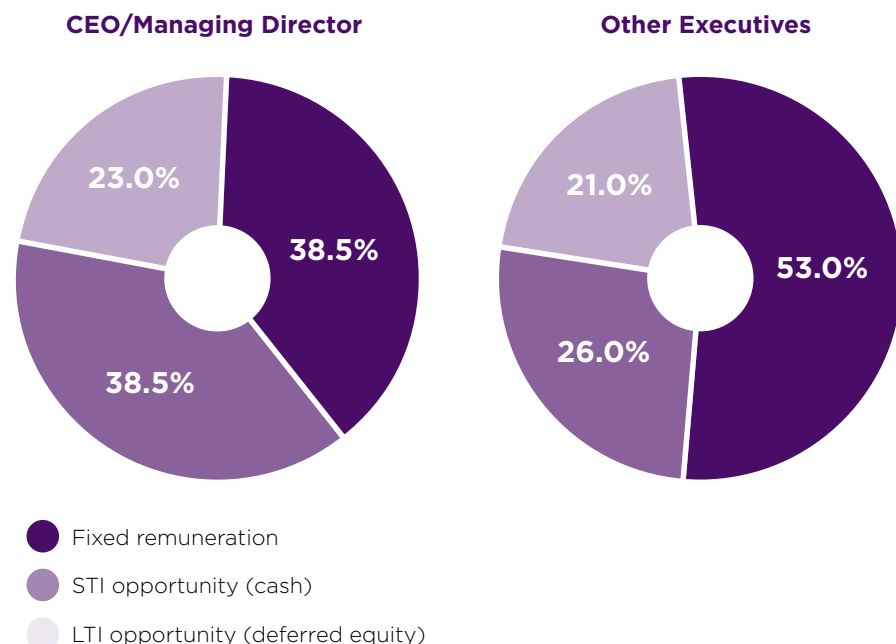
# Remuneration Report continued

## Executive Remuneration

Executive remuneration is based on total reward structure comprising fixed remuneration and at-risk remuneration. At-risk remuneration is made up of STI and LTI, and is designed to align Executive remuneration with achievement of strategic and financial objectives that lead to the creation of shareholder value.

Fixed Remuneration	+	At-risk Remuneration – Short Term Incentive (STI)	+	At-risk Remuneration – Long Term Incentive (LTI)	=	Total Reward
<p><b>Delivery mechanism</b></p> <ul style="list-style-type: none"> <li>100% cash payment consisting of base salary and statutory superannuation contributions</li> </ul>		<p><b>Delivery mechanism</b></p> <ul style="list-style-type: none"> <li>100% cash payment</li> </ul>		<p><b>Delivery mechanism</b></p> <ul style="list-style-type: none"> <li>100% delivered via shares in the Company – allocated upfront pursuant to Company loan</li> <li>Three-year performance period subject to service and forfeiture conditions</li> </ul>		<p><b>Strategic objectives</b></p> <ul style="list-style-type: none"> <li>Attract, retain and motivate suitably qualified and experienced executives</li> <li>Encourage a strong focus on performance</li> <li>Support the delivery of outstanding results for the Group over the short and long term</li> <li>Align Executive and shareholder interests through share ownership</li> </ul>
<p><b>Considerations</b></p> <ul style="list-style-type: none"> <li>Scope and complexity of the role</li> <li>Experience and performance of the individual Executive</li> <li>Internal and external benchmarking</li> </ul>		<p><b>Performance measures</b></p> <p><b>NPAT hurdle</b></p> <ul style="list-style-type: none"> <li>Minimum performance level must be achieved to trigger any STI payments</li> <li>Reflecting the importance placed on workplace safety, KPIs relating to safety are excluded from the profit hurdle and, subject to safety performance, are payable even if the profit hurdle is not achieved</li> </ul> <p><b>Financial measures</b></p> <ul style="list-style-type: none"> <li>50% of available STI split evenly across NPAT and ROIC</li> <li>Budgeted target must be achieved for minimum payment and above budget stretch targets must be achieved for full payment</li> </ul> <p><b>Non-financial measures</b></p> <ul style="list-style-type: none"> <li>50% of available STI is aligned to the achievement of non-financial goals that drive the strategic objectives of the Company</li> </ul>		<p><b>Performance measures</b></p> <p><b>Absolute TSR</b></p> <ul style="list-style-type: none"> <li>50% of available LTI is measured against Absolute TSR</li> <li>Vesting of the shares aligned to TSR will occur in accordance with a graduated vesting schedule during the performance period</li> </ul> <p><b>ROIC</b></p> <ul style="list-style-type: none"> <li>50% of available LTI is measured against ROIC</li> <li>Vesting of the shares aligned to ROIC will occur when an average ROIC of 15% is achieved during the performance period</li> </ul>		
<p><b>Strategic objectives</b></p> <ul style="list-style-type: none"> <li>Set to attract, retain and motivate the right talent to deliver our strategic objectives</li> <li>Typically set at the median of the external market, allowing scope for progressive increases based on proven performance in the role</li> </ul>		<p><b>Strategic objectives</b></p> <ul style="list-style-type: none"> <li>NPAT hurdle ensures a minimum acceptable level of profit before Executives receive any STI reward</li> <li>Performance conditions designed to support the financial and strategic objectives of the Company and shareholder return</li> <li>Non-financial measures aligned to core values and key strategic and growth objectives</li> <li>Stretch targets must be achieved to obtain maximum STI available, encouraging a high performance culture</li> <li>Outcomes are subject to external audit to maintain integrity of the reward</li> </ul>		<p><b>Strategic objectives</b></p> <ul style="list-style-type: none"> <li>Allocation of shares upfront aligns the interests of Executives with shareholders from date of grant</li> <li>Designed to encourage Executives to focus on the key performance drivers which underpin sustainable growth in shareholder value</li> <li>Key benefits to participants under the plan include capital appreciation (consistent with shareholder interests) and favourable taxation treatment (capital gains tax)</li> <li>Outcomes are subject to external audit to maintain integrity of the reward</li> </ul>		

An appropriate reward mix is determined for each management level, with the portion of at-risk remuneration increasing with the level of responsibility, influence and criticality of the role. The maximum potential reward mix for Executives is as follows:



## Fixed Remuneration

The fixed remuneration component of an Executive's total reward is expressed as a total package consisting of base salary and statutory superannuation contributions.

Fixed remuneration reflects the complexity of the individual's role, and their experience, knowledge and performance. Internal and external benchmarking is regularly undertaken and fixed remuneration levels are set with regard to the external market median, with scope for incremental increase for superior performance.

Fixed remuneration is reviewed annually on 1 May, taking into account the performance of the individual and the Company. There are no guaranteed increases to fixed remuneration in any contracts of employment.

In line with Company performance, no fixed remuneration increases were provided to the CEO/Managing Director and the other Executives during the financial year.

## Short Term Incentive

The STI component of an Executive's total reward is an annual cash incentive plan. The STI links a portion of Executive reward opportunity to specific financial and non-financial measures.

Component	Commentary
<b>Maximum STI Reward Value</b>	100% of fixed remuneration for the CEO/Managing Director. 50% of fixed remuneration for other Executives.
<b>Hurdle Requirement</b>	<p>An NPAT hurdle must be achieved to trigger any STI payment opportunity. The NPAT hurdle is determined by the Board prior to the commencement of the financial year, taking into account the NPAT result for the concluding financial year and the budgeted NPAT target for the new financial year. The hurdle excludes any significant uncontrollable or one-off events and the initial impacts from business development initiatives, as approved by the Board.</p> <p>NPAT was selected as an appropriate hurdle as it is the best overall measure of Company performance, is reflective of the generation of shareholder value, and is a measure readily recognised by and reported to shareholders.</p> <p>In recognition of the importance of workplace safety, KPIs relating to safety are excluded from this hurdle requirement, are separately established and payable upon achievement.</p>



# Remuneration Report continued

## Short Term Incentive continued

Component	Commentary	Component	Commentary
<b>Performance Measures – Financial</b>	<p>50% of maximum STI reward relate to Group financial measures, specifically 25% each is weighted against ROIC and NPAT.</p> <p>As a minimum, budgeted ROIC and NPAT must be achieved for partial payment, and above budget stretch targets must be achieved for full payment under these financial KPIs.</p> <p>ROIC was selected as an appropriate performance measure as it captures both profitability and effectiveness of capital management, which are both important measures for shareholders.</p> <p>NPAT was selected as an appropriate performance measure as it assesses overall Company performance and the generation of shareholder value.</p> <p>Group financial calculations under the STI Plan exclude significant uncontrollable or one-off events and the initial impacts from business development initiatives, as approved by the Board.</p>	<b>Governance</b>	<p>All performance measures under the STI are clearly defined and measurable.</p> <p>The Board, on recommendation from the People and Remuneration Committee, approves the targets and assesses the performance outcome of the CEO/Managing Director.</p> <p>The CEO/Managing Director sets the targets and assesses the performance of other Executives.</p> <p>The Board, on recommendation from the People and Remuneration Committee, approves STI payments for the CEO/Managing Director and other Executives.</p> <p>Under the STI Plan, the Board has discretion to adjust STI outcomes based on the achievements which are consistent with the Group's strategic priorities and in the opinion of the Board enhance shareholder value.</p>
<b>Performance Measures – Non-financial</b>	<p>50% of maximum STI reward relates to non-financial measures, specifically:</p> <ul style="list-style-type: none"> <li>• CEO/Managing Director – business development, strategy development and execution, and safety.</li> <li>• Other Executives – operational performance/efficiency, continuous improvement and delivery of key projects.</li> </ul> <p>Each non-financial measure is selected based on its alignment with key strategic initiatives that lead to increased shareholder value.</p>	<b>Reward Mechanism</b>	<p>100% of awarded STI is paid in cash upon Board approval of the audited year-end accounts.</p>
		<b>Financial Year Outcome</b>	<p>The NPAT result of \$55.0 million did not exceed the hurdle requirement to trigger the STI payment opportunity for the financial year. Therefore, with the exception of performance measures relating to safety, no STI payments occurred for the financial year. Refer to pages 15 and 16 for further details.</p>

## Long Term Incentive

The LTI component of an Executive's total reward is an equity incentive plan that is designed to encourage Executives to focus on key performance drivers which underpin sustainable growth in shareholder value. The LTI facilitates share ownership by Executives and links a significant proportion of their at-risk remuneration to the Company's ongoing share price and returns to shareholders over the performance period.

Under the LTI, Executives are provided with a limited recourse loan from the Company for the sole purpose of acquiring shares in the Company. The shares are granted upfront, but are restricted and subject to a risk of forfeiture until the end of the performance period and while the loan remains outstanding. The post-tax value of any dividends paid on the shares is used to pay down the loan.

To gain access to the shares, the Executive must repay the outstanding loan following successful testing of the vesting conditions.

Component	Commentary
<b>Maximum LTI Reward Value</b>	60% of fixed remuneration for the CEO/Managing Director. 40% of fixed remuneration for other Executives.
<b>Performance Period</b>	Three financial years commencing on 1 February in the year of the grant.  The performance period reflects the business cycle of the Company. As a wholesaler, strategic, operational and financial initiatives translate to a short to medium-term impact on the financial performance of the Company.  The three-year period also reflects the competitive market practice in attracting, retaining and rewarding high-calibre executives, as 73% of ASX200 companies had a vesting period of three years or less for their LTI Plans during the 2017 financial year.

Component	Commentary										
<b>Delivery Mechanism</b>	<p><b>Loan Funded Shares</b> Executives are provided with an interest free limited recourse loan to fund the acquisition of shares in the Company. The loan period is five years and runs concurrently with the three-year performance period, thus providing a further two-year exercise period beyond the conclusion of the performance period, subject to the vesting conditions being met. The Executives may choose to repay the outstanding loan associated with any vested shares prior to its expiry.</p> <p>The number of shares acquired is equal to the maximum LTI reward value divided by the fair value (calculated using a Black-Scholes options pricing model).</p> <p>The loan value is equal to the number of shares multiplied by the issue price (market price on grant date).</p> <p>The Executives holding loan funded shares have certain rights equal to all other ordinary shareholders, such as voting rights, access to dividends, capital distribution and bonus shares during the loan period.</p> <p>The value of post-tax dividends is applied to repay the outstanding loan. At the expiration of the loan period, the amount to be repaid is the lower of:</p> <ul style="list-style-type: none"> <li>the outstanding loan less any repayments; and</li> <li>the market value of the vested shares.</li> </ul> <p>The shares allocated to the CEO/Managing Director and the other Executives for the 2017 LTI Plan were purchased on market.</p>										
<b>Vesting Conditions</b>	<p>Up to 50% of loan funded shares will vest in accordance with the Absolute TSR vesting schedule set out in the table below:</p> <table border="1"> <thead> <tr> <th>% Absolute TSR Achieved</th> <th>% of Loan Funded Shares that Vests</th> </tr> </thead> <tbody> <tr> <td>&lt;30%</td> <td>0.0%</td> </tr> <tr> <td>≥30%</td> <td>12.5%</td> </tr> <tr> <td>≥40%</td> <td>25.0%</td> </tr> <tr> <td>≥50%</td> <td>50.0%</td> </tr> </tbody> </table>	% Absolute TSR Achieved	% of Loan Funded Shares that Vests	<30%	0.0%	≥30%	12.5%	≥40%	25.0%	≥50%	50.0%
% Absolute TSR Achieved	% of Loan Funded Shares that Vests										
<30%	0.0%										
≥30%	12.5%										
≥40%	25.0%										
≥50%	50.0%										

# Remuneration Report 2017/18 continued

## Long Term Incentive continued

Component	Commentary	Component	Commentary
<b>Vesting Conditions</b> continued	<p>Absolute TSR = (Sigma share price appreciation + dividends + value of franking credits)/Sigma share price at the start of the performance period.</p> <p>Absolute TSR was selected as an appropriate vesting condition as it measures the level of return to shareholders, taking into account share price growth and dividend payments including the value of any franking credits.</p> <p>In addition, the use of Absolute TSR is not limited by the challenges associated with selecting a fair and appropriate comparator group given the size of the industry in which the Company operates. The use of Absolute TSR also avoids scenarios of windfall gains or losses to the Executives that can occur under certain circumstances within a comparator group. The Company is confident in its ability to set an Absolute TSR vesting schedule at a level that benefits both the Executives and shareholders.</p> <p>The remaining 50% of shares will vest if the average pre-tax ROIC vesting condition is achieved:</p> <ul style="list-style-type: none"> <li>• Average pre-tax ROIC of 15% or higher during the performance period.</li> </ul> <p>Pre-tax ROIC = EBIT/(total shareholder funds + net debt).</p> <p>The ROIC vesting condition excludes any significant uncontrollable or one-off events and the initial impacts from business development initiatives, as approved by the Board.</p> <p>ROIC was selected as an appropriate vesting condition as it measures capital management effectiveness, including outcomes of multi-year investment decisions.</p>	<b>Forfeiture Conditions</b>	<p>In the event of resignation, unvested shares are typically forfeited (subject to Board discretion) and vested shares are retained, subject to repayment of the outstanding loan.</p> <p>In the event of summary dismissal, unvested shares are forfeited as are any vested shares that remain subject to an outstanding loan balance.</p> <p>In the event of death or redundancy, the Board has discretion to determine an appropriate outcome.</p>
		<b>Governance</b>	<p>All performance measures under the LTI are clearly defined and measurable.</p> <p>The Board, on recommendation from the People and Remuneration Committee, approves the targets and assesses the performance outcome of each LTI Plan.</p> <p>The Board, on recommendation from the People and Remuneration Committee, approves LTI vesting for each plan. Confirmation of vesting only occurs once the audited year-end accounts have been approved by the Board.</p> <p>Under the LTI Plan, the Board has discretion to adjust LTI outcomes based on the achievements which are consistent with the Group's strategic priorities and, in the opinion of the Board, enhance shareholder value.</p>
		<b>Financial Year Outcomes</b>	<p>After testing the vesting conditions, 98% of the 2015 LTI loan funded shares vested on 31 January 2018. Refer to pages 16 and 17 for further details.</p>
<b>Re-testing</b>	No re-testing applies – shares that do not vest after testing lapse.		
<b>Exercise Price</b>	Issue price (market price on grant date).		
<b>Disposal Restrictions</b>	Dealing, transferring or disposing of shares is prohibited until the end of the vesting period, and the loan has been repaid or appropriate arrangements for repayment of the loan have been approved by the Company.		

Table 3 on page 20 sets out the movements of loan funded shares during the financial year.

## Linking Executive Remuneration and Performance

To evaluate Sigma's performance, benefits to shareholder wealth and remuneration for the Executives, the Board has considered a range of financial indices, including the following, with respect to the current and preceding four financial years.

12 Months ended 31 January	Financial Year				
	2017/18	2016/17	2015/16	2014/15	2013/14
Share price (\$) <sup>1</sup>	0.904	1.246	0.819	0.765	0.629
Dividends paid in the financial year (cps)	5.5	5.5	5.0	2.0 <sup>5</sup>	4.0
TSR <sup>2</sup>	(21.2%)	61.7%	16.4%	26.2%	(0.8%)
Pre-tax ROIC <sup>3</sup>	16.3% <sup>12</sup>	17.7% <sup>10</sup>	14.8% <sup>8</sup>	15.6% <sup>6</sup>	14.6% <sup>4</sup>
EBIT (\$m)	83.7 <sup>13</sup>	92.0 <sup>11</sup>	89.1 <sup>9</sup>	78.4 <sup>7</sup>	74.7 <sup>4</sup>
NPAT (\$m)	55.0 <sup>13</sup>	60.8 <sup>11</sup>	59.2 <sup>9</sup>	53.0 <sup>7</sup>	56.8 <sup>4</sup>

1. Share price is the volume weighted average price of the Company's shares traded on the ASX for the 20 trading days up to and including 31 January.

2.  $TSR = (\text{Share Price Appreciation} + \text{Dividends} + \text{Value of Franking Credits}) / \text{Sigma share price at the start of financial year}$ .

3.  $\text{Pre-tax ROIC} = \text{EBIT} / (\text{Total Shareholder Funds} + \text{Net Debt})$ .

4. Excludes the impact of the 2013 litigation settlement to Vifor (International) Limited and acquisition costs.

5. An interim dividend was not paid during the 2014/15 financial year due to insufficient franking credits.

6. Excludes acquisition costs and related earnings.

7. Excludes acquisition costs.

8. Adjusted for capital investment on new distribution centre, acquisition earn out costs and share of equity accounted investees.

9. Adjusted for acquisition earn out costs and share of equity accounted investees.

10. Adjusted for capital investment in ongoing construction of new distribution centres, business acquisitions and acquisition costs.

11. Adjusted for the impact of the litigation settlement expense and profit of non-controlling interests.

12. Adjusted for capital investment on new distribution centres and business acquisitions.

13. Adjusted for profit from business acquisitions, acquisition costs and profit of non-controlling interests.

## Company Performance and STI Outcomes

For the Executives to qualify for a payment under the STI Plan, a pre-agreed level of Company profit must first be achieved. Once this has been achieved, the level of payment the Executive receives is determined based on the achievement of their pre-defined financial and non-financial performance measures.

The Board retains discretion to review and, where appropriate, amend any aspect of the STI Plan including Group and/or individual performance, as the Board sees fit.

The NPAT result of \$55.0 million did not exceed the hurdle requirement to trigger the STI payment opportunity for the financial year. Therefore, with the exception of performance measures relating to safety, no STI payments occurred for the financial year.

# Remuneration Report continued

## Linking Executive Remuneration and Performance continued

### Company Performance and STI Outcomes continued

The table below shows the STI payments to each Executive for the current and preceding financial years, as approved by the Board:

Executives	Maximum STI Opportunity as % of Fixed Remuneration		2017/18			2016/17		
	2017/18 %	2016/17 <sup>1</sup> %	STI Forfeited %	STI Paid %	STI Payment \$	STI Forfeited %	STI Paid %	STI Payment \$
Mr M Hooper	100.0	125.0	92.5	7.5	93,978	38.8	86.2	1,080,744
Mr G Dunne <sup>3</sup>	50.0	62.5	50.0	0.0	-	24.4	38.1	235,613
Ms I MacPherson <sup>2</sup>	50.0	NA	50.0	0.0	-	NA	NA	NA
Mr J Sells	50.0	62.5	50.0	0.0	-	28.1	34.4	198,275
<b>Total</b>					<b>93,978</b>			<b>1,514,632</b>

1. Inclusive of the additional one-off stretch EBIT target.

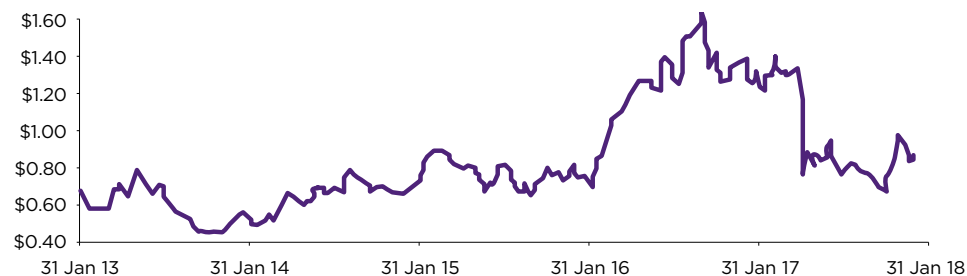
2. Commenced 2 November 2016, ineligible to participate in the 2016/17 STI Plan.

3. Ceased to be a KMP on 31 August 2017.

### Company Performance and LTI Outcomes

The LTI Plan focuses on driving key performance outcomes that underpin sustainable growth and the creation of shareholder wealth in the longer term. This is achieved by motivating and rewarding the Executives to drive share price growth via improvements to TSR and ROIC.

The following graph depicts the improvements to the Company's share price over the past five financial years. Share price has risen from \$0.69<sup>4</sup> in the 2012/13 financial year to \$0.90<sup>4</sup> this financial year. Coupled with fully franked dividend payments of 22 cents, this represents a TSR of 76%.



4. Share price is the volume weighted average price of the Company's shares traded on the ASX for the 20 trading days up to and including 31 January.

### 2015 Long Term Incentive Plan

Under the 2015 LTI Loan Funded Share Plan, the Company is required to achieve an average pre-tax ROIC of 15% and an Absolute TSR of 50% or higher during the three-year performance period for full vesting to occur. The Board retains discretion to adjust the basis for determining LTI outcomes based on achievements which are consistent with the Group's strategic priorities and, in the opinion of the Board, enhance shareholder value.

In recognition of both the nature and the significance of the impact of MyChemist/Chemist Warehouse events on Company performance this year, the Board considered it appropriate to allow the TSR component of the 2015 plan to vest at 48%, slightly below the 50% vesting scale. The outcome reflected the Board's support and desire to reward management behaviour and action that, in the opinion of the Board, protect and enhance long term shareholder interests.

The table below sets out the ROIC vesting outcome as approved by the Board:

Performance Period	Performance Measure	Vesting Condition	Actual Achievement	% of LTI Vested	% of LTI Forfeited
1 February 2015 to 31 January 2018	Average pre-tax ROIC	15% or higher	16.3%	50.0	0.0
	Absolute TSR	50% or higher	48.0%	48.0	2.0



Upon vesting, the loan funded shares will continue to be subject to forfeiture conditions as described on page 14. Executives may elect to exercise the vested shares within a two-year period (unless otherwise indicated) at the pre-determined exercise price as set out in the table below.

Executives	Lapsed/ Forfeited	Vested and Exercisable	Exercise Date	Exercise Price \$	Expiry Date
Mr M Hooper	129,570	6,348,906	1 February 2018	0.80	31 January 2020
Mr G Dunne	40,955	2,006,811	1 February 2018	0.80	30 April 2018
Mr J Sells	38,030	1,863,467	1 February 2018	0.80	31 January 2020

Table 3 on page 20 sets out the details of the 2015 LTI Plan vested to the Executives.

## Other Remuneration Disclosures

### Equity Restrictions

Unvested loan funded shares under the LTI Plan are personal to the Executive and cannot be sold, transferred, mortgaged, charged, hedged, made subject to any margin lending arrangement or otherwise disposed of, dealt with or encumbered in any way. Breach of this provision will result in the immediate forfeiture of any unvested equity.

Dealing in Sigma shares by Directors, officers and employees is subject to the Company's Share Trading Policy, which is published on the Company's website at [www.sigmahealthcare.com.au](http://www.sigmahealthcare.com.au).

### Clawback Arrangements

The Board has discretion to adjust or cancel unvested LTI or vested LTI that is subject to an outstanding loan balance, should the Board determine the specific circumstance warrants such action.

### Employee Share Plan

To align their interests with those of the shareholders, employees of the Sigma Group at all levels of the organisation are encouraged to hold shares in the Company. As a result of the Employee Share Plan, Sigma is pleased to report that approximately 63% of all employees are also shareholders of the Company.

During the financial year the Company offered all eligible employees the opportunity to acquire shares in the Company on a 10-year interest free limited recourse loan. The value of any dividend paid and employee contributions are applied to repay the outstanding loan, which can be extinguished prior to its expiration, subject to a three-year disposal restriction period. The amount to be repaid is the lower of the outstanding loan less any repayments and the market value of the shares.

A total of 594 acceptances were received resulting in 4,997,500 shares being allocated. The share allocation was satisfied from shares previously forfeited under the Plan and/or acquired on-market.

### Loans to Executives

There were no loans to the Executives during the financial year, except as allowed under the Employee Share Plan and the LTI Plan. Loans are not provided to Non-Executive Directors.

### Transactions with Directors

Mr David Manuel and his Director-related entities purchased pharmacy products from the Group in the ordinary course of business and on normal commercial terms and conditions. The amount of purchases made during the financial year ended 31 January 2018 was \$6,623,071 (2017: \$5,598,240). The amounts receivable at balance date from Mr David Manuel and his Director-related entities included within trade debtors in Note 8 was \$907,453 (2017: \$674,633). Amounts receivable from Directors or Director-related entities are subject to the Group's normal trading terms and conditions.

Other transactions entered into by the Company and the Group with Directors and their Director-related entities are within normal employee, customer or supplier relationships on terms and conditions no more favourable than those available in similar arm's length dealings.

### Service Agreements

On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment, which summarises the policies and terms, including remuneration, relevant to the office of Non-Executive Director.

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

Executives	Notice Period by Company	Notice Period by Employee
Mr M Hooper	12 months	6 months
Mr G Dunne	6 months	3 months
Ms I MacPherson	6 months	6 months
Mr J Sells	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 based on the individual's fixed annual remuneration. Each employment contract provides for termination of employment without notice in circumstances sufficient to warrant summary termination.

# Remuneration Report continued

**TABLE 1: Statutory Remuneration Disclosure for Key Management Personnel of the Company and Group: Financial Year 2017/18**

	Short Term Benefits			Post-employment Benefits			Value in Share-based Plans			Total Remuneration Incl. Value in Share-based Plans \$	Share-based Payments as Proportion of Remuneration <sup>7</sup> %	
	Salary and Base Fees <sup>1</sup> \$	Committee Fees \$	Cash Short Term Incentive <sup>2</sup> \$	Non-monetary Benefits <sup>3</sup> \$	Superannuation Benefits \$	Other Long Term Benefits <sup>4</sup> \$	Termination Payments \$	Total Remuneration Excl. Value in Share-based Plans \$	Performance Rights <sup>5</sup> \$			Loan Funded Shares <sup>6</sup> \$
<b>Non-Executive Directors</b>												
Mr B Jamieson	319,342	-	n/a	3,407	19,868	n/a	-	342,617	n/a	n/a	342,617	-
Mr D Bayes	122,770	68,205	n/a	3,407	18,143	n/a	-	212,525	n/a	n/a	212,525	-
Mr R Gunston	122,770	73,452	n/a	3,407	18,641	n/a	-	218,270	n/a	n/a	218,270	-
Mr D Manuel	122,770	20,986	n/a	3,407	13,657	n/a	-	160,820	n/a	n/a	160,820	-
Ms K Spargo	122,770	26,233	n/a	3,407	14,155	n/a	-	166,565	n/a	n/a	166,565	-
Ms C Bartlett	122,770	20,986	n/a	3,407	13,657	n/a	-	160,820	n/a	n/a	160,820	-
<b>Subtotal for Non-Executive Directors</b>	<b>933,192</b>	<b>209,862</b>	<b>n/a</b>	<b>20,442</b>	<b>98,121</b>	<b>n/a</b>	<b>-</b>	<b>1,261,617</b>	<b>n/a</b>	<b>n/a</b>	<b>1,261,617</b>	<b>-</b>
<b>Executives</b>												
Mr M Hooper	1,250,477	n/a	93,978	3,407	19,868	56,460	-	1,424,190	-	1,072,072	2,496,262	43
Mr G Dunne <sup>9</sup>	377,239	n/a	-	3,407	11,515	- <sup>8</sup>	390,180 <sup>8</sup>	782,341	-	369,131	1,151,472	32
Ms I MacPherson	475,170	n/a	-	3,407	19,868	1,241	-	499,686	-	110,200	609,886	18
Mr J Sells	583,047	n/a	-	3,407	19,868	25,458	-	631,780	-	324,751	956,531	34
<b>Subtotal for Executives</b>	<b>2,685,933</b>	<b>n/a</b>	<b>93,978</b>	<b>13,628</b>	<b>71,119</b>	<b>83,159</b>	<b>390,180</b>	<b>3,337,997</b>	<b>-</b>	<b>1,876,154</b>	<b>5,214,151</b>	<b>36</b>
<b>Total</b>	<b>3,619,125</b>	<b>209,862</b>	<b>93,978</b>	<b>34,070</b>	<b>169,240</b>	<b>83,159</b>	<b>390,180</b>	<b>4,599,614</b>	<b>-</b>	<b>1,876,154</b>	<b>6,475,768</b>	<b>29</b>

1. For Non-Executive Directors, includes base fees paid in cash and shares as per the Non-Executive Directors Share Plan detailed on page 9. For the Executives, includes base salary and amounts in respect to annual leave expense movement.

2. Represents cash payments in respect to the 2017/18 STI Plan.

3. Includes amounts paid for Directors' and officers' insurance.

4. Includes amounts in respect to long service leave expense movement.

5. Indicates the discontinued STI deferred equity plan for comparative purposes.

6. The value of the loan funded shares determined using the Black-Scholes option pricing model is allocated evenly over the vesting period, therefore the amount disclosed above for the current year includes loan funded shares allocated in prior years.

7. Includes amounts expensed in relation to LTI loan funded shares. Excludes share purchases under the Non-Executive Directors Share Plan.

8. Includes salary, annual leave expenses and superannuation from 1 September 2017 to Mr G Dunne's termination date of 28 February 2018. No payment was made relating to long service leave as the statutory requirement was not met.

9. Ceased to be a KMP on 31 August 2017.

**TABLE 2: Statutory Remuneration Disclosure for Key Management Personnel of the Company and Group:  
Financial Year 2016/17**

	Short Term Benefits				Post-employment Benefits			Value in Share-based Plans			Total Remuneration Incl. Value in Share-based Plans \$	Share-based Payments as Proportion of Remuneration <sup>7</sup> %
	Salary and Base Fees <sup>1</sup> \$	Committee Fees \$	Cash Short Term Incentive <sup>2</sup> \$	Non-monetary Benefits <sup>3</sup> \$	Superannuation Benefits \$	Other Long Term Benefits <sup>4</sup> \$	Termination Payments \$	Total Remuneration Excl. Value in Share-based Plans \$	Performance Rights <sup>5</sup> \$	Loan Funded Shares <sup>6</sup> \$		
<b>Non-Executive Directors</b>												
Mr B Jamieson	311,055	-	n/a	3,366	19,487	n/a	-	333,908	n/a	n/a	333,908	-
Mr D Bayes	118,862	67,023	n/a	3,366	17,659	n/a	-	206,910	n/a	n/a	206,910	-
Mr R Gunston	118,862	73,134	n/a	3,366	18,240	n/a	-	213,602	n/a	n/a	213,602	-
Mr D Manuel	118,862	20,304	n/a	3,366	13,221	n/a	-	155,753	n/a	n/a	155,753	-
Ms K Spargo	118,862	26,415	n/a	3,366	13,801	n/a	-	162,444	n/a	n/a	162,444	-
Ms C Bartlett <sup>8</sup>	101,032	17,271	n/a	2,831	11,239	n/a	-	132,373	n/a	n/a	132,373	-
<b>Subtotal for Non-Executive Directors</b>	<b>887,535</b>	<b>204,147</b>	<b>n/a</b>	<b>19,661</b>	<b>93,647</b>	<b>n/a</b>	<b>-</b>	<b>1,204,990</b>	<b>n/a</b>	<b>n/a</b>	<b>1,204,990</b>	<b>-</b>
<b>Executives</b>												
Mr M Hooper	1,228,203	n/a	1,080,744	3,366	19,487	47,671	-	2,379,471	57,494	889,607	3,326,572	28
Mr G Dunne	604,377	n/a	235,613	3,366	19,487	17,558	-	880,401	13,630	285,299	1,179,330	25
Ms I MacPherson <sup>9</sup>	115,240	n/a	n/a	830	4,904	80	-	121,054	-	-	121,054	-
Mr J Sells	549,482	n/a	198,275	3,366	19,487	21,034	-	791,644	12,063	265,426	1,069,133	26
<b>Subtotal for Executives</b>	<b>2,497,302</b>	<b>n/a</b>	<b>1,514,632</b>	<b>10,928</b>	<b>63,365</b>	<b>86,343</b>	<b>-</b>	<b>4,172,570</b>	<b>83,187</b>	<b>1,440,332</b>	<b>5,696,089</b>	<b>27</b>
<b>Total</b>	<b>3,384,837</b>	<b>204,147</b>	<b>1,514,632</b>	<b>30,589</b>	<b>157,012</b>	<b>86,343</b>	<b>-</b>	<b>5,377,560</b>	<b>83,187</b>	<b>1,440,332</b>	<b>6,901,079</b>	<b>22</b>

1. For Non-Executive Directors, includes base fees paid in cash and shares as per the Non-Executive Directors Share Plan detailed on page 9. For the Executives, includes base salary and amounts in respect to annual leave expense movement.

2. Represents cash payments in respect to the 2016/17 STI Plan.

3. Includes amounts paid for Directors' and officers' insurance.

4. Includes amounts in respect to long service leave expense movement.

5. Represents amounts expensed in relation to the performance rights granted to the Executives for the deferred equity portion of the 2013/14 and 2014/15 STI Plan.

6. The value of the loan funded shares determined using the Black-Scholes option pricing model is allocated evenly over the vesting period, therefore the amount disclosed above for the current year includes loan funded shares allocated in prior years.

7. Includes amounts expensed in relation to STI deferred equity and LTI loan funded shares. Excludes share purchases under the Non-Executive Directors Share Plan.

8. Appointed 30 March 2016.

9. Appointed 2 November 2016.

# Remuneration Report continued

**TABLE 3: LTI Loan Funded Shares: Details of Movement During the Financial Year 2017/18**

Executive	Grant Date	Share Price at Grant \$	Fair Value Per Share Grant Date <sup>1</sup> \$	Exercise Price \$	Exercise Date <sup>2</sup>	Number of Loan Funded Shares					Loan Value and Balance <sup>3</sup>				
						Balance at 01/02/17 <sup>4</sup>	Granted During the Year	Vested During the Year	Forfeited During the Year	Exercised During the Year	Balance at 31/01/18	Loan Value at Grant Date \$	Loan Balance at 01/02/17 \$	Loan Repayments During the Year <sup>5</sup> \$	Loan Balance at 31/01/18 \$
Mr M Hooper	01/02/2013	0.6700	0.1160	0.6700	01/02/2016	6,623,452	-	-	-	-	6,623,452 <sup>6</sup>	4,437,713	3,627,286	270,142	3,357,144
	01/02/2014	0.5950	0.1091	0.5950	01/02/2017	6,848,292	-	-	-	-	6,848,292	4,074,734	3,446,158	279,312	3,166,846
	01/02/2015	0.8000	0.1471	0.8000	01/02/2018	6,478,476	-	6,348,906	129,570	-	6,348,906	5,182,781	4,687,177	352,688	4,334,489
	01/02/2016	0.8350	0.2050	0.8350	01/02/2019	4,725,306	-	-	-	-	4,725,306	3,945,631	3,756,281	192,725	3,563,556
	01/02/2017	1.2000	0.3000	1.2000	01/02/2020	-	4,315,153	-	-	-	4,315,153	5,178,184	5,178,184	175,997	5,002,187
Mr G Dunne <sup>7</sup>	01/02/2014	0.5950	0.1091	0.5950	01/02/2017	2,164,661	-	-	-	2,164,661	-	1,287,973	1,089,288	1,089,288	-
	01/02/2015	0.8000	0.1471	0.8000	01/02/2018	2,047,766	-	2,006,811	40,955	-	2,006,811	1,638,213	1,481,559	111,480	1,370,079
	01/02/2016	0.8350	0.2050	0.8350	01/02/2019	1,553,687	-	539,475	1,014,212	-	539,475	1,297,329	1,235,070	828,229	406,841
	01/02/2017	1.2000	0.3000	1.2000	01/02/2020	-	1,418,828	256,178	1,162,650	-	256,178	1,702,594	1,702,594	1,405,629	296,965
Ms I MacPherson	01/02/2017	1.2000	0.3000	1.2000	01/02/2020	-	1,102,003	-	-	-	1,102,003	1,322,404	1,322,404	44,946	1,277,458
Mr J Sells	01/02/2013	0.6700	0.1160	0.6700	01/02/2016	1,928,982	-	-	-	-	1,928,982 <sup>6</sup>	1,292,418	1,056,393	78,675	977,718
	01/02/2014	0.5950	0.1091	0.5950	01/02/2017	2,010,042	-	-	-	-	2,010,042	1,195,975	1,011,482	81,981	929,501
	01/02/2015	0.8000	0.1471	0.8000	01/02/2018	1,901,497	-	1,863,467	38,030	-	1,863,467	1,521,198	1,375,733	103,517	1,272,216
	01/02/2016	0.8350	0.2050	0.8350	01/02/2019	1,450,108	-	-	-	-	1,450,108	1,210,840	1,152,732	59,144	1,093,588
	01/02/2017	1.2000	0.3000	1.2000	01/02/2020	-	1,324,240	-	-	-	1,324,240	1,589,088	1,589,088	54,010	1,535,078

1. For accounting purposes, the fair value of the loan funded shares is calculated using the Black-Scholes option pricing model with Monte Carlo simulations.

2. Loan funded shares will only vest after satisfying the specific vesting conditions and will expire at the end of the five-year loan period subject to forfeiture conditions.

3. Loan value and balance are rounded to the nearest whole number.

4. Share allocation under the 2013 grant was satisfied through an on-market share acquisition. Share allocation under the 2014 grant was satisfied through an on-market share acquisition and previously forfeited shares held in trust. Share allocation under the 2015 grant, 2016 grant and 2017 grant was satisfied through an on-market share acquisition.

5. The loan repayments represent the value of post-tax dividends paid during the 2017/18 financial year that was applied to the outstanding loan balances, as well as any loan repayments made by the Executive or through forfeited shares.

6. Taking into account the impact of My Chemist/Chemist Warehouse litigation on share price during the year, the Board considered it appropriate to extend the exercise period of the 2013 LTI Plan by a further 12 months to 31 January 2019.

7. Ceased to be a KMP on 31 August 2017. 31 January 2018 balances represent the balances at Mr G Dunne's termination date of 28 February 2018.

TABLE 4a: Shareholdings of Key Management Personnel

2018	Number of Shares at 01/02/2017	Number of Shares Acquired Through Share Plans During the Year	Number of Shares Purchased During the Year	Number of Shares Sold During the Year	Other Changes	Number of Shares at 31/01/2018
<b>Non-Executive Directors</b>						
Mr B Jamieson	712,265	-	41,691	-	-	753,956
Mr D Bayes	300,410	-	35,259	9,557	-	326,112
Mr R Gunston	185,650	-	26,408	-	-	212,058
Mr D Manuel	191,844	-	19,348	-	-	211,192
Ms K Spargo	67,110	-	50,053	-	-	117,163
Ms C Bartlett	10,914	-	19,348	-	-	30,262
<b>Subtotal for Non-Executive Directors</b>	<b>1,468,193</b>	<b>-</b>	<b>192,107</b>	<b>9,557</b>	<b>-</b>	<b>1,650,743</b>
<b>Executives</b>						
Mr M Hooper	8,948,250	-	-	600,000	-	8,348,250
Mr G Dunne <sup>1</sup>	169,623	2,164,661	-	2,164,661	-	169,623
Ms I MacPherson	-	-	36,000	-	-	36,000
Mr J Sells	2,041,144	-	600,000	450,000	-	2,191,144
<b>Subtotal for Executives</b>	<b>11,159,017</b>	<b>2,164,661</b>	<b>636,000</b>	<b>3,214,661</b>	<b>-</b>	<b>10,745,017</b>
<b>Total</b>	<b>12,627,210</b>	<b>2,164,661</b>	<b>828,107</b>	<b>3,224,218</b>	<b>-</b>	<b>12,395,760</b>
2017	Number of Shares at 01/02/2016	Number of Shares Acquired Through Share Plans During the Year	Number of Shares Purchased During the Year	Number of Shares Sold During the Year	Other Changes	Number of Shares at 31/01/2017
<b>Non-Executive Directors</b>						
Mr B Jamieson	679,847	-	32,418	-	-	712,265
Mr D Bayes	280,467	-	19,943	-	-	300,410
Mr R Gunston	164,719	-	20,931	-	-	185,650
Mr D Manuel	176,985	-	14,859	-	-	191,844
Ms K Spargo	1,501	-	65,609	-	-	67,110
Ms C Bartlett <sup>2</sup>	-	-	10,914	-	-	10,914
<b>Subtotal for Non-Executive Directors</b>	<b>1,303,519</b>	<b>-</b>	<b>164,674</b>	<b>-</b>	<b>-</b>	<b>1,468,193</b>
<b>Executives</b>						
Mr M Hooper	3,429,742	9,661,027	-	4,142,519	-	8,948,250
Mr G Dunne	50,000	2,160,874	-	2,041,251	-	169,623
Ms I MacPherson <sup>3</sup>	-	-	-	-	-	-
Mr J Sells	1,463,027	2,741,012	-	2,162,895	-	2,041,144
<b>Subtotal for Executives</b>	<b>4,942,769</b>	<b>14,562,913</b>	<b>-</b>	<b>8,346,665</b>	<b>-</b>	<b>11,159,017</b>
<b>Total</b>	<b>6,246,288</b>	<b>14,562,913</b>	<b>164,674</b>	<b>8,346,665</b>	<b>-</b>	<b>12,627,210</b>

1. Ceased to be a KMP on 31 August 2017. The number of shares at 31 January 2018 represents the balance at the date on which Mr G Dunne ceased to be a KMP.

2. Appointed 30 March 2016.

3. Appointed 2 November 2016.



# Remuneration Report continued

**TABLE 4b: Performance Rights and Options (Loan Funded Shares) Holdings of Key Management Personnel**

2018	Number of Rights/ Options at 01/02/2017	Number of Rights/ Options Granted Through Share Plans During the Year	Number of Rights/ Options Exercised During the Year	Number of Rights/ Options Lapsed/ Forfeited During the year	Number of Rights/ Options at 31/01/2018
<b>Non-Executive Directors</b>					
Mr B Jamieson	n/a	n/a	n/a	n/a	n/a
Mr D Bayes	n/a	n/a	n/a	n/a	n/a
Mr R Gunston	n/a	n/a	n/a	n/a	n/a
Mr D Manuel	n/a	n/a	n/a	n/a	n/a
Ms K Spargo	n/a	n/a	n/a	n/a	n/a
Ms C Bartlett	n/a	n/a	n/a	n/a	n/a
<b>Subtotal for Non-Executive Directors</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Executives</b>					
Mr M Hooper	24,709,138	4,322,653	-	129,570	28,902,221
Mr G Dunne <sup>2</sup>	5,794,472	1,426,328	2,164,661	2,217,817 <sup>1</sup>	2,838,322
Ms I MacPherson	-	1,109,503	-	-	1,109,503
Mr J Sells	7,324,241	1,331,740	-	38,030	8,617,951
<b>Subtotal for Executives</b>	<b>37,827,851</b>	<b>8,190,224</b>	<b>2,164,661</b>	<b>2,385,417</b>	<b>41,467,997</b>
<b>Total</b>	<b>37,827,851</b>	<b>8,190,224</b>	<b>2,164,661</b>	<b>2,385,417</b>	<b>41,467,997</b>
2017	Number of Rights/ Options at 01/02/2016	Number of Rights/ Options Granted Through Share Plans During the Year	Number of Rights/ Options Exercised During the Year	Number of Rights/ Options Lapsed/ Forfeited During the year	Number of Rights/ Options at 31/01/2017
<b>Non-Executive Directors</b>					
Mr B Jamieson	n/a	n/a	n/a	n/a	n/a
Mr D Bayes	n/a	n/a	n/a	n/a	n/a
Mr R Gunston	n/a	n/a	n/a	n/a	n/a
Mr D Manuel	n/a	n/a	n/a	n/a	n/a
Ms K Spargo	n/a	n/a	n/a	n/a	n/a
Ms C Bartlett <sup>3</sup>	n/a	n/a	n/a	n/a	n/a
<b>Subtotal for Non-Executive Directors</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Executives</b>					
Mr M Hooper	29,637,359	4,732,806	9,661,027	-	24,709,138
Mr G Dunne	6,394,159	1,561,187	2,160,874	-	5,794,472
Ms I MacPherson <sup>4</sup>	-	-	-	-	-
Mr J Sells	8,607,645	1,457,608	2,741,012	-	7,324,241
<b>Subtotal for Executives</b>	<b>44,639,163</b>	<b>7,751,601</b>	<b>14,562,913</b>	<b>-</b>	<b>37,827,851</b>
<b>Total</b>	<b>44,639,163</b>	<b>7,751,601</b>	<b>14,562,913</b>	<b>-</b>	<b>37,827,851</b>

1. Represents rights/options forfeited as a result of Mr G Dunne's termination.

2. Ceased to be a KMP on 31 August 2017. 31 January 2018 balances represent the balances at Mr G Dunne's termination date of 28 February 2018.

3. Appointed 30 March 2016.

4. Appointed 2 November 2016.

# Auditor's Independence Declaration

**Deloitte.**

Deloitte Touche Tohmatsu  
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The Board of Directors  
Sigma Healthcare Limited  
3 Myer Place  
Rowville VIC 3178

21 March 2018

Dear Board Members

**Sigma Healthcare Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Sigma Healthcare Limited.

As lead audit partner for the audit of the financial statements of Sigma Healthcare Limited for the year ended 31 January 2018 I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Andrew Reid  
Partner  
Chartered Accountants

Member of Deloitte Touche Tohmatsu Limited  
Liability limited by a scheme approved under Professional Standards Legislation.

# Consolidated Statement of Comprehensive Income

For the year ended 31 January 2018

	Notes	2018 \$'000	2017 \$'000
Sales revenue		4,129,819	4,366,208
Cost of goods sold		(3,845,456)	(4,076,662)
<b>Gross profit</b>		<b>284,363</b>	<b>289,546</b>
Other revenue	2	83,478	77,153
Warehousing and delivery expenses		(145,055)	(131,817)
Sales and marketing expenses		(64,343)	(74,665)
Administration expenses		(65,609)	(59,607)
Litigation settlement expense		-	(11,368)
Depreciation and amortisation	3	(9,087)	(8,287)
<b>Profit before financing costs and tax expense (EBIT)</b>		<b>83,747</b>	<b>80,955</b>
Finance income		1,462	1,735
Finance costs		(6,474)	(6,021)
<b>Net finance costs</b>		<b>(5,012)</b>	<b>(4,286)</b>
<b>Profit before income tax</b>		<b>78,735</b>	<b>76,669</b>
Income tax expense	4	(23,349)	(23,163)
<b>Profit for the year</b>		<b>55,386</b>	<b>53,506</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of financial asset		833	(192)
Exchange differences on translation of foreign operations		(139)	120
Income tax relating to components of other comprehensive income		(208)	22
<b>Other comprehensive income/(loss) for the year (net of tax)</b>		<b>486</b>	<b>(50)</b>
<b>Total comprehensive income for the year</b>		<b>55,872</b>	<b>53,456</b>
<i>Profit attributable to:</i>			
Owners of the Company		55,059	53,184
Non-controlling interest	19	327	322
<b>Profit for the year</b>		<b>55,386</b>	<b>53,506</b>
<i>Total comprehensive income attributable to:</i>			
Owners of the Company		55,545	53,134
Non-controlling interest	19	327	322
<b>Total comprehensive income for the year</b>		<b>55,872</b>	<b>53,456</b>
<b>Earnings per share (cents) attributable to owners of the Company</b>			
Basic earnings per share	5	5.6	5.4
Diluted earnings per share	5	5.2	5.0

The above Consolidated Statement of Comprehensive Income is to be read in conjunction with the accompanying notes to the financial statements.

# Consolidated Balance Sheet

As at 31 January 2018

	Notes	2018 \$'000	2017 \$'000
<b>Current assets</b>			
Cash and cash equivalents	29	82,249	24,403
Trade and other receivables	8	577,870	566,895
Inventories	9	353,981	322,000
Income tax receivable		3,819	-
Prepayments		6,376	5,427
Assets classified as held for sale	11	9,123	-
<b>Total current assets</b>		<b>1,033,418</b>	<b>918,725</b>
<b>Non-current assets</b>			
Trade and other receivables	8	868	3,459
Property, plant and equipment	11	128,515	77,870
Goodwill and other intangible assets	12	125,371	102,694
Other financial assets		2,292	1,458
Net deferred tax assets	4	17,775	14,676
<b>Total non-current assets</b>		<b>274,821</b>	<b>200,157</b>
<b>Total assets</b>		<b>1,308,239</b>	<b>1,118,882</b>
<b>Current liabilities</b>			
Bank overdraft	29	-	32,129
Trade and other payables	10	568,804	523,770
Borrowings	16	195,014	14
Income tax payable		-	581
Provisions	13	17,530	15,893
Deferred income		3,159	2,220
<b>Total current liabilities</b>		<b>784,507</b>	<b>574,607</b>
<b>Non-current liabilities</b>			
Other payables	10	344	426
Borrowings	16	788	1,016
Provisions	13	4,777	4,050
Deferred income		2,564	196
<b>Total non-current liabilities</b>		<b>8,473</b>	<b>5,688</b>
<b>Total liabilities</b>		<b>792,980</b>	<b>580,295</b>
<b>Net assets</b>		<b>515,259</b>	<b>538,587</b>
<b>Equity</b>			
Contributed equity	14	1,200,755	1,226,904
Reserves	15	14,272	10,552
Accumulated losses		(701,919)	(700,693)
Non-controlling interest	19	2,151	1,824
<b>Total equity</b>		<b>515,259</b>	<b>538,587</b>

The above Consolidated Balance Sheet is to be read in conjunction with the accompanying notes to the financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 January 2018

	Notes	Contributed Equity			Reserves			Accumulated Losses \$'000	Non-controlling Interest \$'000	Total Equity \$'000
		Issued Capital \$'000	Treasury Shares \$'000	Fair Value Reserve \$'000	Foreign Currency Translation Reserve \$'000	Options/Performance Rights Reserve \$'000	Employee Share Reserve \$'000			
<b>Balance at 1 February 2016</b>		1,304,146	(65,752)	105	226	4,482	5,835	(696,890)	1,502	553,654
Profit for the year		-	-	-	-	-	-	53,184	322	53,506
Other comprehensive income		-	-	(134)	84	-	-	-	-	(50)
<b>Total comprehensive income for the year</b>		-	-	(134)	84	-	-	53,184	322	53,456
<b>Transactions with owners in their capacity as owners:</b>										
Employee shares exercised	14(b)	-	12,933	-	-	-	-	-	-	12,933
Share-based remuneration plans	28	-	-	-	-	2,576	-	-	-	2,576
Share buy-back	14(a),(b)	(4,990)	(19,636)	-	-	-	-	-	-	(24,626)
Dividends paid	6	-	-	-	-	-	3,410	(59,159)	-	(55,749)
Dividends applied to equity compensation plan		-	-	-	-	-	(2,874)	-	-	(2,874)
Reclassification of settled and expired share-based transactions		-	203	-	-	(1,911)	(464)	2,172	-	-
Income tax relating to transactions with owners		-	-	-	-	-	(783)	-	-	(783)
		(4,990)	(6,500)	-	-	665	(711)	(56,987)	-	(68,523)
<b>Balance at 31 January 2017</b>		<b>1,299,156</b>	<b>(72,252)</b>	<b>(29)</b>	<b>310</b>	<b>5,147</b>	<b>5,124</b>	<b>(700,693)</b>	<b>1,824</b>	<b>538,587</b>
Profit for the year		-	-	-	-	-	-	55,059	327	55,386
Other comprehensive income		-	-	583	(97)	-	-	-	-	486
<b>Total comprehensive income for the year</b>		-	-	583	(97)	-	-	55,059	327	55,872
<b>Transactions with owners in their capacity as owners:</b>										
Employee shares exercised	14(b)	-	4,443	-	-	-	-	-	-	4,443
Share-based remuneration plans	28	-	-	-	-	3,079	-	-	-	3,079
Share buy-back	14(a),(b)	(12,019)	(18,667)	-	-	-	-	-	-	(30,686)
Dividends paid	6	-	-	-	-	-	3,636	(58,838)	-	(55,202)
Dividends applied to equity compensation plan		-	-	-	-	-	(844)	-	-	(844)
Reclassification of settled and expired share-based transactions		-	94	-	-	(2,399)	(248)	2,553	-	-
Income tax relating to transactions with owners		-	-	-	-	-	10	-	-	10
		(12,019)	(14,130)	-	-	680	2,554	(56,285)	-	(79,200)
<b>Balance at 31 January 2018</b>		<b>1,287,137</b>	<b>(86,382)</b>	<b>554</b>	<b>213</b>	<b>5,827</b>	<b>7,678</b>	<b>(701,919)</b>	<b>2,151</b>	<b>515,259</b>

All items in the Consolidated Statement of Changes in Equity are net of tax.

The above Consolidated Statement of Changes In Equity is to be read in conjunction with the accompanying notes to the financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 January 2018

	Notes	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		4,609,326	4,930,182
Payments to suppliers and employees		(4,502,942)	(4,727,360)
Payment for litigation claim		-	(11,368)
Interest received		1,462	1,735
Interest paid		(6,257)	(6,179)
Income taxes paid		(30,408)	(41,241)
<b>Net cash inflow from operating activities</b>	29	<b>71,181</b>	145,769
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment, software and intangibles	11,12	(68,025)	(27,330)
Acquisition of subsidiaries, net of cash acquired	18	(27,267)	(2,145)
Payments to acquire financial assets		-	(1,000)
Proceeds from sale of property, plant and equipment		784	16
<b>Net cash outflow from investing activities</b>		<b>(94,508)</b>	(30,459)
<b>Cash flows from financing activities</b>			
Net proceeds from/(repayments of) borrowings		194,772	(9)
Payments for shares bought back	14(a)	(12,019)	(4,990)
Purchase of Sigma shares for employees		(18,667)	(19,636)
Proceeds from employee shares exercised	14(b)	4,443	12,933
Dividends paid	6	(55,202)	(55,749)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>113,327</b>	(67,451)
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents held at the beginning of the financial period		(7,726)	(55,607)
Effects of exchange rate changes on cash and cash equivalents		(25)	22
<b>Cash and cash equivalents at the end of the financial period</b>	29	<b>82,249</b>	(7,726)

The above Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes to the financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 January 2018

## About this Report

This section provides information about the consolidated Group and how the financial statements have been prepared.

Sigma Healthcare Limited (the 'Company') is a for-profit company incorporated and domiciled in Australia. The financial report was authorised for issue by the Directors on 21 March 2018.

## Basis of Preparation

The financial statements are general purpose financial statements that:

- have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- have been prepared on a historical cost basis, except for investments which have been measured at fair value; and
- are presented in Australian dollars (Sigma's functional and presentation currency) with all values rounded to the nearest thousand dollars unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

## Significant Accounting Policies

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. Other significant accounting policies are contained in the notes to the consolidated financial statements to which they relate.

## Principles of Consolidation

These financial statements are of the consolidated entity consisting of the Company and its subsidiaries (together referred to as 'Sigma' or the 'Group'). The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Refer to Note 20 for a list of subsidiaries controlled at year end.

The financial report includes the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity. In preparing the financial report, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity, are eliminated in full. Non-controlling interests are presented separately in the financial statements.

## Foreign Currency

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. Foreign exchange gains and losses are brought to account in profit or loss, except when deferred in equity as qualifying cash flow hedges. The assets and liabilities of foreign controlled subsidiaries are translated into Australian currency at rates of exchange current at balance date, while revenues and expenses are translated at the average rate calculated for the period. Exchange rate differences arising on translation are taken to the foreign currency translation reserve.

## Goods and Services Tax (GST)

Revenues, expenses, liabilities and assets are recognised net of GST, except for receivables and payables, which are recognised inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability. Cash flows are included in the Consolidated Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

## Finance Costs

Finance costs includes interest expense and borrowing costs and are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets. Finance costs which are directly attributable to the acquisition of, or production of, a qualifying asset are capitalised as part of the cost of that asset using the weighted average cost of borrowings.

## Significant Changes in the Current Reporting Period

There were no changes in accounting policy during the year ended 31 January 2018, nor did the introduction of new accounting standards lead to any change in measurement or disclosure in these financial statements. See Note 30 for details of new accounting standards.

## Key Judgements and Estimates

Preparation of the financial report requires management to make judgements, estimates and assumptions about future events. Information on material estimates and judgements used in applying the accounting policies can be found in the following notes:

Judgement Area	Note
Carrying value of receivables	8
Impairment of goodwill	12



## Financial Performance

This section provides the information that is most relevant to understanding the financial performance of the Group during the year and, where relevant, the accounting policies applied and the critical judgements and estimates made.

1. Segment Information	5. Earnings Per Share
2. Other Revenue	6. Dividends
3. Expenses	7. Subsequent Events
4. Taxation	

### 1. Segment Information

#### Description of Segments

Management has determined the operating segments based on the reports reviewed and used by the Group's chief operating decision makers (CODM) to make strategic and operating decisions. The CODM consists of the Executive Key Management Personnel as disclosed in the Remuneration Report on pages 6 to 22. For the year ended 31 January 2018, it was concluded that the Group continues to operate only in the Healthcare segment. The Healthcare segment represents the traditional full line pharmacy wholesale business, retail and Private Label product ranges.

The aggregation criteria under AASB 8 – *Operating Segments* has been applied to include the results of Central Healthcare Group, Discount Pharmacy Retail Group, NostraData Pty Ltd, MPS Hold Co. Pty Ltd and Medical Industries Australia Hold Co. Pty Ltd within the Healthcare segment. Central Healthcare Group, Discount Pharmacy Retail Group, NostraData Pty Ltd, MPS Hold Co. Pty Ltd and Medical Industries Australia Hold Co. Pty Ltd (MIA) are separate cash generating units for impairment testing purposes.

### Segment Information Provided to the CODM

The CODM primarily uses a measure of adjusted earnings before interest, tax and the effects of significant non-recurring items (Underlying EBIT) to assess the performance of the business. Underlying EBIT reconciles to profit before tax for the Group as follows:

	2018 \$'000	2017 \$'000
<b>Underlying EBIT attributable to owners of the Company</b>	<b>90,252</b>	100,228
Restructuring and dual operating costs before tax	(3,715)	-
Acquisition and due diligence costs before tax	(3,199)	-
Litigation settlement expense before tax	-	(11,368)
Provision for doubtful debtors – single pharmacy group before tax	-	(8,262)
Non-controlling interests before interest and tax	409	357
Net finance costs	(5,012)	(4,286)
<b>Profit before tax</b>	<b>78,735</b>	76,669

### Geographical Segments

The Group operates predominantly within Australia.

### Information on Major Customers

One customer group contributes revenues which forms 41% of the Group revenues (2017: 37%). This customer has a long-standing relationship with Sigma and a service contract is in place until June 2019. Sales revenue for the period to 31 January 2018 was \$1,690.0 million (2017: \$1,617.7 million).

### 2. Other Revenue

	2018 \$'000	2017 \$'000
Commissions and fees	19,853	12,321
Membership revenue	13,710	15,806
Marketing services and promotional revenue	38,551	38,832
Sundry revenue	10,973	10,440
Profit/(loss) on sale of property, plant and equipment	391	(246)
<b>Total other revenue</b>	<b>83,478</b>	77,153

# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Financial Performance continued

### 2. Other Revenue continued

#### Recognition and Measurement

Revenue is measured at the fair value of the consideration received or receivable. Amounts are disclosed as revenue net of returns, discounts, allowances and goods and services tax (GST). The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

#### Sale of Goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Sales made during the ordinary course of business and on normal terms and conditions have an agreed period in which the inventory can be returned. An appropriate provision is recognised for these returns.

#### Commissions and Fees

Fees billed by the Group, including fees to customers for the deliveries of dangerous goods and provision of dose administration services, are recognised once the service has been performed.

#### Membership Revenue

Banner store membership fees are recognised over the period which services are provided.

#### Marketing Services and Promotional Revenue

Income received from suppliers from promotional services rendered is recognised once the service obligations have been performed.

#### Deferred Income

Deferred income is recognised in the liabilities section of the Consolidated Balance Sheet and reflects income received that relates to a future period. Such income is subsequently recognised in profit or loss as and when the obligations attached to the income are fulfilled by the Group. Such income generally relates to promotional services to be rendered.

### 3. Expenses

	Notes	2018 \$'000	2017 \$'000
<b>Profit before tax includes the following specific expenses:</b>			
Employee benefits expense		140,050	132,356
Defined contribution plans		9,294	8,206
Employee share-based payments expense	28	3,079	2,576
<b>Total employee benefits expense</b>		<b>152,423</b>	143,138
Amortisation – brand names	12	484	488
Amortisation – software	12	2,599	2,198
Depreciation – buildings	11	560	491
Depreciation – plant and equipment	11	5,444	5,110
<b>Total depreciation and amortisation</b>		<b>9,087</b>	8,287
Write-down of inventories to net realisable value		4,749	4,731
Net impairment loss on trade debtors		987	10,109
Rental expenses on operating leases		11,385	10,360

#### Employee Benefits Expense

Employer contributions to defined contribution superannuation plans are recognised as an expense in the profit or loss as they are paid or payable. Refer to Note 13 and Note 28 for details on provisions for employee benefits and details of share-based payments.

#### Write-down of Inventories

Included in cost of goods sold in the Consolidated Statement of Comprehensive Income. Refer to Note 9 for details.

#### Impairment of Trade Debtors

Included in sales and marketing expenses in the Consolidated Statement of Comprehensive Income. Refer to Note 8 for details.

## Leases

The Group leases certain plant and equipment and land and buildings. Finance leases, which effectively transfer to the Group substantially all of the risks and benefits of ownership of the leased item, are capitalised at the present value of the minimum lease payments. The leased assets and corresponding liabilities are recognised and the leased assets are depreciated over the period the Group is expected to benefit from their use. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Consolidated Statement of Comprehensive Income.

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the lease items, are included in the determination of profit or loss in equal instalments over the period of the lease. Lease incentives received are recognised as an integral part of the total lease payments made and are spread on a basis representative of the pattern of benefits expected to be derived from the leased asset.

## 4. Taxation

	2018 \$'000	2017 \$'000
<b>(a) Income Tax Expense</b>		
Current tax	26,318	28,180
Deferred tax	(2,658)	(5,181)
Adjustments for current income tax of prior years	(311)	164
<b>Total income tax expense</b>	<b>23,349</b>	23,163
<b>(b) Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable:</b>		
Profit before income tax	78,735	76,669
Tax at the Australian company tax rate of 30% (2017: 30%)	23,621	23,001
Tax effect of differential corporate tax rates	(1)	80
<i>Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:</i>		
Other items	(389)	372
Effect of recoupment of capital losses not previously recorded	-	(199)
Amounts under/(over) provided in prior years	118	(91)
<b>Total income tax expense</b>	<b>23,349</b>	23,163

	2018 \$'000	2017 \$'000
<b>(c) Amounts Recognised Directly in Equity</b>		
Net change in fair value of financial asset	(250)	58
Exchange differences on translation of foreign operations	42	(36)
<b>Total amounts recognised directly in equity</b>	<b>(208)</b>	22
<b>(d) Deferred Tax</b>		
Trade and other receivables	5,407	4,896
Inventories	2,350	1,849
Trade and other payables and accruals	4,421	4,753
Provisions for employee benefits	6,626	5,808
Intangible assets	(401)	(476)
Property, plant and equipment	(2,462)	(2,419)
Other	1,834	265
<b>Net deferred tax assets</b>	<b>17,775</b>	14,676
Deferred tax assets	20,875	17,575
Deferred tax liabilities	(3,100)	(2,899)
<b>Net deferred tax assets</b>	<b>17,775</b>	14,676

All movements in temporary differences above have been charged to income except for exchange differences on foreign operations and tax on the fair value change of investments, both of which were recognised in other comprehensive income. Included in net deferred tax assets in the current year is \$656,000 recognised on the acquisition of MPS Hold Co. Pty Ltd and Medical Industries Australia Hold Co. Pty Ltd as disclosed in Note 18. Included in net deferred tax assets in the prior year is \$144,000 recognised on the acquisition of Linton Street Pty Ltd as disclosed in Note 18.

### Unrecognised Deferred Tax Losses

Deferred tax assets have not been recognised in respect of capital losses of \$216,625,000 tax effected (2017: \$216,625,000) because it is not probable that the Group will have sufficient future capital gains available against which the deferred tax asset could be utilised. These capital losses arose from the sale of the Group's pharmaceutical division in 2011.

### Income Tax – Recognition and Measurement

#### Current Tax

Income tax payable represents the amount expected to be paid to taxation authorities on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of prior years.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Financial Performance continued

### 4. Taxation continued

#### Income Tax – Recognition and Measurement continued

##### Deferred Tax

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the rates that are expected to apply in the period in which the liability is settled or asset realised, based on tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit or in relation to the initial recognition of goodwill.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Income tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is also recognised there.

##### Australian Tax Consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 19 December 2005 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Sigma Healthcare Limited and has assumed the current tax liabilities and any deferred tax assets arising from unused tax losses of the members in the tax-consolidated group. Refer to Note 20 for disclosure of the wholly-owned subsidiaries which are members of the tax consolidated group.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within the Group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

#### Nature of Tax Funding Arrangements and Tax Sharing Arrangements

Entities in the tax-consolidated group entered into a tax funding arrangement with the head entity. The arrangements require payments to/(from) the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

### 5. Earnings Per Share

	2018	2017
<b>(a) Basic and Diluted Earnings Per Share</b>		
Basic (cents per share)	5.6	5.4
Diluted (cents per share)	5.2	5.0
<b>(b) Reconciliation of Earnings Used in Calculating Basic and Diluted Earnings Per Share</b>		
Profit attributable to owners of the Company (\$'000)	55,059	53,184
<b>(c) Weighted Average Number of Shares Used as the Denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (No. '000)	982,924	992,854
<i>Adjustments for calculation of diluted earnings per share:</i>		
Performance rights/options (No. '000)	57,635	65,563
Effect of shares held under Sigma Employee Share Plan (No. '000)	13,779	13,015
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share (No. '000)	1,054,338	1,071,432

## Performance Rights and Options

Rights and options are considered dilutive and are included in the calculation of diluted earnings per share. Full details of share rights and options are included in Note 28 and in the Remuneration Report.

## 6. Dividends

	2018		2017	
	Cents Per Share	\$'000	Cents Per Share	\$'000
<b>Recognised amounts</b>				
Final dividend – prior year	3.0	32,257	3.0	32,383
Interim dividend – current year	2.5	26,607	2.5	26,951
<b>Dividends recognised by the parent entity</b>		<b>58,864</b>		59,334
Less: Dividends paid on the shares held by Sigma Employee Share Plan		(26)		(175)
Less: Dividends paid on the shares under the Sigma Employee Share Plan		(3,636)		(3,410)
<b>Dividends paid by the Group</b>		<b>55,202</b>		55,749

All dividends declared and subsequently paid by the Company are franked to 100% at the 30% company income tax rate. Dividends are recognised when an obligation to pay a dividend arises, following declaration of the dividend by the Company's Board of Directors.

Since the end of the year, the Directors have resolved to pay a final dividend of 2.5 cents per share fully franked, to be paid on 20 April 2018 to shareholders on the register at the ex-dividend date of 5 April 2018. The total amount payable is \$26.5 million.

	2018 \$'000	2017 \$'000
<b>Dividend franking account</b>		
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2017: 30%)	20,399	20,084

The above amounts represent the balance of the franking account as at the end of the year, adjusted for franking credits in relation to the receipt of the amount of the current income tax asset.

The impact on the dividend franking account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$11,364,153 (2017: \$13,824,494).

## 7. Subsequent Events

### Dividend

Since the end of the year, the Directors have resolved to pay a final dividend of 2.5 cents per share fully franked, to be paid on 20 April 2018 to shareholders on the register at the ex-dividend date of 5 April 2018. The total amount payable is \$26.5 million.

### Closure of the Mansfield Distribution Centre

In February 2018, the Group announced the closure of the Mansfield distribution centre in Queensland, with its operations being transferred to the Group's new distribution centre in Berrinba, Queensland. The site will be marketed for sale. Redundancy payments of between \$4 million and \$5 million are expected to be paid out to the employees of the facility in the first half of the 2018 calendar year.

Other than the matters discussed above, there has not been any other matter or circumstance that has arisen since 31 January 2018 that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years not otherwise disclosed.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Operating Assets and Liabilities

This section provides information relating to the operating assets and liabilities of the Group used to generate the Group's performance.

8. Trade and Other Receivables	11. Property, Plant and Equipment
9. Inventories	12. Goodwill and Other Intangible Assets
10. Trade and Other Payables	13. Provisions and Contingencies

## 8. Trade and Other Receivables

	2018 \$'000	2017 \$'000
<b>Current</b>		
Trade receivables	567,284	551,403
Provision for impairment of trade receivables	(16,796)	(14,445)
Other receivables	27,382	29,937
<b>Total current receivables</b>	<b>577,870</b>	<b>566,895</b>
<b>Non-current</b>		
Trade receivables	868	3,459
<b>Total non-current receivables</b>	<b>868</b>	<b>3,459</b>
<b>Movements in the provision for impairment of trade receivables:</b>		
Carrying value at the beginning of the year	14,445	5,040
Provision raised during the year	2,981	10,498
Receivables written off during the year as uncollectible	(630)	(1,093)
<b>Carrying value at the end of the year</b>	<b>16,796</b>	<b>14,445</b>

### Trade Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date. Trade debtors generally have terms of 30 days. Trade debtors have been utilised to secure \$195,000,000 drawn from the Westpac receivables purchase facility (see Note 16) at 31 January 2018 (2017: \$32,129,000).

	2018 \$'000	2017 \$'000
<b>Ageing of trade receivables</b>		
Not past due	520,278	521,605
<i>Past due but not impaired:</i>		
0 – 30 days	14,489	11,531
31 – 60 days	4,266	1,160
60+ days	12,323	6,121
<b>Total trade receivables</b>	<b>551,356</b>	<b>540,417</b>
<b>Ageing of impaired trade receivables</b>		
0 – 30 days	-	-
31 – 60 days	-	52
60+ days	16,796	14,393
<b>Total impaired trade receivables</b>	<b>16,796</b>	<b>14,445</b>

### Recoverability of Trade Receivables

Recoverability of trade receivables is reviewed regularly and at each reporting period. A provision for impairment of trade receivables is recognised when there is objective evidence that all amounts due may not be fully recovered. Objective evidence includes financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency of payments. Where debt recovery is remote, the amount has been fully provided, and in instances where there is a reasonable prospect of debt recovery, an estimate has been made by management on the most likely outcome according to information available at 31 January 2018.

The Group has not impaired all debts that are past due at 31 January 2018 as most of these balances relate to customers for whom there is no recent history of default and are still considered fully recoverable. For information on the Group's credit risk management refer to Note 17.

## 9. Inventories

	2018 \$'000	2017 \$'000
<b>At cost</b>		
Finished goods	362,183	328,162
Provision for obsolescence	(8,202)	(6,162)
<b>Net inventories</b>	<b>353,981</b>	322,000

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average cost. Net realisable value represents the estimated selling price less estimated costs necessary to make the sale.

The provision for inventory obsolescence is based on management judgement, with consideration given to historical inventory write-offs, inventory turnover trends and other analysis. The actual amount of inventory write-offs could be higher or lower than the allowance made.

## 10. Trade and Other Payables

	2018 \$'000	2017 \$'000
<b>Current</b>		
Trade payables	526,511	475,285
Other payables and accruals	42,293	48,485
<b>Total current payables</b>	<b>568,804</b>	523,770
<b>Non-current</b>		
Other payables and accruals	344	426
<b>Total non-current payables</b>	<b>344</b>	426

Trade payables, other payables and accruals represent liabilities for goods and services provided to the Group prior to the end of the year which are unpaid. Trade and other payables are stated at amortised cost. Trade payables are unsecured and are normally settled within 30 to 60 days of the invoice date.

The carrying amounts of the Group's trade and other payables are denominated in Australian dollars. For an analysis of the financial risks associated with trade and other payables refer to Note 17.

## 11. Property, Plant and Equipment

	Notes	Land and Buildings \$'000	Plant and Equipment \$'000	Total \$'000
<b>At 1 February 2016</b>				
Cost		35,193	74,374	109,567
Accumulated depreciation		(8,179)	(42,848)	(51,027)
<b>Net book amount</b>		<b>27,014</b>	<b>31,526</b>	<b>58,540</b>
<b>Year ended 31 January 2017</b>				
Opening net book amount		27,014	31,526	58,540
Additions		15,333	9,859	25,192
Disposals		(32)	(229)	(261)
Depreciation	3	(491)	(5,110)	(5,601)
<b>Closing net book amount</b>		<b>41,824</b>	<b>36,046</b>	<b>77,870</b>
<b>At 31 January 2017</b>				
Cost		50,467	83,408	133,875
Accumulated depreciation		(8,643)	(47,362)	(56,005)
<b>Net book amount</b>		<b>41,824</b>	<b>36,046</b>	<b>77,870</b>
<b>Year ended 31 January 2018</b>				
Opening net book amount		41,824	36,046	77,870
Additions		35,432	26,860	62,292
Acquisition of subsidiaries	18	-	3,873	3,873
Transfer to assets held for sale		(8,280)	(843)	(9,123)
Disposals		(284)	(109)	(393)
Depreciation	3	(560)	(5,444)	(6,004)
<b>Closing net book amount</b>		<b>68,132</b>	<b>60,383</b>	<b>128,515</b>
<b>At 31 January 2018</b>				
Cost		70,726	107,167	177,893
Accumulated depreciation		(2,594)	(46,784)	(49,378)
<b>Net book amount</b>		<b>68,132</b>	<b>60,383</b>	<b>128,515</b>



# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Operating Assets and Liabilities continued

### 11. Property, Plant and Equipment continued

#### Capital Work in Progress

Included in property, plant and equipment at 31 January 2018 is \$23,256,000 of capital work in progress (\$17,799,000 in land and buildings and \$5,457,000 in plant and equipment) (2017: \$22,826,000). The majority of this balance relates to the construction of the Canning Vale distribution centre in Western Australia.

#### Recognition and Measurement

Property, plant and equipment is recorded at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the item. Property, plant and equipment, other than freehold land, is depreciated or amortised on a straight-line basis over the expected useful life for the asset. Estimated useful lives and depreciation methods are reviewed at the end of the reporting period. The following estimated useful lives are used in the calculation of depreciation:

Item	Useful Life	Depreciation Method
Freehold land	n/a	No depreciation
Buildings	40 years	Straight line
Plant and equipment	2 to 20 years	Straight line

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

Property, plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or groups of assets (cash generating units or CGUs).

#### Assets Classified as Held for Sale

The Group is committed to selling the site of its Mansfield, Queensland distribution centre which will close in the first half of the 2018 calendar year (refer to Note 7). At 31 January 2018, the assets of the Mansfield site are classified as held for sale and are measured at their carrying amount, as the fair value less costs of disposal expected to be derived from them exceed this amount.

	2018 \$'000	2017 \$'000
Property, plant and equipment	9,123	-

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs of disposal, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets which are specifically exempt from this requirement.

A gain is recognised for any subsequent increases in fair value less costs of disposal of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition. Non-current assets are not depreciated or amortised while they are classified as held for sale.

## 12. Goodwill and Other Intangible Assets

	Notes	Intangibles				Total \$'000
		Goodwill \$'000	Brand Names \$'000	Software \$'000	Other Intangibles <sup>1</sup> \$'000	
<b>At 1 February 2016</b>						
Cost		79,176	25,535	13,654	940	119,305
Accumulated amortisation		-	(11,150)	(5,677)	(940)	(17,767)
<b>Net book amount</b>		<b>79,176</b>	<b>14,385</b>	<b>7,977</b>	<b>-</b>	<b>101,538</b>
<b>Year ended 31 January 2017</b>						
Opening net book amount		79,176	14,385	7,977	-	101,538
Additions		-	3	2,135	-	2,138
Acquisition through business combinations	18	1,613	-	-	-	1,613
Foreign currency movements		-	91	-	-	91
Amortisation	3	-	(488)	(2,198)	-	(2,686)
<b>Closing net book amount</b>		<b>80,789</b>	<b>13,991</b>	<b>7,914</b>	<b>-</b>	<b>102,694</b>
<b>Year ended 31 January 2017</b>						
Cost		80,789	25,882	15,820	940	123,431
Accumulated amortisation		-	(11,891)	(7,906)	(940)	(20,737)
<b>Net book amount</b>		<b>80,789</b>	<b>13,991</b>	<b>7,914</b>	<b>-</b>	<b>102,694</b>
<b>Year ended 31 January 2018</b>						
Opening net book amount		80,789	13,991	7,914	-	102,694
Additions		-	2	5,731	-	5,733
Acquisition through business combinations	18	12,295	-	7,818	-	20,113
Foreign currency movements		-	(86)	-	-	(86)
Amortisation	3	-	(484)	(2,599)	-	(3,083)
<b>Closing net book amount</b>		<b>93,084</b>	<b>13,423</b>	<b>18,864</b>	<b>-</b>	<b>125,371</b>
<b>Year ended 31 January 2018</b>						
Cost		93,084	25,533	29,369	940	148,926
Accumulated amortisation		-	(12,110)	(10,505)	(940)	(23,555)
<b>Net book amount</b>		<b>93,084</b>	<b>13,423</b>	<b>18,864</b>	<b>-</b>	<b>125,371</b>

1. Other intangibles consist of customer relationships and supplier contracts.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Operating Assets and Liabilities continued

### 12. Goodwill and Other Intangible Assets continued

#### Recognition and Measurement

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.

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets acquired at the date of acquisition. Goodwill is measured at cost and subsequently measured at cost less any impairment losses.

#### Brand Names

Brand names have a finite useful life and are carried at cost less accumulated amortisation. Where acquired in a business combination, cost represents the fair value at the date of acquisition. They are amortised over their expected useful lives, which vary from 25 to 60 years.

#### Software

Software assets acquired by the Group are initially recognised at cost, and subsequently measured at cost less accumulated amortisation and any impairment losses. Internally developed systems are capitalised once the project is assessed to be feasible. The costs capitalised include consulting, licensing and direct labour costs. Costs incurred in determining project feasibility are expensed as incurred. Software assets are amortised on a straight-line basis over their useful lives. The estimated useful lives are generally three to seven years. The estimated useful lives and amortisation method are reviewed annually at the end of the reporting period.

#### Impairment of Assets

Assets with finite useful lives are subject to amortisation and are reviewed for impairment at each reporting period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped into cash generating units (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### Allocation of Goodwill to Cash Generating Units

For impairment testing purposes, goodwill is allocated to each of the Group's CGUs expected to benefit from the synergies of the business combination. If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to other assets in the CGU pro rata on the basis of the carrying amount of each asset in the CGU. On disposal of an operating unit within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation. The Group's goodwill is allocated to the Group's CGUs as follows:

	Notes	2018 \$'000	2017 \$'000
<b>Goodwill allocation to cash generating units</b>			
Sigma <sup>1</sup>		28,834	28,027
Central Healthcare Group (CHS) <sup>1</sup>		18,434	27,061
Discount Pharmacy Retail Group (DPRG) <sup>1</sup>		27,364	19,544
NostraData		6,157	6,157
Medical Packaging Systems (mps) <sup>2</sup>		3,770	-
Medical Industries Australia (MIA) <sup>3</sup>		8,525	-
<b>Total goodwill</b>	18	<b>93,084</b>	<b>80,789</b>

1. During the period, goodwill balances were transferred between CGUs as a result of changes in responsibilities and accountabilities for operations within the Group. Most notably, the Discount Drug Stores business and the PharmaSave business are now reported together under the Discount Pharmacy Retail Group. Previously, Discount Drug Stores was a separate CGU and the cash flows associated with PharmaSave were included in the CHS CGU.

2. During the year, the Group incorporated a company, MPS Hold Co. Pty Ltd, to acquire a Dose Administration Services business. Refer to Note 18 for details. The acquisition was completed on an arm's length basis and it has been determined that the acquisition value is a reliable estimation of fair value less costs of disposal at 31 January 2018.

3. On 1 December 2017, the Group acquired a distribution of medical products business in New South Wales through a newly incorporated company, Medical Industries Australia Hold Co. Pty Ltd. Refer to Note 18 for details. The acquisition was completed on an arm's length basis and it has been determined that the acquisition value is a reliable estimation of fair value less costs of disposal at 31 January 2018.

#### Impairment Testing of Goodwill

##### Current Period Acquisitions – mps and MIA

For the mps and MIA CGUs, as the acquisition date of both entities was in close proximity to balance date, each were made on an arm's length basis and performance life to date has not indicated an impairment. The acquisition value has been used as a reliable estimate of fair value less costs of disposal for impairment testing purposes at 31 January 2018 and no impairment was noted.

## Sigma, DPRG and NostraData

For the remaining CGUs, with the exception of the CHS CGU, recoverable amount has been determined based on value in use (ViU) calculations which use cash flow projections covering a five-year period, with cash flows beyond this period extrapolated using a long term growth rate. The cash flows for the five-year period are based on budgets approved by management and the long term growth rate used is 2.5% (2017: 2.5%), which does not exceed long term industry growth rates. These cash flows have been discounted using a pre-tax risk adjusted discount rate of 12.1% (2017: 12.4%).

For these CGUs, management believes that any reasonable possible change in the key assumptions would not cause the carrying amount of any of the cash generating units to exceed the recoverable amount.

## CHS

The recoverable amount of the CHS CGU has been determined based on a Fair Value Less Costs of Disposal (FVLCD) basis using a discounted cash flow valuation model. This represents a change in methodology from the ViU model used in the prior period, and has been made as there are planned restructuring initiatives and changes proposed to enhance business performance over the forecast period. The determination of the recoverable amount includes management estimate and judgement.

The FVLCD discounted cash flow model forecasts future cash flows expected to be derived from the CGU covering a period of five years, with cash flows beyond this period being extrapolated using a long term growth rate. These cash flows have been discounted using a pre-tax risk adjusted discount rate.

Impairment testing was undertaken on the CHS CGU by comparing its recoverable amount to its carrying amount and no impairment was noted. The recoverable value is 106.4% of the carrying value of the CGU.

A reasonably possible variation in the key assumptions used to determine the recoverable amount could, in isolation, result in the carrying value exceeding the recoverable amount, resulting in an impairment to goodwill. These key assumptions are as follows:

- Business performance, which includes cost savings and revenue growth from restructuring initiatives and business development activities, reflected in the estimated future cash flows of the CGU covering the five-year period.
- The long term growth rate used to extrapolate cash flows beyond five years (2.5%). This rate does not exceed the long term growth rate of the retail and hospital consumer health industry. If this growth rate was 1.9% the carrying value of the CGU would equal its recoverable amount.
- The pre-tax risk adjusted discount rate that has been used to discount the cash flows (13.1%). If this discount rate was 13.7% the carrying value of the CGU would equal its recoverable amount.

## 13. Provisions and Contingencies

### Provisions

	2018 \$'000	2017 \$'000
<b>Current</b>		
Employee benefits	16,521	14,257
Lease make good	536	1,038
Other provisions	473	598
<b>Total current provisions</b>	<b>17,530</b>	<b>15,893</b>
<b>Non-current</b>		
Employee benefits	1,905	1,711
Lease make good	2,872	2,339
<b>Total non-current provisions</b>	<b>4,777</b>	<b>4,050</b>

Provisions are recognised when a present legal, equitable or constructive obligation exists as a result of a past event, it can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

### Lease Make Good

A provision for lease make good is recognised in relation to the properties held under operating lease. The Group recognises the provision for property leases which contain specific clauses to restore the property to a specific condition. The provision at balance date represents management's best estimate of the present value of the future make good costs required.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Operating Assets and Liabilities continued

### 13. Provisions and Contingencies continued

#### Provisions continued

##### Employee Benefits

The employee benefits liability represents accrued wages and salaries, leave entitlements and other incentives recognised in respect of employees' services up to the end of the reporting period. These liabilities are measured at the amounts expected to be paid when they are settled and include related on-costs, such as worker's compensation insurance, superannuation and payroll tax.

The provision for employee benefits is measured at the remuneration rates expected to be paid when the liability is settled. Benefits expected to be settled beyond 12 months from the reporting date are measured at the present value of estimated future payments for the services provided by employees up to the end of the reporting period. This calculation requires judgement in determining future increase in wages and salary rates, future on-cost rates and expected settlement dates based on staff turnover history. The liability is discounted using the Australian corporate bond rates which most closely match the terms to maturity of the entitlement.

#### Contingencies

##### Contingent Liabilities

##### Other Claims

The Group is exposed to various claims and litigations in the normal course of business. The Group assesses each claim to determine any potential liability to the Group on a case by case basis.

## Capital Structure and Financing

This section provides information relating to the Group's capital structure and its exposure to financial risk, how they affect the Group's financial position and performance, and how the risks are managed.

14. Contributed Equity	16. Borrowings
15. Reserves	17. Financial Risk Management

### 14. Contributed Equity

	2018 \$'000	2017 \$'000
<b>Issued capital:</b>		
Ordinary shares fully paid	1,287,137	1,299,156
<b>Issued capital held by equity compensation plan:</b>		
Treasury shares	(86,382)	(72,252)
<b>Total contributed capital</b>	<b>1,200,755</b>	<b>1,226,904</b>

#### Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of shares held. Every ordinary shareholder present at a meeting of the Company in person or by proxy is entitled to one vote, and upon a poll each ordinary share is entitled to one vote. Ordinary shares have no par value. Incremental costs directly attributable to the issue of new shares are shown in equity as a reduction, net of tax, from the proceeds.

#### Treasury Shares

The shares held by the Sigma Employee Share Administration Pty Ltd are treasury shares which are the Company's ordinary shares which as at the end of the year, have not vested to Group employees, and are therefore controlled by the Group.

#### (a) Movements in Ordinary Share Capital

	Number of Shares	\$'000
Balance at 1 February 2016	1,079,440,490	1,304,146
Shares bought on market	(4,202,096)	(4,990)
<b>Balance at 31 January 2017</b>	<b>1,075,238,394</b>	<b>1,299,156</b>
Shares bought on market	(14,584,073)	(12,019)
<b>Balance at 31 January 2018</b>	<b>1,060,654,321</b>	<b>1,287,137</b>

## (b) Movements in Treasury Share Capital

	Number of Shares	\$'000
Balance at 1 February 2016	(93,414,451)	(65,752)
Shares bought on market	(15,400,000)	(19,636)
Employee shares exercised	22,100,205	12,933
Reclassification of settled and expired share-based transactions	-	203
<b>Balance at 31 January 2017</b>	<b>(86,714,246)</b>	<b>(72,252)</b>
Shares bought on market	(19,249,918)	(18,667)
Employee shares exercised	7,654,900	4,443
Reclassification of settled and expired share-based transactions	-	94
<b>Balance at 31 January 2018</b>	<b>(98,309,264)</b>	<b>(86,382)</b>

## Capital Management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern so it can continue to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to minimise the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

## Share Buy-back

In October 2012, the Company announced that as part of its ongoing capital management strategy it would undertake an on market share buy-back of up to 10% of its issued ordinary shares. The share buy-back commenced on 2 October 2012. During March 2017, the buy-back was refreshed to provide capacity to buy back a further 10% of issued ordinary shares.

A total of 14,584,073 (2017: 4,202,096) shares were bought back during the year at a total cost of \$12,019,000 (2017: \$4,990,000). The average price paid was \$0.82 (2017: \$1.19). Of the 14,584,073 shares bought back during the year, the Group has cancelled 13,681,750 shares in the current year. The remaining 902,323 shares bought back were cancelled in February 2018.

## 15. Reserves

	2018 \$'000	2017 \$'000
<b>Reserves:</b>		
Fair value reserve	554	(29)
Foreign currency translation reserve	213	310
Options/performance rights reserve	5,827	5,147
Employee share reserve	7,678	5,124
<b>Total</b>	<b>14,272</b>	<b>10,552</b>

The Group's reserves are presented in the Consolidated Statement of Changes in Equity. The nature and purpose of each reserve is presented below.

### Fair Value Reserve

The fair value reserve represents the cumulative gains and losses arising on the revaluation of the investment in other financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

### Foreign Currency Translation Reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve. The reserve is recognised in profit or loss when the net investment is disposed of.

### Option/Performance Rights Reserve

This reserve is used to recognise the fair value of shares, performance rights and options issued to employees.

### Employee Share Reserve

This reserve is used to recognise dividends paid by the Company that were eliminated on consolidation of unvested shares held by Sigma Employee Share Plan referred to in Note 28. The reserve will reverse against share capital held by the equity compensation plan when the shares vest.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Capital Structure and Financing continued

### 16. Borrowings

	2018 \$'000	2017 \$'000
<b>Current</b>		
Other secured loans	195,014	14
<b>Total current borrowings</b>	<b>195,014</b>	<b>14</b>
<b>Non-current</b>		
Other secured loans	38	47
Unsecured loans	750	969
<b>Total non-current borrowings</b>	<b>788</b>	<b>1,016</b>

#### Recognition and Measurement

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, borrowings are stated at amortised cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from balance date, and intends to do so.

#### Westpac Receivables Purchase Facility

In December 2017, the Company established a \$370 million receivables purchase facility with Westpac Banking Corporation as part of the refinancing of the existing \$250 million facility with the lender. The new facility is split into an overdraft facility of \$170 million and a revolving facility of \$200 million (see following table). The new facility expires on 30 November 2018. The amount of borrowing costs capitalised for the year ended 31 January 2018 relating to the facility was \$522,000 (2017: nil).

The facility is subject to interest cover and gearing covenants and provides the Company with additional funding flexibility to meet its major infrastructure investment as well as ongoing working capital requirements. Using a pool of its eligible receivables as security, Sigma can draw down funds provided through advances from Westpac pursuant to the agreement in place.

The interest rate applicable to the facility is variable and Sigma does not hedge the interest rate. The costs associated with this program are recorded in 'finance costs' in the Consolidated Statement of Comprehensive Income.

#### Debtor Securitisation Program

The Group operates a debtor securitisation program. This program allows the Group to receive cash in advance due to the fact that substantially all the risks and rewards of ownership of debtors within the program are transferred to a third party. Accordingly, the debtors are recorded off balance sheet. The costs associated with this program are recorded in 'sales and marketing expenses' in the Consolidated Statement of Comprehensive Income.

#### Financial Guarantee Contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

#### Credit Facilities

The Group maintains the following credit facilities:

	2018		2017	
	Total Facility \$'000	Unused \$'000	Total Facility \$'000	Unused \$'000
<b>Credit standby facilities</b>				
Secured bank overdraft facilities	170,000	170,000	155,000	122,871
Westpac receivables purchase facility	200,000	5,000	95,000	95,000
Corporate credit card	3,441	3,272	3,144	3,039



## 17. Financial Risk Management

The Group's activities expose it to a variety of financial risks, including market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's Treasury function is responsible for managing the liquidity requirements of the Group and mitigating these financial risks through continuous monitoring and evaluation.

The Group adheres to a set of policies approved by the Board of Directors, which provide written principles on liquidity risk, foreign exchange risk, interest rate risk, credit risk and the use of derivative financial instruments, as required, for hedging purposes. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

There have been no changes to the Group's exposure to financial risks or the manner in which it manages and measures these risks from the prior year.

The Group holds the following financial instruments:

	2018 \$'000	2017 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	82,249	24,403
Trade and other receivables	578,738	570,354
Other financial assets	2,292	1,458
<b>Total financial assets</b>	<b>663,279</b>	596,215
<b>Financial liabilities</b>		
Bank overdraft	-	32,129
Trade and other payables	569,148	524,196
Borrowings	195,802	1,030
<b>Total financial liabilities</b>	<b>764,950</b>	557,355

### (a) Market Risk

#### (i) Foreign Exchange Risk

The Group operates within Australia and maintains a subsidiary operation within New Zealand. The Group trades predominantly with entities in Australian dollars; accordingly, exposure of the Group to foreign exchange risks arising from currency movements is minimal. The Group did not enter into forward exchange contracts during the year ended 31 January 2018 to purchase any foreign currency (2017: nil).

#### (ii) Cash Flow and Fair Value Interest Rate Risk

The Group is exposed to interest rate risk from changes in interest rates on the Group's interest bearing liabilities. As interest rates fluctuate, the amount of interest payable on financing where the interest rate is not fixed will also fluctuate.

Consistent with policy, the Group may seek to mitigate its exposure to fluctuations in interest rates by entering into interest rate hedging contracts for a portion of forecast interest rate exposures. The Group did not enter into any interest rate hedge contracts during the year ended 31 January 2018 (2017: nil).

The following table summarises the principal amount on outstanding balances at balance date and the weighted average interest rate for these balances throughout the year. The table also summarises the Group's exposure to interest rate risk of both financial assets and liabilities. The sensitivity has been performed using a 100 basis point variation as management considers this to be reasonable having regard to historic movements in interest rates. The sensitivity has been measured by the quantitative impact on profit before tax ('profit' in the table) if the variation were to occur.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Capital Structure and Financing continued

### 17. Financial Risk Management continued

(ii) Cash Flow and Fair Value Interest Rate Risk continued

	2018				2017			
	Balance \$'000	Weighted Average Rate %	-1% Profit \$'000	+1% Profit \$'000	Balance \$'000	Weighted Average Rate %	-1% Profit \$'000	+1% Profit \$'000
<b>Financial assets</b>								
Cash and cash equivalents	82,249	0.4	(822)	822	24,403	0.7	(244)	244
<b>Financial liabilities</b>								
Borrowings – secured	(195,052)	3.2	1,951	(1,951)	(61)	4.5	1	(1)
Bank overdraft	-	-	-	-	(32,129)	3.4	321	(321)
<b>Total (decrease)/increase</b>			<b>1,129</b>	<b>(1,129)</b>			<b>78</b>	<b>(78)</b>

#### (b) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. The Group has endeavoured to minimise credit risk by dealing with creditworthy counterparties.

The principal activity of the Group gives rise to a significant receivables value within the financial assets of the Group. The credit risk on the trade receivables of the Group is generally the carrying amount, net of any provisions for doubtful debts.

Credit assessments are undertaken to determine the credit quality of the customer, taking into account their financial position, past experience and other relevant factors. Individual risk limits are granted in accordance with the internal Credit Policy and authorised via appropriate personnel as defined by the Group's Delegation of Authority manual. The utilisation of credit limits by customers and associated security arrangements are monitored by management.

The Group registers its retention of title on the Personal Properties Securities Register and seeks additional security as collateral where appropriate in accordance with its Credit Policy.

#### (c) Liquidity Risk

The Group manages liquidity risk by maintaining sufficient cash reserves, marketable securities and access to cash via committed credit facilities in order to meet commitments as and when they fall due, and by monitoring forecast and actual cash flows.

The Group's finance facilities and the amounts unused at balance date are summarised in Note 16.

The weighted average term to maturity of committed bank facilities and rolling cash flow forecasts are periodically provided to management and the Board. Predominantly all of the Group's financial assets and liabilities are due within the next 12 months.

#### (d) Other Financial Asset – Fair Value

At 31 January 2018, the only financial asset or liability recorded at fair value was listed shares held by the Group that are traded in an active market. The investment is classified as available-for-sale and fair value is determined in the manner described below.

In accordance with AASB 7 *Financial Instruments* this investment is considered a Level 1 financial instrument as the fair value is based on a quoted price in an active market. This asset is classified as available-for-sale.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve, with the exception of impairment losses which are recognised in profit or loss.

Equity instruments are held for strategic rather than trading purposes. The Group does not actively trade these investments. Based on the value of this investment, the Group's exposure to equity price risk is not considered material.

#### Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- **Level 1** – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2** – inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- **Level 3** – inputs are unobservable inputs for the asset or liability.

## Group Structure

This section provides information about Sigma's group structure and how any changes have affected the financial position and performance of the Group.

18. Business Acquisitions	21. Related Party Disclosures
19. Non-Controlling Interest	22. Parent Company Financial Information
20. Details of Controlled Entities	23. Deed of Cross Guarantee

### 18. Business Acquisitions

Business combinations are accounted for using the acquisition method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at the acquisition date.

The fair value of the consideration transferred comprises the initial cash paid to the sellers and an estimate for any future payments the Group may be liable to pay, based on future performance of the business. This latter amount is classified as contingent consideration and is classified as a financial liability. Amounts classified as a financial liability are subsequently measured at fair value with any changes in fair value recognised in profit or loss. Acquisition related costs are expensed as incurred in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (no more than 12 months from the acquisition date), or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Group Structure continued

### 18. Business Acquisitions continued

#### Goodwill Arising on Acquisitions

	Notes	mps \$'000	MIA \$'000	Linton Street \$'000	Other <sup>1</sup> \$'000	Total \$'000
<b>2017</b>						
<b>Total goodwill at 1 February 2016</b>		-	-	-	79,176	79,176
Cash consideration paid		-	-	2,145	-	2,145
Contingent consideration		-	-	1,025	-	1,025
Less: Fair value of identified net assets		-	-	(1,557)	-	(1,557)
<b>Total goodwill at 31 January 2017</b>	12	-	-	1,613	79,176	80,789
<b>2018</b>						
Cash consideration paid or payable		17,875	10,002	-	-	27,877
Contingent consideration		-	872	-	-	872
Less: Fair value of identified net assets		(14,105)	(2,349)	-	-	(16,454)
Goodwill (provisional) on current year acquisitions		3,770	8,525	-	-	12,295
<b>Total goodwill at 31 January 2018</b>	12	3,770	8,525	1,613	79,176	93,084

1. 'Other' refers to goodwill associated with acquisitions prior to 31 January 2016, specifically, Central Healthcare Group (which includes Central Health Services (CHS) and PharmaSave), Discount Drug Stores and NostraData.

#### Fair Value of Identifiable Net Assets Acquired

	Notes	mps \$'000	MIA \$'000	2018 Total \$'000	2017 Linton Street \$'000
Inventories		3,123	1,612	4,735	1,870
Prepayments		97	615	712	-
Trade and other receivables		-	-	-	3,183
Property, plant and equipment	11	3,773	100	3,873	-
Intangibles	12	7,818	-	7,818	-
Net deferred tax assets		575	81	656	144
Trade and other payables		(46)	-	(46)	(3,449)
Provisions		(1,235)	(59)	(1,294)	(191)
<b>Net identifiable assets acquired</b>		14,105	2,349	16,454	1,557

### MPS Hold Co. Pty Ltd (mps)

On 6 September 2017, the Group acquired the assets and business of Medication Packaging Systems Australia through a newly incorporated company, MPS Hold Co. Pty Ltd. Completion of the acquisition was effective from 30 September 2017. The acquisition was made to broaden the Group's service offering into dose administration services.

From the date of acquisition, mps contributed \$17,967,000 of revenue and \$805,000 to profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue would have been \$51,248,000 and profit before tax for the Group would have been \$1,020,000.

### Medical Industries Australia Hold Co. Pty Ltd (MIA)

On 1 December 2017, the Group acquired the assets and business of Medical Industries Australia through a newly incorporated company, Medical Industries Australia Hold Co. Pty Ltd. The new business complements the existing services provided by the Group.

From the date of acquisition, Medical Industries Australia contributed \$760,000 of revenue and \$76,000 to profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue would have been \$5,847,000 and profit before tax for the Group would have been \$1,002,000.

In relation to the above acquisitions we note:

- The assessment of the fair value of intangible assets and potential identifiable intangible assets has not been completed as at 31 January 2018.
- If new information is obtained within one year from the acquisition date about the facts and circumstances that existed at the acquisition date and this identifies adjustments to the above amounts, the acquisition accounting will be revised.

### Linton Street Pty Ltd (Linton Street)

As reported in prior year, on 30 November 2016 the Group acquired a Western Australian pharmacy supplies sales business through a newly incorporated company, Linton Street Pty Ltd. The results of Linton Street were consolidated into the Group from that date.

The fair value of assets and liabilities acquired and goodwill recorded from the acquisition were provisionally reported in the annual financial report for the year ended 31 January 2017. Since this date the acquisition accounting for Linton Street Pty Ltd has been completed and no further changes were noted.

### Net Cash Outflow Arising on Acquisition

	2018 \$'000	2017 \$'000
mps	17,192	-
MIA	10,002	-
Linton Street	73	2,145
<b>Total</b>	<b>27,267</b>	<b>2,145</b>

### Acquisition related Costs

The Group incurred acquisition related costs of \$1,207,000 (2017: \$76,000) on external legal fees, stamp duty and due diligence costs. This included \$1,089,000 in costs relating to the mps acquisition and \$118,000 relating to the MIA acquisition. These costs are included in 'Administration expenses' in the Consolidated Statement of Comprehensive Income.

### 19. Non-controlling Interest

	2018 \$'000	2017 \$'000
<b>Non-controlling interest</b>		
Balance at beginning of the year	1,824	1,502
Share of profit for the year	327	322
<b>Total</b>	<b>2,151</b>	<b>1,824</b>

The non-controlling interest on the date of acquisition is measured at the non-controlling shareholders' proportion of the net fair value of the identifiable assets assumed. Transactions with non-controlling interests are recorded directly in retained earnings.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Group Structure continued

### 20. Details of Controlled Entities

The consolidated financial statements include the assets, liabilities and results of the following controlled entities:

	Country of Incorporation	Ownership Interest	
		2018 %	2017 %
<b>Parent entity</b>			
Sigma Healthcare Limited <sup>2</sup>			
<b>Subsidiaries</b>			
Chemist Club Pty Limited <sup>1,3</sup>	Australia	100	100
Sigma Company Limited <sup>1,3</sup>	Australia	100	100
Allied Master Chemists of Australia Limited <sup>1,3</sup>	Australia	100	100
Guardian Pharmacies Australia Pty Ltd <sup>1,3</sup>	Australia	100	100
Sigma Employee Share Administration Pty Ltd	Australia	100	100
Sigma NZ Limited	New Zealand	100	100
Pharmacy Wholesalers (Wellington) Limited	New Zealand	100	100
QDL Limited <sup>1,3</sup>	Australia	100	100
Sigma (W.A.) Pty Ltd <sup>1,3</sup>	Australia	100	100
Central Healthcare Pty Ltd <sup>1,3</sup>	Australia	100	100
Central Healthcare Services Pty Ltd <sup>1,3</sup>	Australia	100	100
Linton Street Pty Ltd <sup>1,3</sup>	Australia	100	100
PriceSave Pty Ltd <sup>1,3</sup>	Australia	100	100
PharmaSave Australia Pty Ltd <sup>1,3</sup>	Australia	100	100
Discount Drugstores Pty Ltd <sup>1,3</sup>	Australia	100	100
Member Benefits Australia Pty Ltd	Australia	51	51
NostraData Pty Ltd	Australia	51	51
MPS Hold Co. Pty Ltd <sup>1,3</sup>	Australia	100	-
Medical Industries Australia Hold Co. Pty Ltd <sup>1,3</sup>	Australia	100	-

1. These wholly-owned companies are subject to a Deed of Cross Guarantee (see Note 23).

2. Sigma Healthcare Limited is the head entity within the tax-consolidated group.

3. These wholly-owned subsidiaries are members of the tax-consolidated group.

### 21. Related Party Disclosures

#### The Company

Sigma Healthcare Limited is the parent entity of the Group.

#### Controlled Entities

Interests in controlled entities are set out in Note 20. The Company transacted business throughout the financial period with certain controlled entities in respect of purchases of goods and services. These transactions were undertaken on normal commercial terms and conditions.

#### Key Management Personnel

Disclosures relating to Key Management Personnel are set out in Note 27 and in the Remuneration Report.

#### Other Transactions with Directors

Mr D Manuel and his Director-related entities purchased pharmacy products from the Group in the ordinary course of business and on normal commercial terms and conditions. The amount of these purchases during the year ended 31 January 2018 was \$6,623,071 (2017: \$5,598,240). The amounts receivable at balance date from Directors or Director-related entities included within trade debtors in Note 8 was \$907,453 (2017: \$674,633). Amounts receivable from Directors or Director-related entities are subject to the Group's normal trading terms and conditions.

Other transactions entered into by Sigma Healthcare Limited and the Group with Directors and their Director-related entities are within normal employee, customer or supplier relationships on terms and conditions no more favourable than those available in similar arm's length dealings.

## 22. Parent Company Financial Information

The individual financial statements for the parent entity show the following aggregate amounts.

	2018 \$'000	2017 \$'000
<b>Balance sheet</b>		
Current assets	111,115	80,888
Non-current assets	363,797	363,956
<b>Total assets</b>	<b>474,912</b>	444,844
<b>Current liabilities</b>	<b>179,045</b>	134,560
Non-current liabilities	2	127
<b>Total liabilities</b>	<b>179,047</b>	134,687
<b>Net assets</b>	<b>295,865</b>	310,157
<b>Equity</b>		
Issued capital	282,505	294,524
Reserves	2,029	2,059
Accumulated profit	11,331	13,574
<b>Total equity</b>	<b>295,865</b>	310,157
<b>Financial performance</b>		
Profit for the year	56,632	58,126
<b>Total comprehensive income for the year</b>	<b>56,632</b>	58,126

### (a) Guarantees Entered Into by Parent Entity

The parent entity has provided financial guarantees in respect of the subsidiary's Westpac receivables purchase facility (Note 16). As at 31 January 2018, the balance of the facility is \$195,000,000 (2017: \$32,129,000). The facility is also secured by way of deed over certain account receivables under the Westpac receivables purchase facility.

In addition, under the terms of a Deed of Cross Guarantee dated 20 January 2006, entered into accordance with the ASIC Corporations (Wholly-Owned Companies) Instrument 2016/785, the Company has undertaken to meet any shortfall which might arise on the winding up of controlled entities which are party to the Deed (see Note 23). No deficiencies of assets exist in any of these entities. No liability was recognised by the parent entity or the Group in relation to these cross guarantees, as the fair value of the guarantees is immaterial.

### (b) Parent Company Investment in Subsidiary Companies

Investments in subsidiaries are carried at cost in the individual financial statements of Sigma Healthcare Limited. An impairment loss is recognised whenever the carrying amount of the investment exceeds its recoverable amount. Recoverable amount is the higher of value in use and fair value less costs of disposal. The carrying value of the parent's investment in subsidiaries as at 31 January 2018 was \$363,511,000 (2017: \$363,511,000).

### (c) Receivables from Controlled Entities

The parent entity did not have any impairment in respect of any intercompany loan receivable during the current year (2017: nil). The parent loan receivable is not overdue and eliminates on consolidation.

### (d) Contingent Liabilities of the Parent Entity

Refer to Note 13 for further information on contingent liabilities. The parent entity did not have any other contingent liabilities as at 31 January 2018 or 31 January 2017. For information about guarantees given by the parent entity, see previous table.

### (e) Contractual Commitments for the Acquisition of Property, Plant or Equipment

The parent entity did not have any contractual commitments for the acquisition of property, plant and equipment as at 31 January 2018 or 31 January 2017.

## 23. Deed of Cross Guarantee

Pursuant to ASIC Corporations (Wholly-Owned Companies) Instrument 2016/785 the wholly-owned Australian controlled entities listed in Note 20 footnote (1) are relieved from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of financial reports. These entities which are also referred to in the Directors' declaration are, together with the Company, all members of the 'Extended Closed Group' as defined under the ASIC Corporations Instrument and are parties to a Deed of Cross Guarantee dated 20 January 2006, which provides that the parties to the Deed will guarantee to each creditor payment in full of any debt of these entities on winding up of that entity.

A Statement of Comprehensive Income and Balance Sheet comprising the Company and those Australian controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee at 31 January 2018, are set out on the following page.



# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Group Structure continued

### 23. Deed of Cross Guarantee continued

#### (a) Statement of Comprehensive Income

	2018 \$'000	2017 \$'000
Sales revenue	4,129,819	4,366,208
Cost of goods sold	(3,845,456)	(4,076,662)
<b>Gross profit</b>	<b>284,363</b>	289,546
Other revenue	75,513	69,747
Warehousing and delivery expenses	(145,055)	(131,817)
Sales and marketing expenses	(58,835)	(69,534)
Administration expenses	(64,872)	(58,914)
Litigation settlement expense	-	(11,368)
Depreciation and amortisation	(8,517)	(7,744)
<b>Profit before financing costs and tax expense (EBIT)</b>	<b>82,597</b>	79,916
Finance income	1,424	1,685
Finance costs	(6,422)	(6,014)
<b>Net finance costs</b>	<b>(4,998)</b>	(4,329)
<b>Profit before income tax</b>	<b>77,599</b>	75,587
Income tax expense	(24,433)	(21,966)
<b>Profit for the year</b>	<b>53,166</b>	53,621
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Net change in fair value of financial asset	833	(192)
Exchange differences on translation of foreign operations	(139)	120
Income tax relating to components of other comprehensive income	(208)	22
<b>Other comprehensive income/(loss) for the year (net of tax)</b>	<b>486</b>	(50)
<b>Total comprehensive income for the year</b>	<b>53,652</b>	53,571
<b>Summary of movements in consolidated accumulated losses</b>		
Accumulated losses at the beginning of the financial period	(696,002)	(692,461)
Profit for the year	53,166	53,621
Reclassification of settled and expired share-based transactions	2,553	2,172
Dividends paid	(58,864)	(59,334)
<b>Accumulated losses at the end of the financial period</b>	<b>(699,147)</b>	(696,002)

#### (b) Balance Sheet

	2018 \$'000	2017 \$'000
<b>Current assets</b>		
Cash and cash equivalents	76,345	17,841
Trade and other receivables	575,879	565,360
Inventories	353,982	322,000
Income tax receivable	4,125	273
Prepayments	6,298	5,336
Assets classified as held for sale	9,123	-
<b>Total current assets</b>	<b>1,025,752</b>	910,810
<b>Non-current assets</b>		
Trade and other receivables	868	3,459
Property, plant and equipment	128,371	77,723
Goodwill and other intangible assets	124,654	101,553
Other financial assets	2,292	1,458
Net deferred tax assets	16,410	14,871
<b>Total non-current assets</b>	<b>272,595</b>	199,064
<b>Total assets</b>	<b>1,298,347</b>	1,109,874
<b>Current liabilities</b>		
Bank overdraft	-	32,129
Trade and other payables	542,744	494,314
Borrowings	195,000	-
Provisions	17,328	15,750
Deferred income	2,453	1,659
<b>Total current liabilities</b>	<b>757,525</b>	543,852
<b>Non-current liabilities</b>		
Other payables	344	426
Provisions	4,777	4,050
Deferred income	2,564	196
<b>Total non-current liabilities</b>	<b>7,685</b>	4,672
<b>Total liabilities</b>	<b>765,210</b>	548,524
<b>Net assets</b>	<b>533,137</b>	561,350
<b>Equity</b>		
Contributed equity	1,218,225	1,247,110
Reserves	14,059	10,242
Accumulated losses	(699,147)	(696,002)
<b>Total equity</b>	<b>533,137</b>	561,350

## Other Disclosures

This section provides information on items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements.

24. Expenditure Commitments	27. Key Management Personnel Compensation
25. Auditor's Remuneration	28. Employee Share Plans and Share-based Payments
26. Guarantees	29. Notes to the Statement of Cash Flows
	30. Summary of Other Accounting Policies

### 24. Expenditure Commitments

#### Non-cancellable Operating Leases

Assets that are the subject of operating leases include leased premises, motor vehicles, items of machinery and equipment. The lease terms for leased premises vary between five and 15 years with the majority of leases providing for additional option periods. Contingent rental provisions within the lease agreement provide for increases within the rental structure in line with the CPI and market value. The average lease term for equipment rental is between three and five years.

	2018 \$'000	2017 \$'000
<b>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</b>		
Payable not later than one year	12,059	10,132
Payable later than one year but not later than five years	23,234	26,710
Payable later than five years	5,582	8,182
<b>Total non-cancellable operating lease payments</b>	<b>40,875</b>	45,024

#### Capital Expenditure Commitments

The Group has entered contracts for capital expenditure for which no amounts have been provided to the value of \$163,197,000 at 31 January 2018 (2017: \$51,156,000).

### 25. Auditor's Remuneration

During the year the auditor of Sigma Healthcare Limited earned the following remuneration:

	2018 \$	2017 \$
<b>Auditor of the parent entity – Deloitte Touche Tohmatsu</b>		
Audit and review of financial reports of the entity or any controlled entity	371,008	377,922
<b>Total remuneration</b>	<b>371,008</b>	377,922

### 26. Guarantees

	2018 \$'000	2017 \$'000
<b>Guarantees existed at the end of year in respect of:</b>		
Other guarantees	4,993	4,978
<b>Total guarantees</b>	<b>4,993</b>	4,978

### 27. Key Management Personnel Compensation

	2018 \$	2017 \$
<b>The aggregate compensation made to Key Management Personnel of the Group is set out below:</b>		
Short-term employee benefits	3,957,035	5,134,205
Post-employment benefits	169,240	157,012
Long-term benefits	83,159	86,343
Termination payments	390,180	-
Share-based payments	1,876,154	1,523,519
<b>Total</b>	<b>6,475,768</b>	6,901,079

Key Management Personnel and detailed remuneration disclosures are provided in the Remuneration Report on pages 6 to 22. Disclosures relating to related party transactions with Directors or Key Management Personnel are set out in Note 21.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Other Disclosures continued

### 28. Employee Share Plans and Share-based Payments

#### Expenses Arising From Share-based Payment Transactions

Expenses arising from share-based payment transactions attributable to employees recognised during the period were as follows:

	2018 \$'000	2017 \$'000
<b>Share-based payment expense:</b>		
Performance rights issued under the Executive STI Plan	-	88
Shares issued under the Loan Funded Share Plan	3,051	2,373
Sign on performance rights	28	115
<b>Total</b>	<b>3,079</b>	<b>2,576</b>

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, 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.

#### Employee Share Plan

The Company's Employee Share Plan periodically offers ordinary shares to all full or part-time employees of the Group. The ordinary shares issued under the plan rank equally with all other fully paid ordinary shares on issue. Interest free loans are offered to acquire the shares. The price at which shares are issued is determined by the weighted average price of ordinary shares over the five trading days prior to and including the date of issue of shares. The Employee Share Plan is administered by Sigma Employee Share Administration Pty Ltd, a controlled entity. At balance date, 17,042,287 shares are on issue (2017: 13,309,669).

Interest free loans from Sigma Employee Share Administration Pty Ltd to employees are for a period of 10 years and are secured by the shares issued. The loans are repayable from dividends received on the shares and from voluntary loan repayments. If an employee leaves employment within the Group, he or she can repay the loan in full and acquire unrestricted ownership of the shares. If the employee does not wish to acquire the shares and repay the loan, the shares are transferred to Sigma Employee Share Administration Pty Ltd for later sale on market to repay the remaining balance of the loan.

#### Sigma Employee and Senior Executive Share Plans

Any amount of unvested shares held by the Employee Share Plan are owned by the Group until they vest and these unvested shares at cost are eliminated on consolidation within equity as shares held by the equity compensation plan. Dividends paid by Sigma Healthcare Limited on shares held by the Employee Share Plan are eliminated in full on consolidation. A transfer is made from retained earnings/accumulated losses to a separate reserve on consolidation for the amount of the dividends applied to repay the loan balance as this represents a part of the exercise price 'paid' by the employee. Dividends of forfeited shares are subsequently transferred back to retained earnings.

#### Share-based Payments

##### Executive Short Term Incentive Performance Plan

Prior to and including the year ended 31 January 2015, the structure of the executive STI Plan included a combination of cash payment and deferred equity reward. If the STI hurdle requirements (based on NPAT) were satisfied, 40% of the STI awarded was delivered by performance rights deferred for one and two years (50% per year) subject to service and forfeiture conditions. The grant price was based on the weighted average price at which the Company shares are traded on the Australian Securities Exchange over the last five trading days prior to and including the date of the grant.

From the year ended 31 January 2016, the structure of the executive STI Plan changed from a combination of cash payment and deferred equity reward to 100% cash payment. The table below summarises the movement in the number of performance rights granted under the STI Plan over the year ended 31 January 2018.

	Balance at Start of the Year	Granted During the Year	Exercised During the Year	Forfeited During the Year	Balance at End of the Year
<b>2018</b>					
Number of outstanding performance rights	-	-	-	-	-
<b>2017</b>					
Number of outstanding performance rights	365,018	-	365,018	-	-

## Executive Loan Funded Share Plan

Commencing the year ending 31 January 2012 the Company implemented a Loan Funded Share Plan for Executives and senior employees. Participants are provided an interest free limited recourse loan to purchase shares in the Company if pre-defined vesting conditions are met three years from grant date. Details of the LTI Plan are set out on pages 13 – 14 of the Remuneration Report.

The first parcel of loan funded shares was granted to the participants on 28 June 2011. The exercise price is based on the market price of shares in the Company on the date of the grant. The table below summarises the movement in the number of loan funded shares granted under the LTI Plan over the year ended 31 January 2018.

	Balance at Start of the Year	Granted During the Year	Exercised During the Year	Forfeited During the Year	Balance at End of the Year
<b>2018</b>					
Number of outstanding loan funded shares	56,965,946	15,406,673	5,958,483	3,546,649	62,867,487
Weighted average exercise price	\$0.74	\$1.20	\$0.60	\$0.97	\$0.85
<b>2017</b>					
Number of outstanding loan funded shares	63,296,151	14,481,204	19,373,944	1,437,465	56,965,946
Weighted average exercise price	\$0.66	\$0.84	\$0.58	\$0.73	\$0.74

## Other Equity Plan

### Sign on Performance Rights Granted to General Manager, Sales

Upon commencement, the General Manager Sales was awarded an equity sign on bonus of \$250,000 in the form of performance rights. 100% of the performance rights, adjusted by the movement between the grant price and exercise price, vested on 4 May 2017. The final number of performance rights vested is 289,017 and is equal to the sign on bonus value of \$250,000 divided by the exercised price of \$0.865 (based on the weighted average price at which the Company shares are traded on the Australian Securities Exchange over the last five trading days prior to and including the date of the vesting).

	Balance at Start of the Year	Granted During the Year	Exercised During the Year	Forfeited During the Year	Balance at End of the Year
<b>2018</b>					
Number of outstanding loan funded shares	294,118	-	289,017	5,101	-
<b>2017</b>					
Number of outstanding loan funded shares	294,118	-	-	-	294,118

## Fair Value of Options Granted

The fair value of options and shares at grant date is independently determined using an option pricing model developed by an external consultant engaged by the Company. The model reference for computing the fair value under loan funded shares with ROIC vesting condition is the Black-Scholes pricing model and loan funded shares with the TSR vesting condition is calculated using European barrier call pricing model.

The fair value produced by the model and the inputs into the model for the share options granted during the year and unexercised are set out in the following table.

	Loan Funded Shares – ROIC	Loan Funded Shares – TSR
Grant date	1 February 2017	1 February 2017
Fair value	\$0.35	\$0.25
<b>Inputs into the model:</b>		
Grant date share price	\$1.200	\$1.200
Exercise price	\$1.200	\$1.200
Expected volatility	30%	30%
Vesting life	3 years	3 years
Option life	5 years	5 years
Expected dividend yield	4.7%	4.7%
Risk-free interest rate	2.20%	2.20%

# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Other Disclosures continued

### 29. Notes to the Statement of Cash Flows

#### Reconciliation of Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and highly liquid investments and notes with maturity of three months or less when purchased. Cash as shown in the Statement of Cash Flows is reconciled to the related items in the Consolidated Balance Sheet as follows:

	2018 \$'000	2017 \$'000
<b>Cash and cash equivalents:</b>		
Cash and bank balances	82,249	24,403
Bank overdraft	-	(32,129)
<b>Total</b>	<b>82,249</b>	<b>(7,726)</b>

#### Reconciliation of Profit for the Year to Net Cash Flows From Operating Activities

	2018 \$'000	2017 \$'000
Profit for the year	55,386	53,506
Depreciation expense	6,004	5,601
Amortisation expense	3,083	2,686
Share-based payments expense	3,079	2,576
(Profit)/loss on sale of property, plant and equipment	(391)	245
<i>Change in assets and liabilities:</i>		
Change in inventories	(27,246)	(31,504)
Change in net taxes receivable	(7,059)	(18,150)
Change in prepayments	(237)	(340)
Change in trade and other receivables	(8,384)	59,769
Change in trade payables	51,226	65,650
Change in provisions	1,070	1,413
Change in other payables and deferred income	(5,350)	4,317
<b>Net cash flows from operating activities</b>	<b>71,181</b>	<b>145,769</b>

#### Reconciliation of Liabilities Arising from Financing Activities

	Secured Loans \$'000	Unsecured Loans \$'000	Total \$'000
<b>2017</b>			
<b>Total liability 1 February 2016</b>	74	965	1,039
Cash flow	(13)	4	(9)
Non-cash flow	-	-	-
<b>Total liability 31 January 2017</b>	61	969	1,030
<b>2018</b>			
Cash flow	194,991	(219)	194,772
Non-cash flow	-	-	-
<b>Total liability 31 January 2018</b>	<b>195,052</b>	<b>750</b>	<b>195,802</b>

### 30. Summary of Other Accounting Policies

#### New Accounting Standards and Interpretations

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised and the disclosures presented in the financial statements of the Group.

#### Standards Issued But Not Yet Effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 February 2018. Whilst earlier application is permitted, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements. The Group's assessment of the impact of these standards and interpretations is set out on the following pages.

### (a) AASB 15 Revenue from Contracts with Customers

*Mandatory and Anticipated Date of Application:* 1 February 2018

AASB 15 establishes a single comprehensive five-step model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 will supersede the current revenue recognition guidance including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and the related interpretations when it becomes effective.

The five steps in the model are:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognise revenue when (or as) the entity satisfies a performance obligation.

#### *Assessment of Impact*

The Group has assessed the impact of adopting AASB 15 on its key revenue streams and notes the following impacts:

- *Rebates and discounts payable to customers:* The Group provides both fixed and variable rebates and discounts to its franchisees and wholesale customers. As the consideration payable to these customers does not relate to distinct goods or services provided to the customer, it is required to be recorded as a reduction of revenue. This will result in some rebates requiring reclassification from cost of goods sold to revenue. AASB 15 will not impact the measurement of the Group's rebates and discounts.
- *Franchise fees:* The Group receives some franchise fees upon commencement of the franchise agreement, these amounts are currently recognised as revenue in full upon signing of the agreement. The Group has assessed that because no distinct performance obligation is satisfied at the start of the franchise agreement, these fees will need to be deferred and recognised over the life of the franchise agreement under the new standard. This impact of this change is not expected to be material.

- *Cost contributions and incentives:* The Group provides upfront incentives to franchisees upon signing of the agreement, which it currently recognises in full upon signing of the agreement. The Group has assessed that these represent incremental costs of obtaining a contract, and are to be deferred and amortised over the life of the franchise agreement. The amount deferred is not expected to be significant.
- *Return of goods:* AASB 15 requires the Group to factor into the transaction price an estimate of probable returns from franchisees and wholesale customers. The Group's existing treatment of returns will not be impacted as a result of the new standard.
- *CSO income:* The CSO is a government grant accounted for under AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. The adoption of AASB 15 will not affect the accounting for CSO income.

Additional disclosures of the following information by revenue stream will be required:

- The nature, amount, timing and uncertainty of revenue and cash flows.
- The performance obligations and the determination and allocation of the transaction price to performance obligations.
- Significant judgements applied in implementing the five-step model.

#### *Transition*

The Group will apply the standard to contracts that are not completed at 1 February 2018, with the cumulative effect of initial application being recognised as an adjustment to the opening balance of retained earnings. This adjustment is not expected to be material.

### (b) AASB 9 Financial Instruments

*Mandatory and Anticipated Date of Application:* 1 February 2018

This standard replaces 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 calculation of impairment on financial assets and new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2018

## Other Disclosures continued

### 30. Summary of Other Accounting Policies continued

#### Standards Issued But Not Yet Effective continued

##### (b) AASB 9 Financial Instruments continued

###### *Assessment of Impact*

The Group has assessed the new standard and based on its financial assets and liabilities, the key impact of the standard on the Group will be in relation to trade debtors and the assessment of the provision for doubtful debtors under the expected credit loss model.

The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes.

The Group has assessed the impact of applying the expected credit loss model and has concluded that the provision for impairment of trade receivables will increase upon the adoption of AASB 9 on 1 February 2018 due to the earlier recognition of credit losses. Additional disclosures regarding expected credit losses will also be required.

###### *Transition*

The Group will apply the standard to items not de-recognised at 1 February 2018 with the cumulative effect of initial application being recognised as an adjustment to the opening balance of retained earnings.

##### (c) AASB 16 Leases

*Mandatory and Anticipated Date of Application:* 1 February 2019

AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 *Leases* and the related interpretations when it becomes effective.

AASB 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

This standard must be implemented retrospectively, either with the restatement of comparative information or with the cumulative impact of application recognised as at 1 February 2019 under the modified retrospective approach.

AASB 16 contains several practical expedients. Under the modified retrospective approach, on a lease-by-lease basis, the right of use of an asset may be deemed to be equivalent to the liability at transition or calculated retrospectively as at inception of the lease.



### *Assessment of Impact*

As at 31 January 2018, the Group has non-cancellable operating lease commitments of \$40,875,000 (31 January 2017: \$45,024,000). The Group is in the process of completing an assessment of the impact of adoption of AASB 16 on these commitments.

The full financial impact of adopting AASB 16 has not yet been determined, however the following impacts are expected on implementation date:

- A material right-of-use asset and a lease liability will be recognised on the Balance Sheet.
- Finance costs will increase due to the impact of the interest component of the lease liability.
- Depreciation expense will increase due to depreciation of the right-of-use asset over the lease term.
- Lease rental operating expenses will reduce to close to nil.
- In the Cash Flow Statement, operating cash outflows will decrease and financing cash outflows will increase as repayment of the principal balance in the lease liability will be classified as a financing activity.

It is not practicable to provide an estimate of the financial effect on implementation until a full assessment of the potential impact is completed by the Group, although it is expected that the right-of-use asset and the lease liability will be material with respect of total assets and total liabilities.

### *Transition*

The Group expects to apply one of the modified retrospective transition options upon implementation from 1 February 2019.

There are no other standards that are not yet effective that are expected to have a material impact on the Group in the current or future reporting periods or on foreseeable future transactions.

# Directors' Declaration

For the year ended 31 January 2018

In the opinion of the Directors of Sigma Healthcare Limited:

- (a) the financial statements and notes, set out on pages 24 to 56, are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 January 2018 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards, the Corporate Regulations 2001, and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

There are reasonable grounds to believe that the Company and the controlled entities identified in Note 20 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

Within the 'About this Report' section in the Notes to the Consolidated Financial Statements is confirmation that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

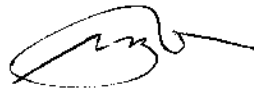
The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the year ended 31 January 2018 pursuant to Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

For and on behalf of the Board.



**Mr Brian Jamieson**  
Chairman



**Mr Mark Hooper**  
CEO and Managing Director

Melbourne  
21 March 2018

# Independent Auditor's Report

**Deloitte.**

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## Independent Auditor's Report to the members of Sigma Healthcare Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Sigma Healthcare Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated balance sheet as at 31 January 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the 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 January 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to directors of the Company, would be in the same terms if given to directors as at the time of this auditor's report.

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Recoverability of trade receivables</b> <i>Refer to note 8</i></p> <p>The Group has trade debtors of \$578.7 million as at 31 January 2018, made up of a significant number of individual pharmacies and Groups of pharmacies under common ownership.</p> <p>Significant judgement is involved by management in relation to credit risk exposures of these individual pharmacies and pharmacy Groups and losses recognised in prior periods in relation to pharmacy Groups.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the process undertaken by management to identify individual trade receivable balances that are potentially unrecoverable,</li> <li>• Reviewing the Group's Credit Committee meeting minutes and monthly reports, to identify potential individual doubtful or 'at risk' balances,</li> <li>• Challenging management's view of credit risk and recoverability for pharmacy Groups by: <ul style="list-style-type: none"> <li>◦ Assessing the completeness of management's identified overdue and 'at risk' debtors by considering historical payments, outstanding balances, receipt of payment subsequent to year end and key assumptions regarding debtors financial position,</li> <li>◦ Assessing the adequacy of the provision against the identified population of overdue and 'at risk' trade debtors, and</li> <li>◦ Assessing the historic accuracy of the provision for doubtful debtors against subsequent trade debtor write-offs.</li> </ul> </li> </ul> <p>We also assessed the appropriateness of the disclosures of the quantitative and qualitative considerations in relation to credit risk in the financial statements.</p>
<p><b>Assessment of the recoverability of goodwill</b> <i>Refer to note 12</i></p> <p>As at 31 January 2018 the group has goodwill of \$125.4 million. The recovery of goodwill is subject to a high level of judgement in determining assumptions and estimates involved in evaluating the recoverable values of the cash generating units.</p> <p>As disclosed in note 12, management applied a 'value in use' approach for all Cash Generating Units ("CGUs") except for Central Healthcare Services ("CHS") where a 'fair value less cost of disposal' approach was adopted. Under both approaches, a discounted cash flow model was prepared, which included key assumptions relating to:</p> <ul style="list-style-type: none"> <li>• Future cash flows for each CGU</li> <li>• Discount rates, and</li> <li>• Terminal value growth rates</li> </ul> <p>Changes to these assumptions can impact the recoverable amount determined for each CGU. As disclosed in note 12, the CHS CGU is more sensitive to these changes as it has lower headroom than the other CGUs.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Assessing the determination of the Group's CGUs based on our understanding of the nature of the Group's businesses and how independent cash flows are derived,</li> <li>• Testing key controls within management's impairment assessment process, including the preparation, review and board approval of cash flow forecasts supporting this process,</li> <li>• In conjunction with our valuation specialists we evaluated the key assumptions used in management's recoverable amount analysis for the CHS CGU including: <ul style="list-style-type: none"> <li>◦ Assessing the basis for management's forecast revenue, EBITDA, cash flows and terminal value growth assumptions including consideration of historical growth trends, business case analysis and support for future forecast revenue growth and cost savings and external information available via IBIS market research reports,</li> <li>◦ Assessing management's historical forecasting accuracy of the Group's operating results,</li> <li>◦ Recalculating an expected discount rate and comparing this to the rate calculated by management</li> <li>◦ Performing sensitivity analysis on the impairment model using varied discount rates and growth projections to simulate alternative market conditions and outcomes</li> </ul> </li> </ul> <p>We also assessed the appropriateness of the disclosures in the Notes to the financial statements.</p>

# Independent Auditor's Report continued

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### *Other Information*

The Directors are responsible for the other information. The other information comprises the Directors' Report, which we obtained prior to the date of this auditor's report and also includes the following information which will be included in the annual report (but does not include the financial report or our auditors report thereon): Annual Review, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Review, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

### *Responsibilities of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group to cease operations, or has no realistic alternative but to do so.

### *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## Deloitte.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### *Report on the Remuneration Report*

#### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 6 to 22 of the Directors' Report for the year ended 31 January 2018.

In our opinion, the Remuneration Report of Sigma Healthcare Limited, for the year ended 31 January 2018, complies with section 300A of the *Corporations Act 2001*.

#### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Andrew Reid  
Partner  
Chartered Accountants  
Melbourne, 21 March 2018

# Shareholder Information

## Equity Security Holders

As at 7 March 2018, the Company has 1,060,654,321 ordinary shares on issue. Further details of the Company's equity securities are as follows:

### Largest Holders

The following table shows the 20 largest registered shareholders as at 7 March 2018 (as named on the register of shareholders):

Name	Ordinary Shares	
	Number Held	% of Issued Shares
HSBC Custody Nominees (Australia) Limited	287,549,274	27.10%
Citicorp Nominees Pty Limited	147,444,394	13.89%
J P Morgan Nominees Australia Limited	119,879,408	11.29%
National Nominees Limited	46,969,285	4.42%
Sigma Employee Share Admin P/L <Holding A/C>	15,503,471	1.46%
HSBC Custody Nominees (Australia) Limited < NT-Commwlth Super Corp A/C>	11,426,590	1.08%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	10,514,474	0.99%
BNP Paribas Noms Pty Ltd <DRP>	8,553,149	0.81%
Mr Mark Robert Hooper	7,902,623	0.75%
Citicorp Nominees Pty Ltd <Colonial First State Inv A/C>	2,499,279	0.24%
Jeffrey Sells	2,191,144	0.21%
Seymour Group Pty Ltd	2,000,000	0.19%
Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	1,968,421	0.19%
Nabru Nominees Pty Limited <Nabru Nominees P/L S/F A/C>	1,798,995	0.17%
Mr Peter Urban	1,438,262	0.14%
Brian Charles Cannon + Rosalie Cannon	1,330,500	0.13%
Ryde Homes Pty Limited	1,245,667	0.12%
Invia Custodian Pty Limited <Jellicoe Pty Ltd EQF A/C>	1,172,817	0.11%
Mrs Pamela Ann Royle	1,126,606	0.11%
BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	1,115,187	0.11%
<b>Total top 20 holders</b>	<b>673,629,546</b>	<b>63.51%</b>
<b>Total other holders</b>	<b>387,024,775</b>	<b>36.49%</b>
<b>Grand total</b>	<b>1,060,654,321</b>	<b>100.00%</b>

Note: Excludes shares that are subject to trading restrictions

## Substantial Shareholders

The following table shows the substantial holders as notified to the Company in substantial holding notices as at 7 March 2018

Names	Noted Date of Change	Number of Equity Securities	Voting Power
Allan Gray Australia Pty Ltd	30 October 2017	152,342,574	14.31%
FMR LLC	4 August 2017	65,231,374	6.09%
The Vanguard Group Inc.	18 December 2017	54,238,563	5.11%

## Distribution of Equity Securities

### Holdings Distribution

Range	Number of Holders
100,001 and over	487
10,001 to 100,000	5,810
5,001 to 10,000	3,548
1,001 to 5,000	7,355
1 to 1,000	1,785
<b>Total</b>	<b>18,985</b>
Unmarketable parcels	568

# Shareholder Information continued

## Voting Rights

The voting rights attaching to each class of equity securities are set out as below:

### Ordinary Shares

Holders of ordinary shares have the right to vote at every general meeting of the Company and at separate meetings of holders of ordinary shares. At a general or separate meeting, every holder of ordinary shares present in person or by proxy has, on poll, one vote for each ordinary share held.

### Performance Rights

Performance rights were historically issued to employees as part of the Executive Short Term Incentive Plan. This ceased in the year ended 31 January 2016 and the last of the shares issued under the plan were exercised during the year ended 31 January 2017. Refer to Note 28.

Performance rights were awarded to the General Manager Sales as an equity sign on bonus. Refer to Note 28 for details. These performance rights vested on 4 May 2017.

# Five Year Summary

	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m
<b>Operating results</b>					
Sales revenue	4,129.8	4,366.2	3,461.1	3,142.1	2,973.5
EBITDA	92.8	89.2	90.3	85.6	76.6
EBIT	83.7	81.0	80.4	78.0	70.3
Profit/(loss) before tax	78.7	76.7	76.8	75.6	68.3
Profit/(loss) after tax	55.4	53.5	50.5	52.8	53.5
<b>Financial position</b>					
Working capital	378.8	387.1	490.4	455.6	416.8
Fixed assets (including intangibles)	253.9	180.6	160.1	156.0	75.4
Other assets/(liabilities)	(3.8)	(20.4)	(40.2)	(72.2)	19.1
Capital employed	628.9	547.3	610.3	539.4	511.3
Net debt/(net cash)	113.6	8.7	56.6	(33.7)	(67.5)
Net assets	515.3	538.6	553.7	573.1	578.8
<b>Shareholder related</b>					
Dividend					
– ordinary per share	5.0c	5.5c	5.0c	2.0c	4.0c
– special per share	-	-	-	1.0c	-
– total dividends (\$ million)	53.1	59.2	54.0	32.8	44.9
Earnings/(loss) per share	5.6c	5.4c	5.0c	5.1c	4.9c
Dividend payout ratio	97%	111%	107%	62%	84%
Net tangible asset backing per share	37c	41c	42c	43c	50c
Market capitalisation (year-end) (\$ million)	949	1,302	885	875	672
<b>Ratio and returns</b>					
EBIT margin <sup>1</sup>	2.0%	1.9%	2.3%	2.5%	2.4%
Gearing <sup>2</sup>	18.1%	1.6%	9.3%	n/a	n/a
Interest cover <sup>3</sup>	18.5x	20.8x	26.0x	34.8x	38.7x

1. EBIT/Sales Revenue.

2. Net debt/Capital employed (year-end). In 2014 and 2015, the Group had cash and cash equivalents over and above total debt.

3. Reported EBITDA/Net Financing Costs (times).



# Contacts

## Company Details

### Sigma Healthcare Limited

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[www.sigmahealthcare.com.au](http://www.sigmahealthcare.com.au)

## Corporate Head Office

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## Directors and Senior Management

Refer to pages 26 to 29  
in the Annual Review or visit  
[www.sigmahealthcare.com.au](http://www.sigmahealthcare.com.au)

## Company Secretary

**Sam Lawson**  
General Counsel and  
Company Secretary  
3 Myer Place  
Rowville VIC 3178 Australia

## Auditors

Deloitte Touche Tohmatsu

## Share Registry Details

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10 Hugh Edwards Drive  
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## PharmaSave Office

151–153 Clarendon Street  
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**Tel** +61 (0)3 9981 1200

## Discount Drug Stores Office

56–58 Jephson Street  
Toowong QLD 4066 Australia  
**Tel** +61 (0)7 3720 5500

## mps Office

8 Clunies Ross Court  
Eight Mile Plains QLD 4113 Australia  
**Tel** (within Australia) 1800 003 938

## Medical Industries Australia Office

87 Mars Road  
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**Tel** +61 (0)2 9490 6200  
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## Recent Dividends

Dividend	Date Paid	Cents Per Share
2018 Final	20 April 2018	2.50
2018 Interim	5 October 2017	2.50
2017 Final	21 April 2017	3.00
2017 Interim	3 October 2016	2.50
2016 Final	21 April 2016	3.00
2016 Interim	7 October 2015	2.00
2015 Special	16 April 2015	1.00
2015 Final	16 April 2015	2.00
2015 Interim	-	-.#

# Due to insufficient franking credits, no 2015 interim dividend was paid.

## Shareholder Calendar\*

2017/18 AGM	16 May 2018
Half-year results	6 September 2018
Ex-dividend date	18 September 2018
Record date	19 September 2018
Interim dividend payment	4 October 2018
Full-year results	21 March 2019
Ex-dividend date	3 April 2019
Record date	4 April 2019
Final dividend payment	18 April 2019
2018/19 AGM	15 May 2019

\* Dates may be subject to change.

## For investor, media or government enquiries in relation to Sigma

**Gary Woodford**  
Corporate Affairs Manager

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**Email** [investor.relations@sigmahealthcare.com.au](mailto:investor.relations@sigmahealthcare.com.au)







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