

EBOS GROUP LIMITED

**INTERIM REPORT
FOR THE SIX MONTHS
ENDED 31 DECEMBER 2019**

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EBOS GROUP LIMITED
INTERIM REPORT 2020
SUMMARY OF CONSOLIDATED FINANCIAL HIGHLIGHTS

	Six months 31 Dec 19 A\$'000 (unaudited)	Six months 31 Dec 18 A\$'000 (unaudited)	Year ended 30 Jun 19 A\$'000 (audited)
Revenue	4,376,127	3,496,498	6,930,360
Profit before net finance costs, tax expense, depreciation and amortisation (EBITDA)	167,205	122,566	250,410
Earnings before interest and income tax expense (EBIT)	131,355	107,318	218,349
Profit before income tax expense	115,928	94,962	193,015
Profit for the period	81,922	67,238	136,727
Profit for the period attributable to owners of the Company	81,680	67,045	137,700
Equity attributable to owners of the Company	1,284,757	1,053,285	1,242,331
Earnings per share	50.6c	44.1c	89.8c
Interim dividend per share (New Zealand dollars)	37.5c	34.5c	34.5c

SHAREHOLDER CALENDAR

Interim dividend record date	13 March 2020
Interim dividend payable	3 April 2020
Release of 2020 full year results	20 August 2020
Annual General Meeting	13 October 2020

INDEPENDENT REVIEW REPORT TO THE SHAREHOLDERS OF EBOS GROUP LIMITED

We have reviewed the condensed consolidated interim financial statements of EBOS Group Limited and its subsidiaries ('the Group') which comprise the condensed consolidated balance sheet as at 31 December 2019, and the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information on pages 3 to 21.

This report is made solely to the Group's shareholders, as a body. Our review has been undertaken so that we might state to the Group's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group's shareholders as a body, for our engagement, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors are responsible for the preparation and fair presentation of the condensed consolidated interim financial statements, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibilities

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ('NZ SRE 2410'). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting. As the auditor of EBOS Group Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the condensed consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Our firm carries out other assignments for the Group in the area of taxation advice. These services have not impaired our independence as auditor of the Group. In addition to this, partners and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. The firm has no other relationship with, or interest in, the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2019 and its financial performance and cash flows for the six months ended on that date in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

Deloitte Limited

19 February 2020
Christchurch, New Zealand

EBOS GROUP LIMITED
CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2019

	Notes	Six months 31 Dec 19 A\$'000 (unaudited)	Six months 31 Dec 18 A\$'000 (unaudited)	Year ended 30 Jun 19 A\$'000 (audited)
Revenue	2(a)	4,376,127	3,496,498	6,930,360
Income from associates		1,632	1,814	4,203
Profit before depreciation, amortisation, net finance costs and income tax expense		167,205	122,566	250,410
Depreciation	2(b)	(27,619)	(7,490)	(16,438)
Amortisation of finite life intangibles	2(b)	(8,231)	(7,758)	(15,623)
Profit before net finance costs and income tax expense		131,355	107,318	218,349
Finance income		761	942	1,927
Finance costs – borrowings		(12,291)	(13,298)	(27,261)
Finance costs – leases	9	(3,897)	-	-
Profit before income tax expense		115,928	94,962	193,015
Income tax expense		(34,006)	(27,724)	(56,288)
Profit for the period		81,922	67,238	136,727
Profit for the period attributable to:				
Owners of the Company		81,680	67,045	137,700
Non-controlling interests		242	193	(973)
		81,922	67,238	136,727
Earnings per share				
Basic (cents per share)		50.6	44.1	89.8
Diluted (cents per share)		50.6	44.1	89.8

EBOS GROUP LIMITED**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the six months ended 31 December 2019

	Six months 31 Dec 19 A\$'000 (unaudited)	Six months 31 Dec 18 A\$'000 (unaudited)	Year ended 30 Jun 19 A\$'000 (audited)
Profit for the period	81,922	67,238	136,727
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedge (losses)	(218)	(2,158)	(9,432)
Related income tax	64	714	2,784
Movement in foreign currency translation reserve	3,031	10,517	12,013
	2,877	9,073	5,365
Items that will not be reclassified subsequently to profit or loss:			
Movement on equity instruments fair valued through other comprehensive income	(2,778)	(2,593)	370
Total comprehensive income net of tax	82,021	73,718	142,462
Total comprehensive income for the period is attributable to:			
Owners of the Company	81,779	73,525	143,435
Non-controlling interests	242	193	(973)
	82,021	73,718	142,462

EBOS GROUP LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2019

	Notes	Share capital A\$'000	Share based payments reserve A\$'000	Foreign currency translation reserve A\$'000	Retained earnings A\$'000	Cash flow hedge reserve A\$'000	Equity instruments fair valued through other comprehensive income reserve A\$'000	Non-controlling interests A\$'000	Total A\$'000
Six months ended									
31 December 2018 (unaudited):									
Opening balance		763,636	2,144	(22,805)	308,499	1,442	(1,424)	21,352	1,072,844
Profit for the period		-	-	-	67,045	-	-	193	67,238
Other comprehensive income for the period, net of tax		-	-	10,517	-	(1,444)	(2,593)	-	6,480
Payment of dividends	4	-	-	-	(49,386)	-	-	-	(49,386)
Share based payments		-	882	-	-	-	-	-	882
Arising on acquisition of remaining non-controlling interest		-	-	-	-	-	-	(46,678)	(46,678)
Transfer of non-controlling interest		-	-	-	(23,228)	-	-	23,228	-
Balance at 31 December 2018		763,636	3,026	(12,288)	302,930	(2)	(4,017)	(1,905)	1,051,380

EBOS GROUP LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 31 December 2019

	Notes	Share capital A\$'000	Share based payments reserve A\$'000	Foreign currency translation reserve A\$'000	Retained earnings A\$'000	Cash flow hedge reserve A\$'000	Equity instruments fair valued through other comprehensive income reserve A\$'000	Non-controlling interests A\$'000	Total A\$'000
Year ended									
30 June 2019 (audited):									
Opening balance		763,636	2,144	(22,805)	308,499	1,442	(1,424)	21,352	1,072,844
Profit for the period		-	-	-	137,700	-	-	(973)	136,727
Other comprehensive income for the period, net of tax		-	-	12,013	-	(6,648)	370	-	5,735
Payment of dividends	4	-	-	-	(99,336)	-	-	-	(99,336)
Share based payments		-	1,793	-	-	-	-	-	1,793
Dividends reinvested	3	5,719	-	-	-	-	-	-	5,719
Institutional placement	3	165,493	-	-	-	-	-	-	165,493
Share issue costs	3	(3,037)	-	-	-	-	-	-	(3,037)
Arising on acquisition of remaining non-controlling interest		-	-	-	-	-	-	(46,678)	(46,678)
Transfer of non-controlling interest		-	-	-	(23,228)	-	-	23,228	-
Balance at 30 June 2019		931,811	3,937	(10,792)	323,635	(5,206)	(1,054)	(3,071)	1,239,260

EBOS GROUP LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 31 December 2019

	Notes	Share capital A\$'000	Share based payments reserve A\$'000	Foreign currency translation reserve A\$'000	Retained earnings A\$'000	Cash flow hedge reserve A\$'000	Equity instruments fair valued through other comprehensive income reserve A\$'000	Non-controlling interests A\$'000	Total A\$'000
Six months ended									
31 December 2019 (unaudited):									
Opening balance		931,811	3,937	(10,792)	323,635	(5,206)	(1,054)	(3,071)	1,239,260
Profit for the period		-	-	-	81,680	-	-	242	81,922
Other comprehensive income for the period, net of tax		-	-	3,031	-	(154)	(2,778)	-	99
Payment of dividends	4	-	-	-	(56,378)	-	-	-	(56,378)
Share based payments		-	1,371	-	-	-	-	-	1,371
Dividends reinvested	3	9,301	-	-	-	-	-	-	9,301
Employee shares exercised	3	6,353	-	-	-	-	-	-	6,353
Balance at 31 December 2019		947,465	5,308	(7,761)	348,937	(5,360)	(3,832)	(2,829)	1,281,928

EBOS GROUP LIMITED
CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Notes	31 Dec 19 A\$'000 (unaudited)	31 Dec 18 A\$'000 (unaudited)	30 Jun 19 A\$'000 (audited)
Current assets				
Cash and cash equivalents		274,420	152,144	166,620
Trade and other receivables		1,107,458	910,318	897,796
Prepayments		12,496	9,532	9,603
Inventories		728,726	564,602	723,517
Current tax refundable		13,774	1,229	83
Other financial assets – derivatives	8	-	807	611
Total current assets		2,136,874	1,638,632	1,798,230
Non-current assets				
Property, plant and equipment		172,992	120,934	174,463
Capital work in progress		12,343	54,452	6,508
Prepayments		517	68	650
Deferred tax assets		125,712	46,398	54,348
Goodwill		966,763	945,698	947,055
Indefinite life intangibles		123,856	123,382	123,582
Finite life intangibles		41,870	51,923	46,569
Right of use assets	9	228,408	-	-
Investment in associates		42,607	38,979	41,074
Other financial assets		7,008	6,747	9,733
Total non-current assets		1,722,076	1,388,581	1,403,982
Total assets		3,858,950	3,027,213	3,202,212
Current liabilities				
Trade and other payables		1,458,159	1,145,003	1,288,319
Bank loans	7	202,189	213,762	168,307
Lease liabilities	9	34,737	-	-
Current tax payable		20,375	14,995	12,883
Employee benefits		35,071	35,890	40,805
Other financial liabilities – derivatives	8	10,324	3,639	10,717
Total current liabilities		1,760,855	1,413,289	1,521,031
Non-current liabilities				
Bank loans	7	464,209	490,370	364,038
Lease liabilities	9	205,999	-	-
Trade and other payables		3,355	14,406	13,941
Deferred tax liabilities		135,715	51,276	57,330
Employee benefits		6,889	6,492	6,612
Total non-current liabilities		816,167	562,544	441,921
Total liabilities		2,577,022	1,975,833	1,962,952
Net assets		1,281,928	1,051,380	1,239,260
Equity				
Share capital	3	947,465	763,636	931,811
Share based payments reserve		5,308	3,026	3,937
Foreign currency translation reserve		(7,761)	(12,288)	(10,792)
Retained earnings		348,937	302,930	323,635
Cash flow hedge reserve		(5,360)	(2)	(5,206)
Equity instruments fair valued through OCI		(3,832)	(4,017)	(1,054)
Equity attributable to owners of the company		1,284,757	1,053,285	1,242,331
Non-controlling interests		(2,829)	(1,905)	(3,071)
Total equity		1,281,928	1,051,380	1,239,260

EBOS GROUP LIMITED
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2019

Notes	Six months 31 Dec 19 A\$'000 (unaudited)	Six months 31 Dec 18 A\$'000 (unaudited)	Year ended 30 Jun 19 A\$'000 (audited)
Cash flows from operating activities			
Receipts from customers	4,204,450	3,556,358	7,032,507
Interest received	761	942	1,927
Dividends received from associates	315	959	1,394
Payments to suppliers and employees	(4,082,531)	(3,479,059)	(6,834,753)
Taxes paid	(32,579)	(25,647)	(55,271)
Interest paid	(16,188)	(13,298)	(27,261)
Net cash inflow from operating activities	5 74,228	40,255	118,543
Cash flows from investing activities			
Sale of property, plant & equipment	346	98	7,703
Purchase of property, plant & equipment	(5,429)	(11,189)	(27,239)
Payments for capital work in progress	(6,018)	(5,013)	(5,735)
Payments for intangible assets	(2,583)	(795)	(1,227)
Acquisition of subsidiaries	(30,261)	(92,389)	(93,445)
Investment in other financial assets	-	(110)	(110)
Net cash (outflow) from investing activities	(43,945)	(109,398)	(120,053)
Cash flows from financing activities			
Proceeds from issue of shares	15,654	-	168,175
Proceeds from borrowings	132,972	128,361	23,077
Repayment of borrowings	-	(9,169)	(74,955)
Repayment of lease liabilities	9 (15,451)	-	-
Dividends paid to equity holders of parent	4 (55,508)	(50,138)	(99,932)
Net cash inflow from financing activities	77,667	69,054	16,365
Net increase/(decrease) in cash held	107,950	(89)	14,855
Effect of exchange rate fluctuations on cash held during the period	(150)	2,364	1,896
Net cash and cash equivalents at beginning of period	166,620	149,869	149,869
Net cash and cash equivalents at end of period	274,420	152,144	166,620

EBOS GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2019

1. FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice ("GAAP"). They comply with the New Zealand Equivalent to International Accounting Standard 34 (NZ IAS 34) "Interim Financial Reporting" and International Accounting Standard IAS 34, as applicable for profit orientated entities. These financial statements should be read in conjunction with the financial statements and related notes included in the Group's Annual Report for the year ended 30 June 2019.

Apart from the changes noted below in relation to the adoption of NZ IFRS 16 'Leases' the accounting policies and methods of computation adopted are consistent with those of the previous year.

During the current period, effective from 1 July 2019, the Group has adopted NZ IFRS 16 which has had a material impact on these financial statements (refer to Note 9).

NZ IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The distinction between operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lessee accounting, and is 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 less accumulated depreciation and impairment losses, adjusted for any remeasurement 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, among others.

Furthermore, the classification of cash flows will also be affected as operating lease payments under NZ IAS 17 'Leases' are presented as operating cash flows; whereas under the NZ IFRS 16 model, the lease payments will be split into a principal and an interest portion, which will be presented as financing and operating cash flows respectively.

The Group has applied NZ IFRS 16 from 1 July 2019 using the modified retrospective full simplified transition method and the practical expedient that the right-to-use asset will match the lease liability. Comparative periods presented have not been restated in accordance with the transition method adopted.

Leases of less than 12 months duration and low value asset leases will continue to be recognised on a straight line basis.

The information is presented in thousands of Australian dollars unless otherwise stated.

EBOS GROUP LIMITED**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**

For the six months ended 31 December 2019

2. PROFIT FROM OPERATIONS

	Six months 31 Dec 19 A\$'000 (unaudited)	Six months 31 Dec 18 A\$'000 (unaudited)	Year ended 30 Jun 19 A\$'000 (audited)
(a) Revenue			
Community Pharmacy	2,561,903	1,892,192	3,704,123
Institutional Healthcare	1,252,258	1,147,762	2,292,697
Contract Logistics Services	36,225	30,156	63,012
Contract Logistics Sales	310,148	211,711	454,987
Consumer Products	57,905	59,618	113,931
Interdivisional eliminations	(52,935)	(37,247)	(80,434)
Healthcare	4,165,504	3,304,192	6,548,316
Animal Care	210,623	192,306	382,044
	4,376,127	3,496,498	6,930,360

EBOS GROUP LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 31 December 2019

2. PROFIT FROM OPERATIONS (Continued)

	Six months 31 Dec 19 A\$'000 (unaudited)	Six months 31 Dec 18 A\$'000 (unaudited)	Year ended 30 Jun 19 A\$'000 (audited)
(b) Profit before income tax expense			
Profit before income tax has been arrived at after charging the following expenses by nature:			
One-off items (1)	(1,240)	(8,820)	(11,212)
Cost of sales	(3,924,743)	(3,090,157)	(6,121,500)
Write-down of inventory	(1,976)	(1,512)	(2,570)
Impairment (loss)/gain on trade & other receivables	(617)	671	341
Depreciation of property, plant & equipment	(9,480)	(7,490)	(16,438)
Depreciation on right of use assets	(18,139)	-	-
Amortisation of finite life intangibles	(8,231)	(7,758)	(15,623)
Lease rental expenses	(2,515)	(21,513)	(42,796)
Donations	(45)	(15)	(210)
Employee benefit expense	(145,443)	(139,397)	(283,024)
Defined contribution plan expense	(8,578)	(8,026)	(15,985)
Other expenses	(125,397)	(106,977)	(207,197)
Total expenses	(4,246,404)	(3,390,994)	(6,716,214)

- (1) One-off items comprise merger and acquisition costs (31 December 2019). One-off items comprise merger and acquisition costs, warehouse transition and restructuring costs incurred net of a \$2.9m gain on the sale of excess land held (31 December 2018 and 30 June 2019).

3. SHARE CAPITAL

	No. '000	Six months 31 Dec 19 A\$'000 (unaudited)	No. '000	Six months 31 Dec 18 A\$'000 (unaudited)	No. '000	Year ended 30 Jun 19 A\$'000 (audited)
Fully paid ordinary shares						
Balance at beginning of period	161,708	931,811	152,539	763,636	152,539	763,636
Dividend reinvested – April 2019	-	-	-	-	286	5,719
October 2019	415	9,301	-	-	-	-
Institutional placement – May 2019	-	-	-	-	8,883	165,493
Placement costs	-	-	-	-	-	(3,037)
Shares vested under the long-term executive incentive scheme	-	6,353	-	-	-	-
	162,123	947,465	152,539	763,636	161,708	931,811

EBOS GROUP LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 31 December 2019

4. DIVIDENDS

	AUD Cents per share	Six months 31 Dec 19 A\$'000 (unaudited)	AUD Cents per share	Six months 31 Dec 18 A\$'000 (unaudited)	AUD Cents per share	Year ended 30 Jun 19 A\$'000 (audited)
Recognised amounts						
Fully paid ordinary shares						
Final – prior year	35.0	56,378	32.4	49,057	32.4	49,057
Interim dividend	-	-	-	-	33.2	50,279
	35.0	56,378	32.4	49,057	65.6	99,336
Unrecognised amounts						
Final dividend	-	-	-	-	35.4	57,205
Interim dividend	36.1	58,468	32.8	50,100	-	-
	36.1	58,468	32.8	50,100	35.4	57,205

Dividends are approved by the Board in New Zealand dollars. Dividends recognised in the Statement of Changes in Equity are converted from New Zealand dollars to Australian Dollars at the exchange rate applicable on the date the dividend was approved. Unrecognised dividends are converted at the exchange rate applicable on the reporting date. The Board approved an interim dividend of 37.5 New Zealand cents per share on 19 February 2020. The record date for the dividend is 13 March 2020 and the dividend will be paid on 3 April 2020.

The following table shows dividends approved in New Zealand dollars:

	NZD Cents per share	NZD Cents per share	NZD Cents per share
Recognised amounts			
Fully paid ordinary shares			
Final – prior year	37.0	35.5	35.5
Interim dividend	-	-	34.5
	37.0	35.5	70.0
Unrecognised amounts			
Final dividend	-	-	37.0
Interim dividend	37.5	34.5	-
	37.5	34.5	37.0

New Zealand dollar dividends paid to equity holders of the parent are translated into Australian dollars and disclosed in the cash flow statement at the foreign currency exchange rate applicable on the date they are paid.

EBOS GROUP LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 31 December 2019

5. NOTES TO THE CASH FLOW STATEMENT

	Six months 31 Dec 19 A\$'000 (unaudited)	Six months 31 Dec 18 A\$'000 (unaudited)	Year ended 30 Jun 19 A\$'000 (audited)
Reconciliation of profit for the period with cash flows from operating activities			
Profit for the period	81,922	67,238	136,727
Add/(less) non-cash items:			
Depreciation of property, plant & equipment	9,480	7,490	16,438
Depreciation on right of use assets	18,139	-	-
Amortisation of finite life intangibles	8,231	7,758	15,623
Loss/(gain) on sale of property, plant & equipment	51	(2,856)	(2,267)
Income from associates	(1,632)	(1,814)	(4,203)
Expense recognised in respect of share based payments	1,371	585	1,793
Deferred tax	8,227	955	3,061
	<u>43,867</u>	<u>12,118</u>	<u>30,445</u>
Movements in working capital:			
Trade and other receivables	(209,662)	6,543	19,065
Prepayments	(2,760)	(559)	(1,212)
Inventories	(5,209)	(29,520)	(188,435)
Current tax refundable/(payable)	(6,199)	2,394	1,428
Trade and other payables	159,254	(24,192)	118,648
Provision for employee benefits	(5,457)	(4,286)	749
Foreign currency translation of opening working capital balances	158	555	(1,201)
	<u>(69,875)</u>	<u>(49,065)</u>	<u>(50,958)</u>
Balances classified as investing activities	9,610	4,152	(2,951)
Working capital items acquired on acquisition	8,704	5,812	5,280
Net cash inflow from operating activities	<u>74,228</u>	<u>40,255</u>	<u>118,543</u>

EBOS GROUP LIMITED
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 31 December 2019

6. SEGMENT INFORMATION
(a) Products and services from which reportable segments derive their revenues

The Group's reportable segments under NZ IFRS 8 'Operating Segments' are as follows:

Healthcare: Incorporates the sale of human healthcare products to Community Pharmacy, Institutional Healthcare, Contract Logistics and Consumer Products customers.

Animal care: Incorporates the sale of animal care products in a range of sectors, own brands, retail and wholesale activities.

Corporate: Includes net financing costs and central administration expenses that have not been allocated to either the healthcare or animal care segments.

(b) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

	Six months 31 Dec 19 A\$'000 (unaudited)	Six months 31 Dec 18 A\$'000 (unaudited)	Year ended 30 Jun 19 A\$'000 (audited)
Revenue from external customers			
Healthcare	4,165,504	3,304,192	6,548,316
Animal care	210,623	192,306	382,044
	<u>4,376,127</u>	<u>3,496,498</u>	<u>6,930,360</u>
Segment result (EBITDA)			
Healthcare	145,833	104,270	215,949
Animal care	28,490	24,319	48,271
Corporate	(7,118)	(6,023)	(13,810)
	<u>167,205</u>	<u>122,566</u>	<u>250,410</u>
Segment expenses			
Healthcare:			
Depreciation	(24,037)	(7,111)	(15,698)
Amortisation of finite life intangibles	(7,224)	(6,679)	(13,464)
Income tax expense	(33,710)	(26,541)	(54,628)
	<u>(64,971)</u>	<u>(40,331)</u>	<u>(83,790)</u>
Animal care:			
Depreciation	(3,010)	(379)	(740)
Amortisation of finite life intangibles	(1,007)	(1,079)	(2,159)
Income tax expense	(6,789)	(6,408)	(12,327)
	<u>(10,806)</u>	<u>(7,866)</u>	<u>(15,226)</u>
Corporate:			
Depreciation	(572)	-	-
Net finance costs	(15,427)	(12,356)	(25,334)
Income tax credit	6,493	5,225	10,667
	<u>(9,506)</u>	<u>(7,131)</u>	<u>(14,667)</u>
Profit for the period			
Healthcare	80,862	63,939	132,159
Animal care	17,684	16,453	33,045
Corporate	(16,624)	(13,154)	(28,477)
	<u>81,922</u>	<u>67,238</u>	<u>136,727</u>

EBOS GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 31 December 2019

6. SEGMENT INFORMATION (Continued)

The accounting policies of the reportable segments are consistent with the Group's accounting policies. Segment result represents profit before depreciation, amortisation, net finance costs and tax. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(c) Segment assets

The following balance sheet and cash flow items are not allocated to operating segments as they are not reported to the chief operating decision maker at a segment level:

- Assets
- Liabilities
- Capital expenditure

(d) Revenues from major products and services

The Group's major products and services are transacted the same as its reportable segments i.e. healthcare, animal care and corporate.

(e) Geographical information

The Group operates in two principal geographical areas; New Zealand (country of domicile) and Australia.

The Group's revenue from external customers by geographical location (of the reportable segment) and information about its segment assets (non-current assets excluding investments in associates and deferred tax assets) are detailed below:

	Six months 31 Dec 19 A\$'000 (unaudited)	Six months 31 Dec 18 A\$'000 (unaudited)	Year ended 30 Jun 19 A\$'000 (audited)
Revenue from external customers			
New Zealand	861,857	784,418	1,585,227
Australia	3,514,270	2,712,080	5,345,133
	<u>4,376,127</u>	<u>3,496,498</u>	<u>6,930,360</u>
Non-current assets			
New Zealand	362,616	290,966	294,029
Australia	1,191,141	1,012,238	1,014,531
	<u>1,553,757</u>	<u>1,303,204</u>	<u>1,308,560</u>

7. BANK FACILITY AND BORROWINGS

The Group fully complies with and operates within the financial covenants under the arrangements with its bankers.

At 31 December 2019 the Group had unutilised term and working capital facilities of \$171.9m (December 2018: \$143.6m, June 2019: \$270.9m).

The Group also has a trade debtor securitisation facility of which \$198.0m was unutilised at 31 December 2019 (December 2018: \$186.2m, June 2019: \$231.7m).

EBOS GROUP LIMITED**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**

For the six months ended 31 December 2019

7. BANK FACILITY AND BORROWINGS (Continued)

As at 31 December 2019, the maturity profile of the Group's term debt and securitisation facilities was:

Facility	Amount	Maturity
Term debt and working capital facilities	\$192.3m	Less than 1 year
Term debt facilities	\$151.0m	1-2 years
Term debt facilities	\$293.0m	3-4 years
Securitisation facility	\$400.0m	1-2 years

8. FINANCIAL INSTRUMENTS

The Group enters into foreign currency forward exchange contracts to hedge trading transactions, including anticipated transactions, denominated in foreign currencies and uses interest rate swaps to manage cash flow interest rate risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as cashflow hedges of highly probable forecast transactions.

	Six months 31 Dec 19 A\$'000 (unaudited)	Six months 31 Dec 18 A\$'000 (unaudited)	Year ended 30 Jun 19 A\$'000 (audited)
Fair value of derivative financial instruments			
Other financial assets – derivatives:			
Foreign currency forward exchange contracts	-	807	611
	-	807	611
Other financial liabilities – derivatives:			
Foreign currency forward exchange contracts	(454)	(182)	(40)
Interest rate swaps	(9,870)	(3,457)	(10,677)
	(10,324)	(3,639)	(10,717)

The Group has categorised these derivatives, both financial assets and financial liabilities, as Level 2 under the fair value hierarchy contained within NZ IFRS 13 'Fair Value Measurement'.

The fair value of foreign currency forward exchange contracts is determined using a discounted cashflow valuation. Key inputs include observable forward exchange rates, at the measurement date, with the resulting value discounted back to present values.

Interest rate swaps are valued using a discounted cash flow valuation. Key inputs for the valuation of interest rate swaps are the estimated future cash flows based on observable yield curves at the end of the reporting period, discounted at a rate that reflects the credit risk of the various counterparties.

There have been no changes in valuation techniques used for either foreign currency forward exchange contracts or interest rate swaps during the current reporting period.

For the six months ended 31 December 2019

9. IMPACT OF NEW ACCOUNTING STANDARDS

NZ IFRS 16 'Leases'

The Group has adopted NZ IFRS 16 with a date of initial application of 1 July 2019. NZ IFRS 16 (replaces NZ IAS 17) sets out the principal for the recognition, measurement, presentation and disclosure of leases. It requires lessees to account for all leases under a single on balance sheet model, similar to accounting for finance leases under NZ IAS 17.

The adoption of NZ IFRS 16 results in the Group recognising a right-of-use (ROU) asset and corresponding liability for all leases with a term of more than 12 months, excluding low value assets. Operating lease expense is replaced by depreciation expense on the ROU assets and interest expense on the lease liability as they amortise.

The Group has applied the modified retrospective full simplified transition method. At 1 July 2019, lease liabilities were measured at present value of the remaining lease payments, discounted at the incremental borrowing rate (IBR) as at 1 July 2019. ROU assets are measured equal to lease liabilities, adjusted for initial direct costs incurred when entering into the leases, less any incentives received on commencement date. Comparative periods were not restated.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payment, less incentives receivable,
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date,
- the amount expected to be payable by the lessee under residual value guarantees,
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options, and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related ROU asset) whenever:

- the lease term has changed or if there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using the relevant revised discount rate,
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate, and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The ROU assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date less any lease incentives receivable and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located and restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and a corresponding amount added to the ROU asset.

ROU assets are depreciated over the shorter period of either the lease term or the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the ROU asset reflects that the Group expects to exercise a purchase option, the related ROU asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement of the date of lease.

The ROU assets are presented as a separate line in the consolidated statement of financial position.

For the six months ended 31 December 2019

9. IMPACT OF NEW ACCOUNTING STANDARDS (Continued)

NZ IFRS 16 ‘Leases’

The Group applies NZ IAS 36 *Impairment of Assets* to determine whether a ROU asset is impaired and accounts for any identified impairment loss under this standard.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the ROU asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line “other expenses” in the statement of comprehensive income.

As a practical expedient, NZ IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease associated non-lease components as a single arrangement.

The lease expense that would previously be recorded as an operating expense moved from being included in operating expenses, to depreciation and finance expense from 1 July 2019.

The impact on net earnings before income tax of an individual lease over its term remains the same, however, the new standard results in a higher expense in early years, and lower in later years of a lease, as compared to the straight line expense profile of an operating lease under NZ IAS 17.

The aggregate lease liability and ROU asset recognised in the statement of financial position as at 1 July 2019 and the Group’s operating lease commitment at 30 June 2019 can be reconciled as follows:

	A\$’000
	(unaudited)
Lease liability recognised on transition	
Future minimum lease payments under non-cancellable operating leases as at 30 June 2019	193,402
Future lease payments on renewal options that are reasonably certain	93,756
Effect of discounting	<u>(41,537)</u>
Lease liability as at 1 July 2019	<u>245,621</u>
	A\$’000
	(unaudited)
Right of Use Asset recognised on transition	
Land and buildings	225,624
Office, Plant and equipment	8,576
Motor Vehicles	<u>2,746</u>
Right of Use Assets as at 1 July 2019	<u>236,946</u>

In applying the modified retrospective approach, the Group has taken advantage of the following practical expedients:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics,
- leases with a term of less than 12 months have been considered short-term leases,
- leases with a remaining term of twelve months or less from the date of application have been accounted for as short term leases even though the initial term of the leases from lease commencement date may have been more than twelve months, and
- a lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

EBOS GROUP LIMITED**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**

For the six months ended 31 December 2019

10. ACQUISITION INFORMATION

The following material acquisition of subsidiaries took place during the period.

On 30 September 2019 EBOS Group Limited, through its subsidiary EBOS Medical Devices Australia Pty Ltd, acquired the 100% equity interest in LMT Surgical Pty Ltd and National Surgical Pty Ltd (LMT Group).

Details of the acquisition are as follows:

Assets and liabilities acquired:

	Carrying Value A\$'000 (unaudited)	Fair value adjustment A\$'000 (unaudited)	Fair value on acquisition A\$'000 (audited)
Current assets			
Trade and other receivables	4,265	(255) ¹	4,010
Prepayments	746	-	746
Inventories	14,070	(1,371) ²	12,699
Current tax refundable	138	-	138
Non-current assets			
Property, plant and equipment	2,684	(703) ³	1,981
Deferred tax assets	263	795 ⁴	1,058
Right of use assets	4,077	-	4,077
Current liabilities			
Bank overdraft	(1,352)	-	(1,352)
Trade and other payables	(6,960)	(323) ⁵	(7,283)
Lease liabilities	(4,219)	-	(4,219)
Current tax payable	(82)	-	(82)
Employee benefits	(1,390)	-	(1,390)
Non-current liabilities			
Bank loans	(996)	-	(996)
Deferred tax liabilities	(17)	-	(17)
Net assets acquired	11,227	(1,857)	9,370
Goodwill on acquisition			19,710
Total consideration			29,080
Less deferred consideration			(3,500)
Plus bank overdraft acquired			1,352
Net cash outflow from acquisition			26,932

1. To recognise the fair value of trade and other receivables on acquisition.

2. To recognise the fair value of inventory on acquisition.

3. To recognise the fair value of property, plant and equipment on acquisition.

4. To recognise deferred tax assets on acquisition.

5. To recognise the fair value of trade and other payables on acquisition.

Due to the timing of the acquisition the above figures have not yet been finalised and are currently considered provisional.

EBOS GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 31 December 2019

10. ACQUISITION OF SUBSIDIARIES (Continued)

Goodwill arising on acquisition

Goodwill arose on the acquisition of LMT Group because the cost of acquisition included a control premium paid. In addition, goodwill resulted from the consideration paid for the benefit of future expected cash flows above the current fair value of the assets acquired and the expected synergies and future market benefits expected to be obtained. These benefits are not recognised separately from goodwill as the expected future economic benefits arising cannot be reliably measured and they do not meet the definition of identifiable intangible assets.

LMT Group was acquired as it is a profitable Australasian medical device business which the Group believes fits strategically with its Australasian healthcare business assets.

Due to the timing of the acquisition, LMT Group's revenue and profit for the period are considered immaterial to the Group.

The acquisition of subsidiaries balance (\$30.3m) included in the Condensed Consolidated Cash Flow Statement includes deferred consideration payments of \$3.4m in relation to prior period acquisitions.

11. EVENTS AFTER BALANCE DATE

Subsequent to 31 December 2019, the Board approved an interim dividend to shareholders. For further details please refer to Note 4.

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Please assist our registrar by quoting your CSN or shareholder number.