

EBOS GROUP LIMITED

**INTERIM REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2016**

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EBOS GROUP LIMITED
INTERIM REPORT 2017
SUMMARY OF CONSOLIDATED FINANCIAL HIGHLIGHTS

	Six months 31 Dec 16 \$'000 (Unaudited)	Six months 31 Dec 15 \$'000 (Unaudited)	Year ended 30 Jun 16 \$'000 (Audited)
Revenue	3,960,204	3,379,749	7,101,455
Earnings before net finance costs, tax expense, depreciation and amortisation (EBITDA)	119,868	113,725	225,475
Earnings before interest and tax expense (EBIT)	107,534	101,419	200,785
Profit before income tax expense	98,602	91,744	180,715
Profit for the period	69,269	64,170	126,997
Profit for the period attributable to owners of the Company	68,785	64,170	126,997
Equity attributable to owners of the Company	1,108,189	1,070,248	1,087,277
Earnings per share	45.4c	42.5c	84.0c
Interim dividend per share	30.0c	26.0c	26.0c
Net interest bearing debt to net interest bearing debt plus equity	20.3%	26.2%	18.5%

SHAREHOLDER CALENDAR

Release of half year result	22 February 2017
Interim dividend record date	17 March 2017
Interim dividend payable	7 April 2017
Release of full year result	24 August 2017
Annual General Meeting	17 October 2017

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 2016, and the condensed consolidated income statement, 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 16.

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 on behalf of the Group 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.

Other than in our capacity as auditor and the provision of due diligence, taxation advisory services and information technology services, we have no relationship with or interests in EBOS Group Limited or its subsidiaries. These services have not impaired our independence as auditor of 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 2016 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

Chartered Accountants

21 February 2017

Christchurch, New Zealand

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EBOS GROUP LIMITED
CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2016

	Notes	Six months 31 Dec 16 \$'000 (Unaudited)	Six months 31 Dec 15 \$'000 (Unaudited)	Year ended 30 Jun 16 \$'000 (Audited)
Revenue	2(a)	3,960,204	3,379,749	7,101,455
Income from associates	2(b)	1,948	1,852	3,823
Profit before depreciation, amortisation, net finance costs and income tax expense		119,868	113,725	225,475
Depreciation	2(b)	(6,519)	(6,416)	(12,933)
Amortisation of finite life intangibles	2(b)	(5,815)	(5,890)	(11,757)
Profit before net finance costs and income tax expense		107,534	101,419	200,785
Finance income	2(b)	1,219	1,404	2,503
Finance costs	2(b)	(10,151)	(11,079)	(22,573)
Net finance costs	2(b)	(8,932)	(9,675)	(20,070)
Profit before income tax expense	2(b)	98,602	91,744	180,715
Income tax expense		(29,333)	(27,574)	(53,718)
Profit for the period		69,269	64,170	126,997
Profit for the period attributable to:				
Owners of the Company		68,785	64,170	126,997
Non-controlling interests		484	-	-
		69,269	64,170	126,997
Earnings per share				
Basic (cents per share)		45.4	42.5	84.0
Diluted (cents per share)		45.4	42.5	84.0

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

For the six months ended 31 December 2016

	Six months 31 Dec 16 \$'000 (Unaudited)	Six months 31 Dec 15 \$'000 (Unaudited)	Year ended 30 Jun 16 \$'000 (Audited)
Profit for the period	69,269	64,170	126,997
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedge gains/(losses)	5,074	(1,615)	(4,017)
Related income tax	(1,470)	452	1,283
Translation of foreign operations	(2,270)	(14,000)	(18,885)
Total comprehensive income net of tax	70,603	49,007	105,378
Total comprehensive income for the period is attributable to:			
Owners of the Company	70,119	49,007	105,378
Non-controlling interests	484	-	-
	70,603	49,007	105,378

EBOS GROUP LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2016

	Notes	Share capital \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Cash flow hedge reserve \$'000	Non- controlling interests \$'000	Total \$'000
Six months ended								
31 December 2015 (unaudited):								
Opening balance		880,628	-	(17,876)	189,595	(1,319)	-	1,051,028
Profit for the period		-	-	-	64,170	-	-	64,170
Other comprehensive income for the period, net of tax		-	-	(14,000)	-	(1,163)	-	(15,163)
Payment of dividends	4	-	-	-	(37,672)	-	-	(37,672)
Dividends re-invested	3	7,885	-	-	-	-	-	7,885
Balance at 31 December 2015		888,513	-	(31,876)	216,093	(2,482)	-	1,070,248
Year ended								
30 June 2016 (audited):								
Opening balance		880,628	-	(17,876)	189,595	(1,319)	-	1,051,028
Profit for the year		-	-	-	126,997	-	-	126,997
Other comprehensive income for the year, net of tax		-	-	(18,885)	-	(2,734)	-	(21,619)
Payment of dividends	4	-	-	-	(77,014)	-	-	(77,014)
Dividends re-invested	3	7,885	-	-	-	-	-	7,885
Balance at 30 June 2016		888,513	-	(36,761)	239,578	(4,053)	-	1,087,277

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

For the six months ended 31 December 2016

	Notes	Share capital \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Cash flow hedge reserve \$'000	Non- controlling interests \$'000	Total \$'000
Six months ended								
31 December 2016 (unaudited):								
Opening balance		888,513	-	(36,761)	239,578	(4,053)	-	1,087,277
Profit for the period		-	-	-	68,785	-	484	69,269
Other comprehensive income for the period, net of tax		-	-	(2,270)	-	3,604	-	1,334
Payment of dividends	4	-	-	-	(49,372)	-	-	(49,372)
Arising on acquisition of subsidiaries		-	-	-	-	-	20,303	20,303
Share based payments		-	165	-	-	-	-	165
Effect of exchange rate fluctuations		-	-	-	-	-	(412)	(412)
Balance at 31 December 2016		888,513	165	(39,031)	258,991	(449)	20,375	1,128,564

EBOS GROUP LIMITED
CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Notes	31 Dec 16 \$'000 (Unaudited)	31 Dec 15 \$'000 (Unaudited)	30 Jun 16 \$'000 (Audited)
Current assets				
Cash and cash equivalents		175,679	115,810	120,251
Trade and other receivables		1,134,832	869,559	1,320,387
Prepayments		9,093	6,671	8,234
Inventories		596,174	548,776	578,513
Current tax refundable		83	88	83
Other financial assets – derivatives	8	576	468	-
Total current assets		1,916,437	1,541,372	2,027,468
Non-current assets				
Property, plant and equipment		106,914	102,884	97,973
Capital work in progress		8,303	-	6,494
Prepayments		209	330	234
Deferred tax assets		43,730	44,547	47,043
Goodwill		859,858	828,922	829,163
Indefinite life intangibles		107,316	92,058	91,147
Finite life intangibles		56,263	61,779	55,341
Investment in associates		34,480	35,576	36,778
Other financial assets		-	-	1,255
Total non-current assets		1,217,073	1,166,096	1,165,428
Total assets		3,133,510	2,707,468	3,192,896
Current liabilities				
Trade and other payables		1,424,184	1,028,647	1,611,611
Finance leases		118	540	143
Bank loans	7	188,866	307,970	106,976
Current tax payable		12,862	13,577	18,203
Employee benefits		34,134	29,368	35,598
Other financial liabilities – derivatives	8	4,154	6,638	8,652
Total current liabilities		1,664,318	1,386,740	1,781,183
Non-current liabilities				
Bank loans	7	274,778	186,458	260,672
Trade and other payables		14,297	10,324	12,926
Deferred tax liabilities		46,622	48,936	46,120
Finance leases		-	109	36
Employee benefits		4,931	4,653	4,682
Total non-current liabilities		340,628	250,480	324,436
Total liabilities		2,004,946	1,637,220	2,105,619
Net assets		1,128,564	1,070,248	1,087,277
Equity				
Share capital	3	888,513	888,513	888,513
Share based payments reserve		165	-	-
Foreign currency translation reserve		(39,031)	(31,876)	(36,761)
Retained earnings		258,991	216,093	239,578
Cash flow hedge reserve		(449)	(2,482)	(4,053)
Equity attributable to owners of the company		1,108,189	1,070,248	1,087,277
Non-controlling interests		20,375	-	-
Total equity		1,128,564	1,070,248	1,087,277

EBOS GROUP LIMITED
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2016

Notes	Six months 31 Dec 16 \$'000 (Unaudited)	Six months 31 Dec 15 \$'000 (Unaudited)	Year ended 30 Jun 16 \$'000 (Audited)
Cash flows from operating activities			
Receipts from customers	4,146,399	3,280,499	6,536,472
Interest received	1,219	1,404	2,503
Dividends received from associates	682	590	1,113
Payments to suppliers and employees	(4,053,068)	(3,195,047)	(6,238,864)
Taxes paid	(37,218)	(29,812)	(54,529)
Interest paid	(10,151)	(11,079)	(22,573)
Net cash inflow from operating activities	47,863	46,555	224,122
Cash flows from investing activities			
Sale of property, plant & equipment	45	5,046	5,209
Purchase of property, plant & equipment	(13,471)	(5,853)	(9,771)
Payments for capital work in progress	(1,852)	-	(6,494)
Payments for intangible assets	(670)	(958)	(1,354)
Acquisition of associates	-	(1,107)	(1,107)
Acquisition of subsidiaries	(11,961)	(89,457)	(89,724)
Investment in other financial assets	-	-	(1,255)
Net cash (outflow) from investing activities	(27,909)	(92,329)	(104,496)
Cash flows from financing activities			
Proceeds from issue of shares	-	7,885	7,885
Proceeds from borrowings	85,848	84,429	-
Repayment of borrowings	-	-	(36,061)
Dividends paid to equity holders of parent	(49,372)	(37,672)	(77,014)
Net cash inflow/(outflow) from financing activities	36,476	54,642	(105,190)
Net increase in cash held	56,430	8,868	14,436
Effect of exchange rate fluctuations on cash held during the period	(1,002)	(2,579)	(3,706)
Net cash and cash equivalents at beginning of period	120,251	109,521	109,521
Net cash and cash equivalents at end of period	175,679	115,810	120,251

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

For the six months ended 31 December 2016

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.

During the period the Group recognised a non-controlling interest in a subsidiary acquired. The fair value of the non-controlling interest was measured as the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Aside from this new policy the same accounting policies and methods of computation are applied in the interim financial statements as were applied in the financial statements for the year ended 30 June 2016. 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 2016. The information is presented in thousands of New Zealand dollars unless otherwise stated.

2. PROFIT FROM OPERATIONS

	Six months 31 Dec 16 \$'000 (Unaudited)	Six months 31 Dec 15 \$'000 (Unaudited)	Year ended 30 Jun 16 \$'000 (Audited)
(a) Revenue			
Revenue from the sale of goods	3,890,309	3,326,984	6,989,949
Revenue from the rendering of services	69,895	52,765	111,506
	<u>3,960,204</u>	<u>3,379,749</u>	<u>7,101,455</u>
(b) Profit before income tax expense			
Profit before income tax has been arrived at after crediting/(charging) the following gains and losses from operations:			
Gain/(loss) on sale of property, plant and equipment	2	(191)	(274)
Change in fair value of derivative financial instruments	-	(770)	(770)
Income from associates	1,948	1,852	3,823
Profit before income tax has been arrived at after (charging) the following expenses by nature:			
Cost of sales	(3,593,238)	(3,044,051)	(6,418,523)
Write-down of inventory	(2,842)	(2,012)	(6,392)
Net finance costs:			
Finance income	1,219	1,404	2,503
Finance costs	(10,151)	(11,079)	(22,573)
Total net finance costs	(8,932)	(9,675)	(20,070)
Impairment on trade & other receivables	(465)	(861)	(2,423)
Depreciation of property, plant & equipment	(6,519)	(6,416)	(12,933)
Amortisation of finite life intangibles	(5,815)	(5,890)	(11,757)
Operating lease rental expenses	(16,038)	(14,766)	(30,352)
Donations	(17)	(81)	(101)
Employee benefit expense	(119,025)	(106,251)	(220,960)
Defined contribution plan expense	(6,448)	(6,299)	(12,635)
Other expenses	(104,213)	(92,594)	(187,373)
Total expenses, net of interest revenue	<u>(3,863,552)</u>	<u>(3,288,896)</u>	<u>(6,923,519)</u>
Profit before income tax expense	<u>98,602</u>	<u>91,744</u>	<u>180,715</u>

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

For the six months ended 31 December 2016

3. SHARE CAPITAL

	No. '000	Six months 31 Dec 16 \$'000 (Unaudited)	No. '000	Six months 31 Dec 15 \$'000 (Unaudited)	No. '000	Year ended 30 Jun 16 \$'000 (Audited)
Fully paid ordinary shares						
Balance at beginning of period	151,314	888,513	150,687	880,628	150,687	880,628
Dividend reinvested – October 2015	-	-	627	7,885	627	7,885
Shares issued – September 2016	600	-	-	-	-	-
	<u>151,914</u>	<u>888,513</u>	<u>151,314</u>	<u>888,513</u>	<u>151,314</u>	<u>888,513</u>

4. DIVIDENDS

	Cents per share	Six months 31 Dec 16 \$'000 (Unaudited)	Cents per share	Six months 31 Dec 15 \$'000 (Unaudited)	Cents per share	Year ended 30 Jun 16 \$'000 (Audited)
Recognised amounts						
Fully paid ordinary shares						
Final – prior year	32.5	49,372	25.0	37,672	25.0	37,672
Interim – current year	-	-	-	-	26.0	39,342
	<u>32.5</u>	<u>49,372</u>	<u>25.0</u>	<u>37,672</u>	<u>51.0</u>	<u>77,014</u>
Unrecognised amounts						
Final dividend	-	-	-	-	32.5	49,372
Interim dividend	30.0	45,574	26.0	39,342	-	-
	<u>30.0</u>	<u>45,574</u>	<u>26.0</u>	<u>39,342</u>	<u>32.5</u>	<u>49,372</u>

The Board approved an interim dividend of 30.0 cents per share on 21 February 2017. The record date for the dividend is 17 March 2017 and the dividend will be paid on 7 April 2017.

For the six months ended 31 December 2016

5. NOTES TO THE CASH FLOW STATEMENT

	Six months 31 Dec 16 \$'000 (Unaudited)	Six months 31 Dec 15 \$'000 (Unaudited)	Year ended 30 Jun 16 \$'000 (Audited)
Reconciliation of profit for the period with cash flows from operating activities			
Profit for the period	69,269	64,170	126,997
Add/(less) non-cash items:			
Depreciation of property, plant and equipment	6,519	6,416	12,933
Amortisation of finite life intangibles	5,815	5,890	11,757
(Gain)/loss on sale of property, plant & equipment	(2)	191	274
Income from associates	(1,948)	(1,852)	(3,823)
Expense recognised in respect of share based payments	165	-	-
Loss on derivative financial instruments	-	770	770
Deferred tax	(1,816)	212	(4,819)
	<u>8,733</u>	<u>11,627</u>	<u>17,092</u>
Movements in working capital:			
Trade and other receivables	185,555	(65,720)	(516,548)
Prepayments	(834)	1,373	(94)
Inventories	(17,661)	(30,504)	(60,241)
Current tax refundable/(payable)	(5,341)	(3,413)	1,218
Trade and other payables	(186,056)	76,672	662,238
Provision for employee benefits	(1,215)	(4,378)	1,880
Foreign currency translation of opening working capital balances	(3,316)	(14,249)	(18,400)
	<u>(28,868)</u>	<u>(40,219)</u>	<u>70,053</u>
Working capital items relating to investing activities	682	1,701	6,706
Working capital items acquired on acquisition	(1,953)	9,276	3,274
Net cash inflow from operating activities	<u>47,863</u>	<u>46,555</u>	<u>224,122</u>

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

For the six months ended 31 December 2016

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

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

Healthcare: Incorporates the sale of human healthcare products in a range of sectors, own brands, retail healthcare and wholesale activities.

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 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 16 \$'000 (Unaudited)	Six months 31 Dec 15 \$'000 (Unaudited)	Year ended 30 Jun 16 \$'000 (Audited)
Revenue from external customers			
Healthcare	3,744,059	3,169,276	6,686,415
Animal care	216,145	210,473	415,040
	<u>3,960,204</u>	<u>3,379,749</u>	<u>7,101,455</u>
Segment result (EBITDA)			
Healthcare	106,659	99,755	195,028
Animal care	21,115	19,587	42,308
Corporate	(7,906)	(5,617)	(11,861)
	<u>119,868</u>	<u>113,725</u>	<u>225,475</u>
Segment expenses			
Healthcare:			
Depreciation of property, plant and equipment	(5,970)	(5,766)	(11,691)
Amortisation of finite life intangibles	(4,591)	(4,683)	(9,283)
Income tax expense	(28,909)	(26,855)	(52,607)
	<u>(39,470)</u>	<u>(37,304)</u>	<u>(73,581)</u>
Animal care:			
Depreciation of property, plant and equipment	(549)	(650)	(1,242)
Amortisation of finite life intangibles	(1,224)	(1,207)	(2,474)
Income tax expense	(5,317)	(4,958)	(10,803)
	<u>(7,090)</u>	<u>(6,815)</u>	<u>(14,519)</u>
Corporate:			
Net finance costs	(8,932)	(9,675)	(20,070)
Income tax credit	4,893	4,239	9,692
	<u>(4,039)</u>	<u>(5,436)</u>	<u>(10,378)</u>
Profit for the period			
Healthcare	67,189	62,451	121,447
Animal care	14,025	12,772	27,789
Corporate	(11,945)	(11,053)	(22,239)
	<u>69,269</u>	<u>64,170</u>	<u>126,997</u>

EBOS GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 31 December 2016

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 financial instruments, investments in associates and deferred tax assets) are detailed below:

	Six months 31 Dec 16 \$'000 (Unaudited)	Six months 31 Dec 15 \$'000 (Unaudited)	Year ended 30 Jun 16 \$'000 (Audited)
Revenue from external customers			
New Zealand	761,251	737,225	1,468,037
Australia	3,198,953	2,642,524	5,633,418
	<u>3,960,204</u>	<u>3,379,749</u>	<u>7,101,455</u>
Non-current assets			
New Zealand	286,278	286,558	286,171
Australia	852,585	799,415	794,181
	<u>1,138,863</u>	<u>1,085,973</u>	<u>1,080,352</u>

(f) Information about major customers

No revenues from transactions with a single customer amount to 10% or more of the Group's revenues (December 2015: Nil, June 2016: Nil).

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 2016 the Group had unutilised term and revolving cash advance facilities of \$86.3m (December 2015: \$87.7m, June 2016: \$85.3m).

The Group also has a trade debtor securitisation facility of which \$255.1m was unutilised at 31 December 2016 (December 2015: \$182.7m, June 2016: \$337.3m).

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

For the six months ended 31 December 2016

7. BANK FACILITY AND BORROWINGS (Continued)

As at 31 December 2016 the maturity profile of the Group's term debt, working capital and securitisation facilities was:

Facility	Amount	Maturity
Term debt facilities	\$2.7m	Within the next 12 months
Working capital facility	\$85.0m	1-2 years
Securitisation facility	\$441.3m	1-2 years
Term debt facilities	\$92.4m	1-2 years
Term debt facilities	\$99.9m	2-3 years
Term debt facilities	\$31.9m	3-4 years
Term debt facilities	\$51.9m	4+ 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 16 \$'000 (Unaudited)	Six months 31 Dec 15 \$'000 (Unaudited)	Year ended 30 Jun 16 \$'000 (Audited)
Fair value of derivative financial instruments			
Other financial assets – derivatives:			
Foreign currency forward exchange contracts	576	468	-
	576	468	-
Other financial liabilities – derivatives:			
Foreign currency forward exchange contracts	(132)	(1,103)	(1,475)
Interest rate swaps	(4,022)	(5,535)	(7,177)
	(4,154)	(6,638)	(8,652)

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.

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 cashflow 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.

There were no transfers between fair value hierarchy levels during either the current or prior periods.

EBOS GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

For the six months ended 31 December 2016

9. ACQUISITION OF SUBSIDIARIES

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

On 31 October 2016 the Group acquired the Terry White Group ('TWG'). EBOS Group transferred its Chemmart business assets, investment in VIM Health Pty Limited, and cash of \$19.1m to the acquiree, in return for a controlling equity interest in TWG (50.000002%). The transaction also permitted TWG to make a \$13.8m payment to the TWG shareholders that were in place immediately preceding the acquisition by EBOS. Details of the acquisition are as follows:

Assets and liabilities acquired:

	Carrying Value \$'000 (Unaudited)	Fair value adjustment \$'000 (Unaudited)	Fair value on acquisition \$'000 (Unaudited)
Current assets			
Cash and cash equivalents	5,442	-	5,442
Trade and other receivables	9,321	-	9,321
Prepayments	1,148	-	1,148
Inventories	7,596	(136) ¹	7,460
Non-current assets			
Property, plant and equipment	2,930	-	2,930
Deferred tax assets	1,078	1,030 ²	2,108
Indefinite life intangibles	1,918	14,858 ³	16,776
Finite life intangibles	5,280	1,012 ³	6,292
Current liabilities			
Trade and other payables	(11,407)	(16,039) ⁴	(27,446)
Current tax payable	(1,632)	-	(1,632)
Employee benefits	(1,914)	-	(1,914)
Non-current liabilities			
Bank loans	(14,542)	(299) ⁵	(14,841)
Trade and other payables	(674)	(707) ⁴	(1,381)
Deferred tax liabilities	(108)	(6,072) ²	(6,180)
Loans to related parties	(1,278)	-	(1,278)
Employee benefits	(350)	-	(350)
Net assets acquired	2,808	(6,353)	(3,545)
Goodwill on acquisition			27,559
Less disposal of associate			(3,711)
Consideration:			
Non-controlling interest arising on acquisition			20,303
Cash and cash equivalents acquired on acquisition			5,442
Net cash inflow from acquisition			5,442

1. To recognise the fair value of inventory acquired on acquisition.
2. To recognise the deferred tax impact of fair value adjustments.
3. To recognise the fair value of intangible assets (including brands, finite life and indefinite life assets) acquired on acquisition.
4. To recognise additional liabilities identified on acquisition.
5. To recognise the fair value of borrowings acquired on acquisition.

Due to the timing of the acquisition the above figures have not yet been able to be 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 2016

9. ACQUISITION OF SUBSIDIARIES (Continued)

Goodwill arising on acquisition

Goodwill arose on the acquisition of the business operations of TWG 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.

TWG was acquired as it is a profitable healthcare business which the Group believes fits strategically with its Australian healthcare business assets.

Impact of the acquisition on the results of the Group for the period ended 31 December 2016

TWG contributed \$967,000 to the Group profit for the period. Group revenue for the period includes \$23,702,000 in respect of TWG. Had the TWG acquisition been effective at 1 July 2016, the revenue of the Group from continuing operations would have been \$3,990,025,000 and the profit for the period from continuing operations would have been \$70,039,000.

Transaction costs incurred on the acquisition of TWG were \$2,389,000 for the period.

10. EVENTS AFTER BALANCE DATE

Subsequent to 31 December 2016, the Board approved an interim dividend to shareholders. For further details please refer to Note 4.

EBOS GROUP LIMITED
DIRECTORY

CORPORATE HEAD OFFICE

108 Wrights Road
PO Box 411
Christchurch 8024
New Zealand
Telephone +64 3 338 0999
E-mail: ebos@ebosgroup.com
Internet: www.ebosgroup.com

AUSTRALIA HEAD OFFICE

Level 7, 737 Bourke Street
Docklands
Melbourne 3008
Australia
Telephone +61 3 9918 5555

DIRECTORS

Mark Waller	Chairman
Elizabeth Coutts	Independent Director
Peter Kraus	
Stuart McGregor	
Sarah Ottrey	Independent Director
Peter Williams	

SHARE REGISTER

Computershare Investor Services Ltd
Private Bag 92119
Auckland 1142
New Zealand
Telephone: +64 9 488 8777

Computershare Investor Services Pty Ltd
GPO Box 3329
Melbourne, Victoria 3001
Australia
Telephone: 1800 501 366

Managing Your Shareholding Online:

To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit:

www.investorcentre.com/nz

General enquiries can be directed to:

- enquiry@computershare.co.nz
- Private Bag 92119, Auckland 1142, New Zealand or GPO Box 3329, Melbourne, Victoria 3001, Australia
- Telephone (NZ) +64 9 488 8777 or (Aust) 1800 501 366
- Facsimile (NZ) +64 9 488 8787 or (Aust) +61 3 9473 2500

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