Sigma Healthcare

Annual Report 2022/23

Contents

Directors' Report

For the year ended 31 January 2023

The Directors present their report on Sigma Healthcare Limited (the Company) and its controlled entities (the Group) for the year ended 31 January 2023.

Directors

The names of the Directors and Company Secretary of the Company as at 31 January 2023 (unless otherwise stated) were:

Name	Particulars
Mr Michael Sammells *BBus (Acc), FCPA, GAICD.* Chairman, Non-Executive Director, Member of the Risk Management and Audit Committee	Appointed a Director of Sigma Healthcare Limited in February 2020 and Chairman of Sigma Healthcare Ltd in August 2022. Mr Sammells is currently a Non-Executive Director at AMP. Mr Sammells has 35 years of broad experience in finance, corporate services and has held operational roles with expertise in finance, accounting, treasury, investor relations, capital developments, mergers and acquisitions and IPOs. Mr Sammells is a former Chief Financial Officer of Healthscope Limited and Medibank Private. Mr Sammells has not held any other directorships in listed entities over the past three years.
Mr Vikesh Ramsunder *B.Com Logistics, (MBL) Corporate Strategy* CEO and Managing Director (appointed 1 February 2022)	Vikesh Ramsunder commenced as the Managing Director and CEO of Sigma Healthcare Limited on 1 February 2022. From January 2019 to December 2021 Vikesh was Group CEO of the Clicks Group in South Africa, the culmination of a 28-year career with the Clicks Group which included 18 years as part of the executive team. Before becoming Clicks CEO Vikesh held a number of roles within the Group, including Chief Operating Officer from 2015 and Managing Director of the pharmaceutical wholesaler business, United Pharmaceutical Distributors. Mr Ramsunder has not held a directorship of any other listed entity during the last three years.
Mr David G Manuel *BPharm, MPS, MAICD.* Non-Executive Director, Member of the Risk Management and Audit Committee, Member of the Nomination & Remuneration Committee	Appointed a Director of Sigma Healthcare Limited in October 2009. Mr Manuel is a community pharmacist proprietor and an active participant in industry affairs with a special interest in cognitive services such as Opiate Dependency treatments, Compounding, Medical Technology and Aged Care pharmacy services. Mr Manuel is a Director of Alchemy Healthcare Pty Ltd, Black Swan Healthcare Ltd, Elements Health Care Pty Ltd and Oqea Pty Ltd. He is a current Western Australian representative on the Amcal Guardian National Council (AGNC) and a current Branch Committee Member of The Pharmacy Guild of Australia (WA Branch). Mr Manuel has not held any other directorship during the last three years.
Ms Kathryn (Kate) D Spargo *LLB (Honours), BA, FAICD.* Non-Executive Director, Member of the Risk Management and Audit Committee (Interim Committee Chair October 22 – to date)	Appointed a Director of Sigma Healthcare Limited in December 2015. Ms Spargo holds a Bachelor of Law with Honours, an Arts degree from the University of Adelaide and is a fellow of the Australian Institute of Company Directors. She has gained broad business experience as both an advisor, having worked in private practice and government, and as a director of listed and unlisted companies. Ms Spargo is currently a Non-Executive Director at the following listed entities: Sonic Healthcare Limited, Adairs Limited and Bapcor Ltd. In addition Ms Spargo is also currently a Non-Executive Director at CIMIC Ltd (now unlisted). Over the last three years, Ms Spargo was a Non-Executive Director at Xenith IP Ltd. In September 2021, Ms Spargo retired from her position as Chairman of CoInvest and at the same time joined the board of the unlisted company Jellis Craig. Ms Spargo is also Director at the Geelong Football Club and Future Fuels Cooperative Research Centre.

Directors' Report continued

For the year ended 31 January 2023

Name	Particulars
Ms Christine Bartlett *BSc, MAICD.* Non-Executive Director, Chairman of the Nomination & Remuneration Committee	Appointed a Director of Sigma Healthcare Limited in March 2016. Ms Bartlett holds a Bachelor of Science (Pharmacology and Physiology) from the University of Sydney and has completed the Harvard University Advanced Management Training and Global Executive Program. As an experienced CEO and senior executive, Ms Bartlett has broad commercial expertise, with a particular focus in areas of financial discipline, risk management, innovation, technology, and strategy execution. Ms Bartlett's current directorships in listed entities include Non-Executive Director at Mirvac Group and Reliance Worldwide Corporation Ltd. Ms Bartlett resigned as a director of GBST Ltd in November 2019. Ms Bartlett has not held any other directorships in listed entities over the past three years. In addition, Ms Bartlett's current directorships in unlisted companies include Non-Executive Director of TAL. Ms Bartlett is a member of Chief Executive Women and the Australian Institute of Company Directors.
Mr Neville Mitchell *B.Com, CA. Non-Executive* Director, Chair Risk Management and Audit Committee (appointed a Director 2 February 2023, Chair of RMAC from April 2023 onwards)	Appointed a Director of Sigma Healthcare Limited in February 2023. Mr Mitchell has extensive financial experience coupled with broad experience as an active Non-Executive Director. Mr Mitchell is a current Director and Chair of the Audit Committee of Sonic Healthcare and is a Director and Chair of the Audit and Risk Committee of Fisher and Paykel Healthcare and QBiotics. Previously, Mr Mitchell has held other Director roles including South Eastern Sydney Local Health District, The Board of Taxation, Sirtex Medical and Osprey Medical Inc. Mr Mitchell is a qualified Chartered Accountant with international healthcare and finance experience. Prior to becoming a Non-Executive Director, Mr Mitchell had a career spanning 27 years with Cochlear Limited, 22 of those years as Chief Financial Officer and Company Secretary.

Name	Particulars
Kara McGowan *LLB (Hons), BCom, BbusEc, ACIS, GAICD* General Counsel & Company Secretary	Appointed Sigma Healthcare's General Counsel and Company Secretary in October 2021. Ms McGowan has been a Company Secretary for over 10 years for a broad range of corporate structures and businesses. Prior to joining Sigma, Ms McGowan was General Counsel and Company Secretary at Transdev, an international public transport operator where she was responsible for the provision of strategic legal advice for all operations in Australia and New Zealand. Over the years she has held a variety of legal and commercial roles including Company Solicitor at Kmart and Head of Joint Ventures for Australian Unity Investments. She began her legal career at Clayton Utz as a competition lawyer. Ms McGowan is admitted as a Barrister & Solicitor of the Supreme Court of Victoria, holds a Graduate Diploma of Applied Corporate Governance and is a Graduate and Member of the Australian Institute of Company Directors. Ms. McGowan also holds a Bachelor of Commerce and Bachelor of Business Economics.

Principal activities

The principal activities of the Group during the year were the wholesale distribution of pharmaceutical goods and medical consumables to community pharmacies, including the provision of retail support services to our branded network of pharmacy members, dose administration aid services, technology and data analytics solutions to our customers, and the provision of third and fourth party logistics services to pharmaceutical manufacturers and other supplier partners.

No significant changes have occurred in the nature of the principal activities during the financial year.

The Group has its principal place of business at Level 6, 2125 Dandenong Road, Clayton, Victoria 3168, Australia.

Operating and financial review

The operating and financial review, which forms part of this Directors' Report, is presented separately on pages 5 to 9.

Environmental regulations

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

Dividends

Since the end of the year, the Directors have resolved to pay a final dividend of 0.5 cent per share fully franked, accordingly this dividend is not provided for in the balance sheet at 31 January 2023. The ex-dividend date is 30 March 2023, the record date is 31 March 2023 and it is expected to be paid on 18 April 2023. The total amount payable is $5.3 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.

Proceedings on behalf of the Company

The Directors are not aware of any persons applying for leave under s.237 of the *Corporations Act 2001* to bring, or intervene in, proceedings on behalf of the Company.

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.

Non-audit services

Details of the amounts paid to the auditor of the Company, Deloitte Touche Tohmatsu, and its related practices, for audit and other services provided during the year and the comparative period are set out in Note 26.

The Directors are aware of the issues relating to auditor independence and have in place policies and procedures to address actual, potential and perceived conflicts in relation to the provision of non-audit related services by the Company's auditor. Specifically, through the Risk Management and Audit Committee (RMAC), 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.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

Remuneration Report

Details of the Group's Remuneration Policy in respect of the Directors and Key Management Personnel are included in the Remuneration Report on pages 10 to 31, which forms part of this Directors' Report. Details of the remuneration paid to each Non-Executive Director, the CEO and Managing Director and other Key Management Personnel are also detailed in the Remuneration Report.

Environmental, social and governance

Sigma recognises the importance of environmental, social and governance matters to our shareholders, suppliers, customers and our team members.

Since 2020/21 Sigma has published a Sustainability Report which includes 2030 targets and is informed by an annual materiality assessment. The materiality assessment is a detailed analysis and stakeholder engagement exercise to identify the areas of greatest risk and opportunity for Sigma and where the company can have the greatest positive influence on the environment and society. This assessment also underpins Sigma's Plan to 2030 targets.

The Sustainability Report is an integrated whole of business sustainability report approved by the Sigma Board, with key themes being:

- Identifying and effectively managing and mitigating environmental risks from all work practices;
- Providing safe and healthy workplaces that empower our team members to perform at their best;
- Cultivating an inclusive employee culture that is committed and equipped to lead through change and to achieving our objectives under this policy; and
- Implementing strategies and a reporting framework to give effect to our objectives stated under this policy.

More details on Sigma's ESG commitment are available in our Sustainability Report, which is available on the Sigma website.

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 M Sammells	125,383	–
Mr V Ramsunder	10,179,605	2,964,845
Mr D Manuel	382,610	–
Ms K Spargo	448,212	–
Ms C Bartlett	276,130	–
Mr N Mitchell	–	–

Board and committee meeting attendance

The following table sets out the number of Board and Committee meetings held during the year and the number attended by each Director or Committee member while the Director was a member of the Board or relevant Committee. During the year, eight Board meetings, four Risk Management and Audit Committee meetings and four Nomination and Remuneration Committee meetings were held.

	Board of Directors		Risk Management and Audit Committee		Nomination and Remuneration Committee	
Directors	Held	Attended	Held	Attended	Held	Attended
Mr R Gunston[3]	4	4	2	2	2	2
Mr V Ramsunder[5]	8	8	–	–	–	–
Mr D Manuel[1,2]	8	8	4	4	4	3
Ms K Spargo[1,2]	8	8	4	4	4	4
Ms C Bartlett[2]	8	8	–	–	4	4
Mr M Sammells[1,4]	8	8	4	4	–	–

1. Risk Management and Audit Committee Member.
2. Nomination & Remuneration Committee Member.
3. Noting Mr R Gunston's passing on 5 July 2022.
4. Mr M Sammells was appointed Interim Chair of the Board of Directors on 6 July 2022 and Chair on 4 August 2022.
5. Mr V Ramsunder was appointed Managing Director and CEO on 1 February 2022.

Subsequent events

Subsequent to 31 January 2023, the following events and transactions have occurred:

Dividend

Since the end of the year, the Directors have resolved to pay a final dividend of 0.5 cent per share fully franked, accordingly this dividend is not provided for in the balance sheet at 31 January 2023. The ex-dividend date is 30 March 2023, the record date is 31 March 2023 and it is expected to be paid on 18 April 2023. The total amount payable is $5.3 million.

Central Healthcare Services Pty Ltd (CHS) assets disposal

On 10 March 2023, the Group announced the signing of an agreement for the disposal of certain hospital operations and assets of its subsidiary Central Healthcare Services Pty Ltd to Clifford Hallam Healthcare Pty Ltd. Central Healthcare Services Pty Ltd will be renamed Sigma Healthcare Logistics Pty Ltd for ongoing operations in relation to third party logistics and other services. The completion is expected to occur on 31 March 2023.

Other than the matters discussed above, there has not been any other matters or circumstances that have arisen since 31 January 2023 that have 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.

Signed in accordance with a resolution of the Directors made pursuant to section 306(3) of the *Corporations Act 2001*, dated 22 March 2023.

Mr Michael Sammells
Chairman

Mr Vikesh Ramsunder
CEO and Managing Director

Melbourne
22 March 2023

Operating and financial review

For the year ended 31 January 2023

Key events and changes in the state of affairs

Although the general nature of the Group's operations has not changed for the year, performance for the year ended 31 January 2023 has been impacted by a number of events that need consideration when comparing to the prior period. These include:

COVID-19 (Coronavirus)

During FY23, the Group's operations were affected by the COVID-19 pandemic and resulting government actions.

As a provider of essential services, the Group remained committed to supporting government and community efforts to limit the spread of the virus. We implemented practices to enable the continued service of customers, their patients and the local community, whilst prioritising the health and well-being of team members and other business stakeholders.

The Group's operations for the first half of the year, were impacted by the COVID-19 pandemic and the actions put in place to contain and respond to the virus. Whilst the Group's Distribution Centres (DC) were open throughout the year, the Group faced staffing challenges as significant numbers of team members were absent as a result of COVID-19 and isolation requirements. Despite these challenges, operational performance remained robust.

Business performance and operations

The Group reported revenue growth of 6.2% to $3.7 billion and earnings growth (EBITDA) of 65.3% to $49.6 million. This result was achieved despite the ongoing disruption across the operations related to COVID-19 and lockdowns, skilled labour shortages, as well as disruptions caused by global supply chains.

An acute labour shortage across the country for skilled workers has contributed to an increase in employment costs. The current low unemployment rate led to a competition for talent which resulted in a noticeable increase in the average days it took to fill roles.

Higher global energy prices which have directly affected our freight and logistics costs, is a contributing factor to the increase in year on year freight costs. We have taken steps to reduce these cost impacts through the re-tendering of our freight contracts and optimising our delivery routes.

Supply chain disruptions were prevalent throughout the year as widespread delays to shipping and delivery lead times were observed across many parts of the economy which has resulted in an increase in the Manufacturer Can't Supply metric.

Australia, like many other countries, experienced higher levels of inflation as a result of the knock-on effects from the COVID-19 pandemic. The Reserve Bank of Australia has responded with ten consecutive rate hikes. This has directly impacted the Group's borrowing costs and is expected to impact consumer spending as cost of living pressures increase for households. To address the headwinds from higher inflation and increasing interest rates, the Group focused on reducing its net working capital requirements for the year with net debt at the end of the year of $67.0 million.

Operating review

During the year, the Company has:

- Completed the transition of the Victorian operations from Rowville to a new best-in-class purpose-built DC in Truganina in 1H23
- Successfully completed the extension of the DC at Truganina, Victoria, in 2H23, adding an additional 18,000 sqm of capacity, equal to an extra 20,000 pallet spaces
- Moved to a larger, more modern, DC at Bridgewater, Tasmania, in 2H23, doubling the capacity in the state to 4,000 sqm
- Increased overall DC capacity to 140,000 sqm across the country
- Substantially improved all operational metrics beginning from the fourth quarter
- Commenced franchise brand consolidation in 2H23
- Progressed the simplification of operations and divested non-core assets

Sigma enters the new year with positive momentum and a return to profitability. The first half of the year was challenging in regards to ERP system implementation issues, DC transition in Victoria, an uncertain environment created by COVID-19 and significant team and leadership changes.

Whilst there is continued work required to build a sustainably profitable business, it is pleasing to see significant improvements in our operational performance and financial metrics across the financial year particularly in the second half. We continue to focus on building confidence with our customers, improving overall customer satisfaction and simplifying our business. Despite headwinds from inflation and higher interest rates, the business has delivered sustained productivity improvements in freight and logistics while achieving lower unit operating costs. In addition, improved cash management has contributed to a marked improvement in working capital and lower levels of closing net debt.

Availability of stock exceeded 88% in the fourth quarter, higher than at the same time last year. Temporarily out of stock (TOS) items remains higher than average, largely due to global supply chain disruptions. This presents an opportunity to improve our availability position while also optimising working capital.

Operating and financial review continued

For the year ended 31 January 2023

Operating review continued

Operational performance continues to make positive progress across Logistics. Productivity (Overall work rate – measured by units per hour) increased 37% from the start of the financial year. Delivered in Full (DIF) in the fourth quarter was consistently above 99%, marking a 24% improvement from a year ago, with Dispatch on Time (DOT) above 95% at the end of the year.

The company remained focused on the safety and well-being of those working at Sigma through our commitment to a zero-harm environment. There was once again improvement to our safety performance with best-in-class safety standards achieved within our DCs, with a Long-Term Injury Frequency Rate (LTIFR) of 1.8, down from 2.6 in the prior year.

FY23 has seen a period of significant organisational change. With our goal to simplify and grow our core business, our team made necessary structural changes focused on our new strategy and also reduced overall head count. Further, the transition from Rowville to Truganina created challenges in finding skilled labour in a tight market at the beginning of the financial year and it still remains a challenging environment to recruit for roles. Encouragingly, 25% of all vacant roles were filled internally and 38% of vacant leadership positions were filled by women.

A number of initiatives commenced in FY23 to simplify the way we do business with our customers. We turned our attention to building a more efficient, customer-focused organisation that is better positioned to respond to changing business conditions. To this end, we launched the Guardian brand consolidation into Amcal in 2H23 which is expected to be on track to achieve our target through FY24 with rebranding activity well underway.

In line with our strategy, several divestments of non-core assets were completed during the year. This is highlighted by the disposal of Wholelife and the discontinuation of services to the Cura business in the second half of the year. In addition, we announced to the market on the 10 March 2023, the signing of an agreement for the disposal of certain hospital operations and assets of our Central Healthcare Services subsidiary, which will be renamed Sigma Healthcare Logistics Pty Ltd for ongoing operations in relation to third party logistics and other services. The disposal of certain hospitals assets, Cura and Wholelife, marks Sigma's exit from very low margin sectors and further simplifies our business. These disposals release working capital and allows us to focus on building scale in our core pharmacy wholesale and third-party logistics operations.

The changes are part of a long-term plan to build a more diversified business across the health, beauty and wellness categories that will deliver improved earnings.

Financial performance

Highlights:

- Sales revenues $3.7 billion (+6.2%)
- Statutory EBITDA $49.6 million (+65.3%)
- Statutory NPAT attributable to owners of the company $1.8 million
- Full-year dividend of 1.0 cents per share fully franked

Group summary financial performance

	Group		
$'000	**FY23**	**FY22**	**Change %**
Sales revenue	**3,660,240**	3,446,164	6.2%
EBITDA	**49,608**	30,004	65.3%
Depreciation and amortisation	**(30,336)**	(27,691)	(9.6%)
EBIT	**19,272**	2,313	733.2%
Net interest	**(13,810)**	(10,620)	(30.0%)
Tax	**(2,435)**	1,971	(223.5%)
Statutory net profit/(loss)	**3,027**	(6,336)	147.8%
NPAT attributable to the owners of the company	**1,811**	(7,239)	125.0%
Statutory earnings/(loss) per share (EPS)	0.2	(0.7)	

Group sales revenue

Net sales revenue for the year across the Group was $3.7 billion, up 6.2% on the prior corresponding period (pcp). Sales were elevated in the first quarter from the extraordinary demand for Rapid Antigen Tests (RATs) and COVID-19 related products as the Omicron variant emerged. While the demand for RATs subsided during the year and returned to a normalised sales product mix, we saw sales elevate again in the fourth quarter due to the demand for COVID antiviral tablets as formal restrictions were removed, in addition to a strong Christmas trading period. Year on year we saw volume growth across all categories, with particularly strong uptake in Front of Shop products increasing in net sales by 11%.

Net profit after tax

A NPAT of $1.8 million was recorded for the year, up $9.1 million to the pcp. The return to profitability was impacted by a number of structural and transitional changes:

- Inventory write-offs $(32.8 million)
- Asset impairment and write-off $(10.2 million) related to the cessation of services to the Cura business
- $(1.6 million) of total losses relating to the divestment of Wholelife
- Offset by $24.1 million lower spend in Software as a Service (SaaS) expense

Gross profit of $254.4 million was up $16.5 million on the pcp. This mainly reflects the abnormal sales mix during the year, which was positively influenced by the sales of COVID-19 related products, offset by stock adjustments recorded for the year which was predominantly attributed to the $29.0 million of inventory write-offs reported at half-year.

Other revenue was $101.7 million, down $(1.6 million) to the pcp. Membership revenue was lower than the pcp due to reduced store numbers and marketing activity, in addition to higher average pack patient fees in medicine dispensing, offset by lower revenue in Cura due to the cessation of services.

Key expenditure items

Employment costs were $165.9 million, unfavourable by $(13.3 million) on the pcp. This mainly reflects the higher costs across Logistics from the higher volumes, staff shortages, higher contract labour rates, and ongoing IT and support costs. In addition, there was further redundancy costs in the current year driven by organisational restructure as we reduced our overall headcount. Freight costs were unfavourable, mainly reflecting higher fuel costs, freight rates and increased volumes.

Other operating expenses of $140.6 million was $18.0 million favourable to the pcp. This was largely due to $24.1 million lower SaaS costs following the SAP implementation and higher expected credit losses in the prior year.

Net financing costs were $13.8 million versus $10.6 million in the prior year which mainly reflects the increased cost of borrowing following the Reserve Bank of Australia's consecutive interest rate hikes since May, together with higher average net debt during the year.

Financial position

During the year, Sigma secured an extension of its Receivables Purchase Agreement debt facility. The renewal of the debt facility on 28 November 2022 extends the tenor by a further three years.

Net debt at the year ended January 2023 was $67.0 million, down from $149.2 million at the pcp. This is comprised of $16.7 million in cash and cash equivalents, offset by $(3.7 million) drawdown in the overdraft facility (Tranche A) and $(80.0 million) of short-term cash advance borrowings (Tranche B). Available headroom under Tranche A is $131.3 million and $35.0 million in Tranche B.

The $82.2 million reduction in net debt year on year is driven by EBITDA performance and improvements in working capital. The group's cash conversion cycle has reduced from 33 days in January 2022, to 27 days at 1H23 in July 2022, to 22 days at the end of January 2023 due to strong cash collections.

As reported at the half year, the $70.0 million three-year revolving debt facility to support general corporate and business development activities was repaid and closed in the second half of the year.

Sigma's balance sheet position is underpinned by approximately $1.2 billion in total assets.

We anticipate retaining higher levels of liquidity than our long-term average by reducing net debt to provide flexibility given the uncertain macroeconomic environment. The combination of our liquidity position, access to domestic debt funding sources, strong relationships with capital partners and ongoing discipline around cashflows, positions us well to deliver on our strategic priorities, while providing capacity to respond to emerging tactical opportunities.

Material risks

The Group's activities expose it to a number of economic and business risks. Sigma's risk management policy recognises that risk management is an essential element of good corporate governance and fundamental in achieving its strategic and operational objectives. Sigma accepts that risk is a part of doing business, therefore, this policy is not designed to promote risk avoidance, rather to create a risk conscious culture that encourages the systematic identification, management and control of risks whilst ensuring we do not enter into unnecessary risks or enter into risks unknowingly.

The Group's risk management approach is supported by:

- a robust risk governance framework overseen by the Risk Management and Audit Committee;
- a strong and experienced management team;
- clearly articulated levels of authority and approval processes;
- established risk identification tools including a Group Risk Register that is reported to the RMAC quarterly;
- adequate external insurance cover.

The following is a summary of the most material and significant risks facing the Group that are currently reported to the RMAC and are under active management. We have included in the table examples of mitigations in place to assist in managing these risks:

Risk	Mitigation
Australian community pharmacy regulatory reform and/or legislative changes The risk of regulatory reforms imposed on the industry in relation to the Pharmaceutical Benefits Scheme (PBS), Community Service Obligation (CSO) and other Government initiatives, regulation and legislation which could impact the structure and/or operating environment, and therefore position, of Sigma's business.	• Monitoring and review of PBS and CSO changes. • Active agenda and timetable of engagement with identified industry and political stakeholders and membership of industry groups. • Ongoing business development to diversify revenue streams away from PBS dependency. • Ongoing investment in systems and processes to ensure compliance with regulatory requirements.
Delivery of key strategic initiatives There is a risk of Sigma not achieving its strategic priorities if we fail to deliver our key strategic projects, including the further integration of our subsidiaries successfully onto our enterprise resource planning system (ERP).	• Structured project governance including the establishment of project boards for all material projects and integration teams for acquisitions. • Resource planning and dedicated teams established to deliver strategic projects, including obtaining external expert support when required. • Detailed project planning with resource support from external experts. • Executive sponsorship and responsibility of all key strategic projects/subsidiaries with Board oversight.
Financial risk The Group is exposed to various financial risks impacting economic viability including customer defaults, loss of inventory from damage or obsolescence, loss of material customers and general retail trading conditions.	• Sigma has governance in place to address all its major financial risks, particularly in relation to working capital. Specific examples include: – Credit policy and credit framework overseen by a credit committee. – Obsolete and slow-moving inventory committee established to review inventory on hand. – Operational and contracted relationships with customers and key customer groups. • Structured process to review funding and debt needs overseen by the CFO.
Liquidity risk Effective liquidity management is imperative to meet the Group's ongoing funding requirements in executing the capital expenditure program, investment in systems, management of working capital and overall strategy.	• Cash forecasting and monitoring of financial ratios, cash conversion metrics and funding covenants. • Regular review of the appropriateness of the Group's debt facilities and funding sources. • Standard trading terms for trade debtors and creditors and governance of the approval of variations to these terms. • Robust working capital management (see financial risk above).

Risk	Mitigation
Operations risk The Group is exposed to several risks that have the potential to materially impact operations or result in business interruption. This includes industrial action, workplace health and safety and the loss or outage of critical infrastructure.	Sigma has various controls in place to address risks to its operations, some specific examples include: • Enterprise agreement strategies and site-specific planning. • Business continuity plans and disaster recovery capability and technology for core systems. • Capital investment in distribution centre network infrastructure. • Robust health and safety management system and dedicated health and safety resources.
IT systems, data, cyber and business continuity There is a risk that the Group may be exposed to an event or events which may result in Sigma's or Sigma client's information being unavailable, lost, stolen, copied or otherwise compromised with adverse consequences for the business, which could result in damage to its brand, impact operations and cause a loss of customer trust.	• Sigma has a robust information security and data governance strategy and framework. This includes tools, training, systems and processes to address data collection, data governance and protection (information security). • IT Security & Compliance Lead and Vulnerability Management Solution in place. • Control and monitoring of all data entering and leaving the Sigma network. • Next-generation firewalls deployed at all Sigma and subsidiary sites. • Increased training and awareness programme, improved controls and policies, supplemented with Internal Audit reviews. • Adding a Security Operations Centre (SOC) in March 2023. • Periodic penetration and security gap (ISO 27001) analysis testing performed. • Monthly Executive reporting on cyber incidents with material information security risks and issues escalated to the Risk Management and Audit Committee.

Risk	Mitigation
Social and environmental sustainability risk We are committed to delivering sustainable outcomes for investors, customers, communities and the environment, today and for the future. Sigma recognises the risk on our reputation and operations from not delivering on this commitment.	• Establishment of environment, social and governance (ESG) strategy and reporting with the support of external experts. • Identifying and managing and mitigating environmental risks from our operations, particularly our distribution centre network. • Commitment to the covenant sustainable packaging guidelines. • Active community engagement in various charity organisations and other targeted programs. • Supply chain review, changes to the procurement process and amendment of standard contracts in response to Modern Slavery legislation.
Climate change risk (emerging risk) Climate change presents an evolving risk for Sigma. This includes potential disruption to operations from extreme weather events, but also due to such things as changes to laws and regulations and not meeting stakeholder expectations, resulting in reputational damage.	• Inclusion of climate change as a key matter in the Group's ESG reporting. • Identifying the major business inputs that contribute to our overall environmental footprint and implementing actions to help to reduce this footprint (e.g. waste, packaging, energy efficiency). • Establishment of processes to measure, track and report energy use and greenhouse gas (GHG) emissions. • Climate related risks and potential financial impacts assessed in line with the Group's risk management framework. • Business continuity plans in place to respond to disruption to operations.

Remuneration Report
For the year ended 31 January 2023

Abbreviation	Item
AGM	Annual General Meeting
ASX	Australian Securities Exchange
CEO	Chief Executive Officer
EBIT	Earnings Before Interest and Tax
KMP	Key Management Personnel
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 2023 (financial year).

Our new CEO, Mr Vikesh Ramsunder, has successfully completed his first 12 months with Sigma Healthcare in what has been a challenging financial year mainly impacted by the implementation of the new ERP system. The Board is confident that the work undertaken during the year to simplify the business and return it to profitability will provide a solid foundation to pursue a growth agenda in the 2023/2024 financial year. During the year, the business implemented several organisational improvements to better reflect our strategic priorities. This included the renewal in a number of key leadership positions in Merchandise and Marketing, Logistics and Franchise Brands, along with the appointment of Mr Nigel Simonsz as CFO in August 2022.

Several people initiatives designed to support our team members' capabilities and wellbeing were delivered during the year including:

- the continuation of our successful Leadership Labs Training Program to develop effective leadership and management skills;
- the launch of a pilot training program to deliver a nationally recognised Certificate III qualification in Supply Chain Operations at our Berrinba Distribution Centre;
- our Sum of Wellbeing program with a focus on supporting the health and wellbeing of our team members; and
- the continuation of our Women In Leadership program to support the development of female leaders and strengthen our talent pipeline.

The business also took the opportunity to consolidate the use of office space including the move to a single Corporate Support Office in Clayton and the relocation of the Queensland Sales support team to our Distribution Centre in Berrinba, Queensland.

Changes to Remuneration

Moving into the new financial year, the business is continuing its rebuilding phase under the new CEO and to a large extent, a new leadership team. The Board is focused upon suitably driving business growth and aligning shareholders' interests with executive reward for our leadership team and retaining the CEO and his leadership team through our rebuilding phase. In order to achieve these objectives, the Board has amended variable remuneration structures as set out below:

- First, the Board has decided that the historical LTI, being a loan funded share plan, be discontinued. As Sigma focuses on implementing its new growth strategy, the loan funded share plan will be replaced by a rights plan. The Board's view is that a rights plan is a more appropriate and aligned reward mechanism to Sigma's strategy. The new plan will see the issuing of share rights at the 10-day VWAP at the start of each financial year and will reduce the allocation to the CEO from the previous loan plan.
- As the new CEO has only participated in one previous LTI following his appointment and the CFO has not participated in an LTI program, as a significant retention initiative, a "one off" 2023 Executive Equity Grant (EE Grant), being a grant of rights to the value equal to 200% of fixed remuneration will be made for the 2023/2024 financial year to the CEO and CFO. The CEO's EE Grant will be subject to Shareholder approval at the AGM. The EE Grant replaces the standard Long Term Incentive (LTI) for the 2023/2024 financial year. The EE Grant is being made subject to a 3 year performance period and vesting for 75% of the EE Grant will be subject to two performance measures – being Absolute TSR (25%) and Earnings Per Share growth (50%). In order to assist with retention of our CEO and CFO during the company's rebuild, the remaining 25% of the EE Grant will vest based upon continued service across the 3 years of the EE Grant.
- For the 2024/2025 financial year, the business will revert to a traditional 3 year LTI structure based on the new rights plan. The Board is currently considering TSR and earnings based measures for the plan and this will be concluded closer to the end of the 2023/2024 financial year. This LTI will not include a service element. Following a review of market competitiveness of our remuneration arrangements for the CEO and CFO against a comparator group of peer companies, the maximum opportunity under the LTI will increase from 80% to 100% of fixed remuneration for the CEO. The CFO's opportunity will be 40% of fixed remuneration.
- Following the review of our remuneration arrangements during the year in order to maintain a competitive remuneration framework, and in recognition of the CEO's performance for the 2023/2024 financial year the Board has increased the CEO's maximum Short Term Incentive (STI) from 80% of fixed remuneration to 100% of fixed remuneration. For the 2023/2024 financial year, this reward will be comprised of 75% in cash and 25% in deferred rights. These deferred rights will not be lost if the CEO's employment was to end during the deferral period (other than in bad leaver circumstances). In the Board's view, a sufficient retention mechanism will exist as a result of the change being made with the introduction of the EE Grant in the 2023/2024 financial year.

Remuneration Report continued

For the year ended 31 January 2023

Remuneration Outcomes in 2022/23

STI Outcomes

In determining the STI outcome for the CEO and CFO, the Board assessed the actual financial performance and KPI outcomes against set targets in key focus areas such as Customer, Operations, Health and Safety, Diversity and Environment. For the purpose of determining the STI outcome for the year, the financial performance was adjusted for the losses associated with the cessation of the Cura Service contract and the disposal of the Wholelife business in line with scheme rules. The inventory write downs were also taken into account as the Board did not want to penalise the CEO and CFO for the accuracy of the inventory holdings inherited and for taking appropriate business decisions. As a result, the Board approved an STI payment of 75% of maximum STI for the CEO and CFO for the year with 75% to be paid in cash, and 25% in deferred equity. It is worth noting that no STI was paid to management in the 2021/2022 financial year.

LTI Outcomes

The organisation did not meet the required targets for Return on Invested Capital (ROIC) and Total Shareholder Return (TSR) in the 2020 LTI Plan. As a result no shares vested and all were forfeited.

Fixed Remuneration Review

No increases in fixed remuneration were awarded to the CEO/Managing Director or the CFO as part of the annual remuneration review. There were also no increases to Non-Executive Director fees during the financial year.

In summary, the year ahead will see the business continue its transition to an important rebuilding phase. Our CEO has set out a clear strategy and I am confident the business is on a solid foundation to deliver sustainable growth.

As we conclude year end, I am pleased to acknowledge the ongoing efforts and commitment of our team members in supporting our stakeholders who play a critical role in delivering community health solutions.

Christine Bartlett
Chair, Nomination and Remuneration Committee

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 2023 (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 as listed in the table below.

Current Non-Executive Directors	
Mr M Sammells	Non-Executive Director (1 February to 5 July, Interim Chairman from 6 July to 3 August 2022, Chairman from 4 August 2022)
Ms C Bartlett	Non-Executive Director
Mr D Manuel	Non-Executive Director
Ms K Spargo	Non-Executive Director
Former Non-Executive Directors	
Mr R Gunston	Chairman (deceased 5 July 2022)
Current Executives	
Mr V Ramsunder	CEO/Managing Director
Mr N Simonsz	Chief Financial Officer (from 29 August 2022)
Former Executives	
Mr J Sells	Interim Chief Financial Officer (from 1 February 2022 to 11 April 2022)

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

Executive Remuneration Snapshot for The Financial Year 2022/2023

Executive remuneration is based on a total reward structure, comprising fixed remuneration and at-risk remuneration. Consisting of short-term incentive (STI) and long-term incentive (LTI), at-risk remuneration aligns executive remuneration to the achievement of strategic and financial objectives that lead to shareholder value creation. Refer to the section on Executive Remuneration Update for details on the proposed changes to the STI and LTI for 2023/2024.

Fixed Remuneration +

Delivery mechanism

- Cash payment consisting of base salary and statutory superannuation contributions

Considerations

- Scope and complexity of the role
- Experience and performance of the individual executive
- Internal and external benchmarking

Strategic objectives

- Set to attract, retain and motivate the right talent to deliver our strategic objectives
- Typically set at the median of the external market, allowing scope for progressive increases based on proven performance in the role

At-Risk Remuneration Short Term Incentive (STI) +

Delivery mechanism

- 75% cash payment and 25% of any STI reward to be in deferred equity for 12 months for the CEO and CFO

Performance measures

NPAT gateway

Minimum performance level must be achieved to trigger any STI payments

Financial measures

- 50% STI is aligned to NPAT
- Budgeted hurdle must be achieved for minimum payment and above budget stretch targets must be achieved for full payment

Non-financial measures

- 50% of STI is aligned to the achievement of non-financial goals that drive the strategic objectives of the Company

Strategic objectives

- NPAT gateway ensures a minimum acceptable level of profit before executives receive any STI reward
- Performance conditions designed to support the financial and strategic objectives of the Company and shareholder return
- Non-financial measures aligned to core values and key strategic and growth objectives
- Stretch targets must be achieved to obtain maximum STI available, encouraging a high performing culture
- Financial outcomes are subject to an external audit to maintain integrity of the reward

At-Risk Remuneration Long Term Incentive (LTI) =

Delivery mechanism

- Loan funded share plan with a three-year performance period subject to service and forfeiture conditions

Performance measures

Absolute TSR

- 50% of LTI is measured against Absolute TSR
- Vesting of the shares aligned to TSR will occur in accordance with a graduated vesting schedule during the performance period

ROIC

- 50% of LTI is measured against ROIC
- Vesting of the shares aligned to ROIC will be in accordance with a graduated vesting schedule during the performance period

Strategic objectives

- Executive interests are aligned with shareholders, as executives are incentivised to deliver share price growth during the performance period to maximise reward
- Designed to encourage executives to focus on the key performance drivers which underpin sustainable growth in shareholder value
- Outcomes are subject to an external audit to maintain integrity of the reward

Total Reward

Strategic objectives

- Attract, retain and motivate suitably qualified and experienced executives
- Encourage a strong focus on high performance and outcomes
- Support the delivery of outstanding results for the Group over the short and long term
- Align executive and shareholder interests through equity ownership

Company Performance and Remuneration Outcomes

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.

In the preceding financial years, as reflected in the footnotes to the table, profitability measures (EBIT, NPAT) and the ROIC result were adjusted for transactions and events considered non-operating or non-recurring in nature. From 2023/24 and going forward, the Group will focus its financial reporting on reported results, minimising adjusting events where possible. This must be considered when reviewing the current period results against the comparatives.

	Financial Year				
12 months ended 31 January	**2022/23**	**2021/22**	**2020/21**	**2019/20**	**2018/19**
Share price ($)[1]	0.607	0.468	0.624	0.586	0.577
Dividends paid in the financial year (cps)	1.5	2.0	n/a	3.0	4.0
TSR[2]	34.28%	(20.4%)	6.5%	9.1%	(29.9%)
Pre-tax ROIC[3]	11.2%[8]	7.9%[7]	10.1%[5]	7.1%[4]	12.2%[4]
EBIT ($m) – Adjusted	$65.0[8]	$47.6[7]	$50.1[6]	$29.1[6]	$76.2[6]
NPAT ($m) – Adjusted (attributable to owners of the company)	$37.7[8]	$25.3[7]	$29.1[6]	$13.5[6]	$45.8[6]
NPAT ($m) – Reported (attributable to owners of the company)	$1.8	$(7.2)	$43.5	$(12.3)	$36.5

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 = (share price appreciation + dividends + value of franking credits)/Sigma share price at the start of financial year.
3. Pre-tax ROIC = EBIT/(Total Shareholder Funds + Net Debt).
4. Adjusted for capital investment in ongoing construction of new distribution centres, business acquisitions and acquisition costs.
5. Adjusted for capital investment on new distribution centres and business acquisitions.
6. Adjusted for expenses from restructuring, integration and due diligence, gain on sale of assets and profit of non-controlling interests.
7. For the 2021/2022 financial year, this figure adjusts for a number of one-off items including SaaS change in accounting policy and restructuring costs.
8. Adjusted for a number of one-off items including losses associated with the cessation of Cura service contract and loss on the disposal of Wholelife, and inventory adjustments.

Fixed Remuneration

There were no fixed remuneration increases to the CEO/Managing Director in the current financial year. During the financial year, a new CFO was appointed.

STI Outcomes

For Executives to qualify for a payment under the STI plan, a pre-agreed level of Company profit must first be achieved (the gateway). Once the gateway has been achieved, the level of payment an 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.

In determining the STI outcome, the Board acknowledged that the new CEO and CFO were not responsible for the accuracy of the inventory holdings inherited and has agreed that the inventory write offs not be included for the purposes of assessing performance against budgeted NPAT, and determining the STI outcomes for this year. The majority of the non-financial measures in the STI being those relating to Customer, Operations, Environment and Diversity were achieved. As a result, the Board approved an STI payment of 75% of maximum STI for the CEO and CFO for the year with 75% to be paid in cash, and 25% in deferred equity subject to their continued employment for 12 months.

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

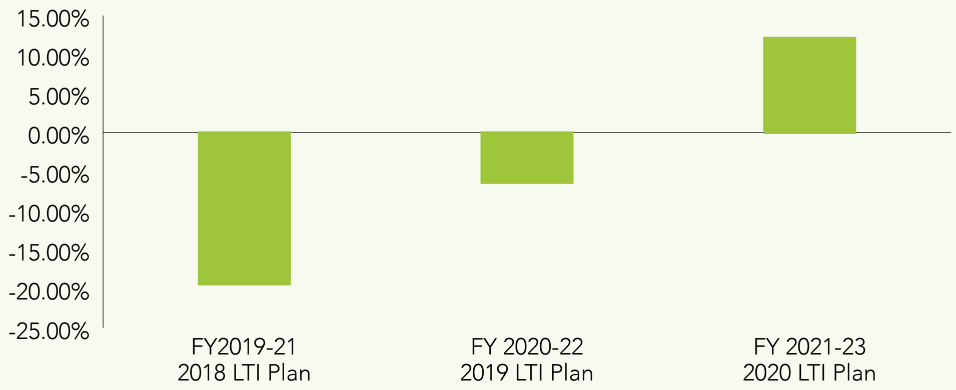
		2022/23			2021/22		
Executives	**Maximum STI Opportunity as % of Fixed Remuneration**	**$ STI Forfeited**	**$ STI Paid**	**STI Payment $**	**$ STI Forfeited**	**% STI Paid**	**STI Payment $**
Mr V Ramsunder[1]	80.0%	25%	75%	$600,000	n/a	n/a	n/a
Mr J Sells[2]	50.0%	n/a	n/a	n/a	100.0%	–	–
Mr N Simonsz[3]	50.0%	25%	75%	$97,656	n/a	n/a	n/a
TOTAL				$697,656			–

1. Of the STI payment made to Mr Ramsunder, $450,000 was paid in cash, with the remaining payment made by way of rights. The number of rights was calculated based on the volume weighted average price of a Share for the 5 trading days immediately preceding the end of the performance period.
2. The STI maximum opportunity relates to the period of time as KMP in the current and preceding financial year.
3. Mr Simonsz commenced as CFO on the 29th of August 2022. Of the STI payment made to Mr Simonsz, $73,242 was paid in cash, with the remaining payment made by way of rights. The number of rights was calculated based on the volume weighted average price of a Share for the 5 trading days immediately preceding the end of the performance period.

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 Executives to drive share price growth via improvements to TSR and ROIC. The following graph depicts the Company's Absolute TSR movement aligned to the applicable financial years measured over the past three LTI Plans.

Sigma Healthcare Limited Absolute TSR Movement – 1 February 2018 to 31 January 2023



2020 Long Term Incentive Plan

Under the 2020 LTI Rights Plan, 50% of the rights granted will each vest where the pre-determined performance conditions are met over the three-year performance period. 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. The table below sets out the vesting outcome as approved by the Board:

Performance Period	Performance Measure	Vesting Condition	Actual Achievement	% of LTI Vested	% of LTI Forfeited
1 February 2020 to 31 January 2023	Average pre-tax ROIC	10% or higher	9.7%	0%	50%
	Absolute TSR	<30%, 0% vests ≥30%, 12.5% vests ≥40%, 25% vests ≥50%, 50% vests	12.1%	0%	50%

The absolute TSR and ROIC performance outcomes did not meet the minimum vesting requirements, therefore all unvested rights under the Plan were forfeited.

Remuneration Governance, Strategy and Principles

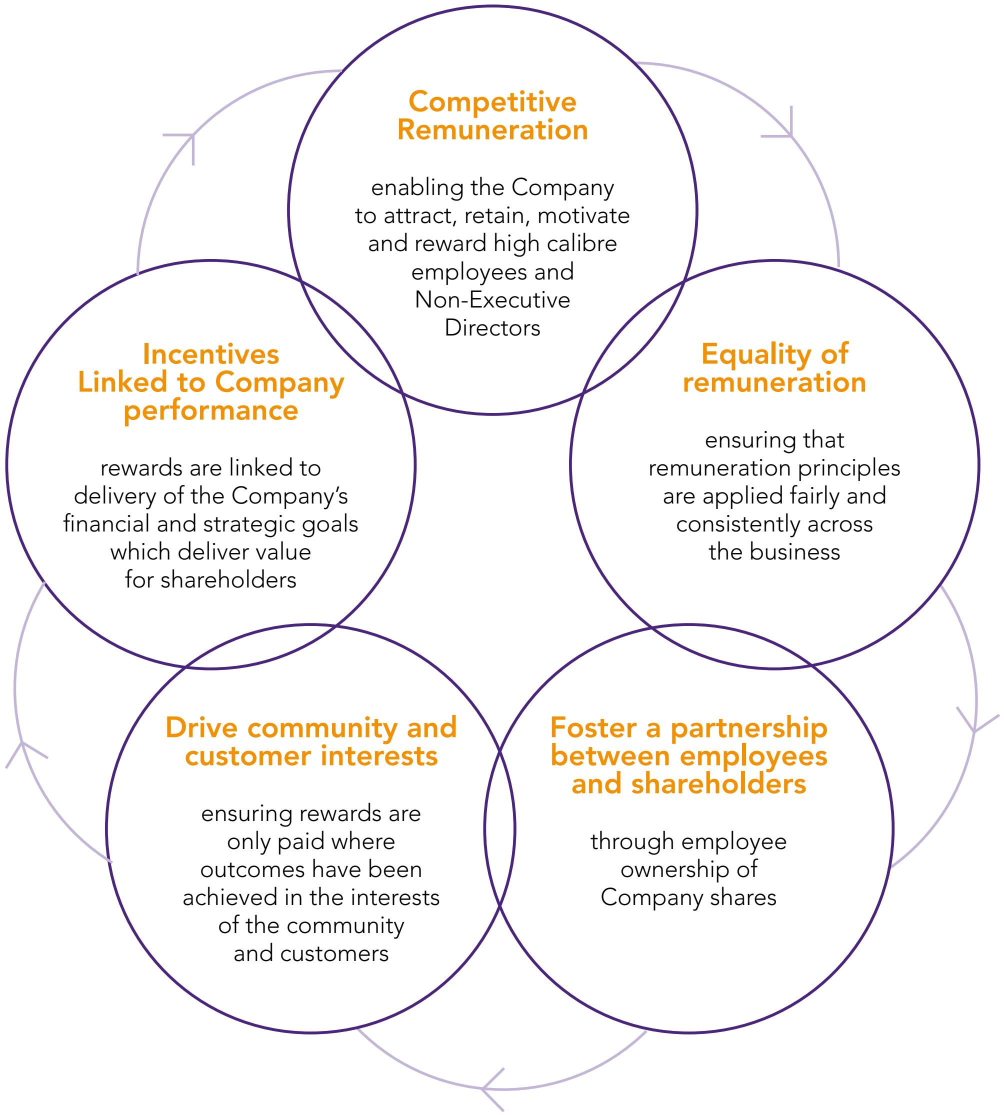
The Board is responsible for determining Non-Executive Director and senior executive remuneration. The Nomination and Remuneration Committee (Committee) is responsible for providing advice and recommendations to the Board in regard to the remuneration strategy, policies and practices applicable to Non-Executive 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. The Committee is comprised of a minimum of three Non-Executive Directors. For the financial year the Committee members were:

Name	Role
Ms C Bartlett	Chair
Mr D Manuel	Member
Ms K Spargo	Member

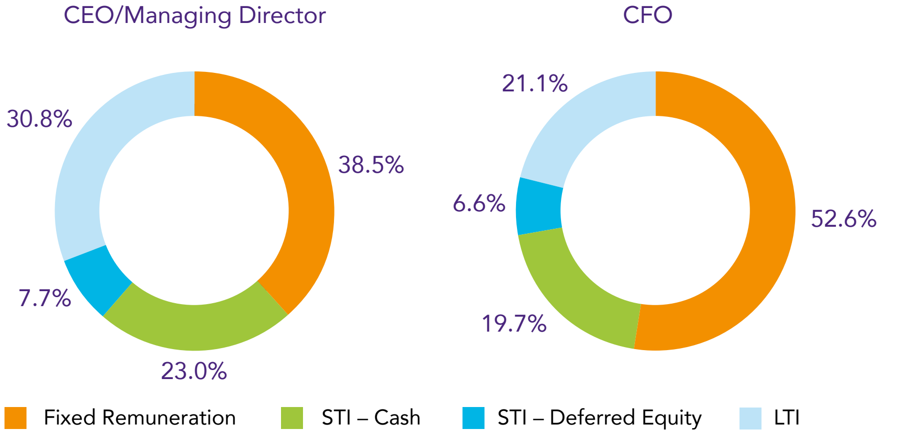
In accordance with section 206K of the *Corporations Act 2001*, the Committee has a process for engaging remuneration consultants. The Committee, on behalf of the Board, commissions and receives information, advice and recommendations directly from remuneration consultants, ensuring remuneration recommendations are free of undue influence by management. During the financial year, the Board received advice from SW Corporate on various matters relating to long term incentive plan design. SW Corporate was not asked to and did not provide any remuneration recommendations during the year.

The Company's remuneration strategy is designed to support the delivery of the business strategy and vision. Moving to the next phase of our business transformation journey, our remuneration strategy continues to evolve to attract, retain, motivate and reward employees by providing fair and reasonable rewards for achieving high performance. The remuneration strategy also aims to create sustained value for shareholders and acts in the interests of the community and the customers we serve. The remuneration strategy is underpinned by five principles:



Executive Remuneration Framework

An appropriate reward mix structure is determined for the CEO/Managing Director and CFO, with the portion of at-risk remuneration increasing with the level of responsibility, influence and criticality of the role. The maximum potential reward mix is as follows for FY2022/2023:

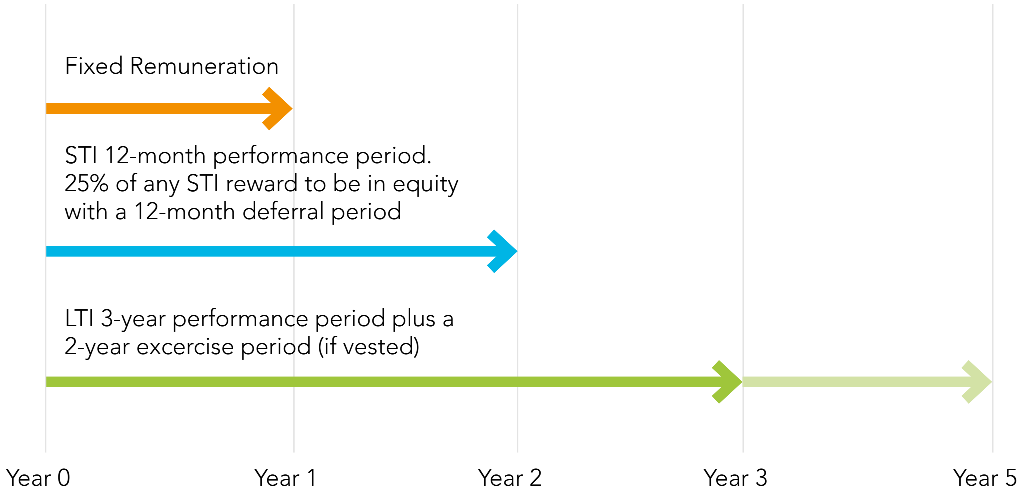


The graphic above displays our standard remuneration framework. It excludes:

- the CEO/Managing Director's one off LTI grant of 120% of fixed remuneration in his first year of employment;
- the changes to remuneration for the CEO/Managing Director for the 2023/2024 financial year for the "one off" EE Grant to the value of 200% of fixed remuneration;
- the CEO/Managing Director's LTI reverting to 100% of fixed remuneration for the 2024/2025 financial year; and
- the one-off CEO/Managing Director sign on rights that were approved at the Company's AGM in May 2022. For more detail refer to page 22;

Changes to remuneration for the CEO/Managing Director and the CFO for FY2023/2024 are set out on page 24 under Executive Remuneration Updates

The graph below depicts the executive remuneration delivery timeline for the financial year 2022/2023:



Fixed Remuneration

The fixed remuneration component of an Executive's total reward consists of base salary and statutory superannuation contributions. Fixed remuneration is reviewed annually, however there are no guaranteed increases in any contracts of employment. Referenced to market median with scope for incremental increases for exceptional performance, fixed remuneration reflects the complexity of the individual's role, and their experience, knowledge and performance.

There has been no fixed remuneration increases to the CEO/Managing Director and CFO during the financial year.

Short Term Incentive for the Financial Year 2022/2023

The STI component of an Executive's total reward is an annual at-risk incentive reward. The STI links a portion of Executive reward opportunity to specific financial and non-financial measures. The STI award granted during the financial year is detailed below.

Component	Commentary
Maximum STI Reward Value	80% of fixed remuneration for the CEO/Managing Director. 50% of fixed remuneration for the CFO.
Gateway Requirement	An NPAT gateway must be achieved to trigger any STI payment opportunity. The NPAT gateway 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 gateway excludes any significant uncontrollable or one-off events and the initial impacts from business development initiatives, as approved by the Board. NPAT was selected as an appropriate gateway 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.

Component	Commentary
Performance Measures **Financial**	50% of maximum STI reward relate to NPAT. Budgeted NPAT has been set based with the appropriate balance that sets challenging targets that are deliverable. Budget must be met for the first level of STI payments and stretch targets are required to be achieved to trigger full payment under the STI Plan. **Rationale for adopting NPAT as a performance measure** NPAT was selected as an appropriate performance measure as it assesses overall Company performance and the generation of shareholder value. 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.
Performance Measures **Non-financial**	50% of maximum STI reward relate to non-financial measures, specifically:

Customer	Operations	Health and Safety	Environmental	Diversity
Voice of Customer	Delivery Indicators	Health and Safety compliance audit result	Renewable energy consumption	Females appointed to leadership roles

Each non-financial measure is selected based on its alignment with key strategic priorities that lead to improved and sustainable shareholder value.

Component	Commentary
Governance	All performance measures under the STI are clearly defined and measurable. The Board, on recommendation from the Nomination and Remuneration Committee, approves the targets and assesses the performance outcome under the STI plan. The Board, on recommendation from the Nomination and Remuneration Committee, approves STI payments for the CEO/Managing Director and the CFO. 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.
Reward Mechanism	STI reward is to be delivered in a combination of cash and deferred equity for the CEO/Managing Director and the CFO as determined by the Board. For the 2022/2023 financial year, this is comprised of 75% in cash and 25% in deferred rights subject to their continued employment for 12 months.
Financial Year Outcome	As the CEO and CFO were not responsible for the accuracy of the inventory holding inherited, the Board decided that the inventory write offs not be included for the purposes of assessing performance against budgeted NPAT for the 2022/2023 financial year, and the STI outcome for the year. Refer to page 15 for further details.

Long Term Incentive for The Financial Year 2022/2023

The LTI component of an Executive's total reward is an at-risk equity incentive designed to focus Executives on key performance drivers that 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.

In approving the terms and conditions of each LTI grant, the Board reviews a range of factors including business circumstances on an annual basis. The 2022 LTI plan was delivered through a loan funded share plan, incentivising Executives with achieving share price growth targets.

Component	Commentary
Maximum LTI Reward Value	The maximum LTI reward value for the CEO/Managing Director is 80% of fixed remuneration, except in his first year of employment (FY2022/2023) where the initial grant value was 120% of fixed remuneration. For the CFO, the LTI is 40% of fixed remuneration. Changes to remuneration for the CEO and CFO for the 2023/2024 financial year for the "one off" EE Grant to the value of 200% of fixed remuneration, and the CEO/Managing Director's LTI which will move to a maximum LTI reward value of 100% of fixed remuneration for the 2024/2025 financial year are set out on page 24 under Executive Remuneration Updates.
Performance Period	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.

Component	Commentary
Delivery Mechanism	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. 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). The loan value is equal to the number of shares multiplied by the issue price (market price on grant date). 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. 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: • the outstanding loan less any repayments, and • the market value of the vested shares.
Vesting Conditions	Up to 50% of shares will vest in accordance with the absolute TSR vesting schedule set out in the table below:

% Absolute TSR achieved	% of total shares that vest
<30%	0%
≥30%	12.5%
≥40%	25%
≥50%	50%

Absolute TSR = (Sigma share price appreciation + dividends + value of franking credits)/Sigma share price at the start of the performance period.

Component	Commentary
Vesting Conditions	

% Pre-tax ROIC achieved	% of total shares that vest
<9.6%	0%
≥9.6%	12.5%
≥9.8%	25%
≥10%	50%

Pre-tax ROIC = EBIT/(Total Shareholder Funds + Net Debt). This is adjusted for capital investment in ongoing construction of new distribution centres, business acquisitions and acquisition costs.

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.

Rationale for adopting Absolute TSR and ROIC as vesting conditions

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. In addition, 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.

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. The LTI uses average ROIC over 3 years which is designed to ensure that management delivers an acceptable return above the cost of capital over the longer term.

Component	Commentary
Re-testing	No re-testing applies – shares that do not vest after testing lapse.
Exercise Price	Issue Price (market price on grant date).
Disposal Restrictions	Dealing, transferring or disposing of shares is prohibited until the end of the vesting period.
Forfeiture Conditions	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. In the event of summary dismissal, unvested shares are forfeited as are any vested shares that remain subject to an outstanding loan balance. In the event of death or redundancy, the Board has discretion to determine an appropriate outcome.
Governance	All performance measures under the LTI are clearly defined and measurable. The Board, on recommendation from the Nomination and Remuneration Committee, approves the targets and assesses the performance outcome of each LTI plan. The Board, on recommendation from the Nomination 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. Under the LTI plan, the Board has discretion to adjust LTI outcomes based on achievements which are consistent with the Group's strategic priorities and, in the opinion of the Board, enhance shareholder value.
Financial Year Outcomes	The absolute TSR and ROIC performance did not achieve the minimum levels required for vesting of the 2020 plan. As a result, 100% of the unvested rights were forfeited. Refer to page 16 for further details.

Table 3a on page 27 sets out the movements of loan funded shares during the financial year.

CEO Sign on Rights

Following shareholder approval at the Company's AGM in May 2022, Sigma Healthcare issued $1,400,000 of rights in Sigma Healthcare shares to the CEO/Managing Director in recognition of the exit arrangements from his previous employer. The rights will vest in two equal tranches on the first and second anniversary respectively of the commencement date provided Mr Ramsunder remains in the employ of the Company and has not given notice of termination of employment. The first tranche of the rights has vested and became exercisable on 1 February 2023. Details of the grant is set out in table 3b on page 28.

Sigma Rights Plan

As indicated in last year's remuneration report, the Company made a grant of Rights to selected executives which included one Executive KMP in supporting a smooth transition to new leadership. Under the terms and conditions of the Plan these rights vested and become exercisable on 1 December 2022. Details of the grant is set out in table 3b on page 28.

Other Remuneration Disclosures

Equity Restrictions

Unvested equity 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 are subject to the Company's Share Trading Policy, which is published on the Company's website at www.sigmahealthcare.com.au.

Clawback Arrangements

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

Change of Control Event

Generally, if the Company becomes, or in the opinion of the Board is likely to become, subject to a Change of Control, the Board may at its absolute discretion make a determination that some or all of a participant's equity vest.

Minimum Shareholding Policy

A minimum shareholding policy has been implemented to align the interest of the directors and senior executives with the long-term interest of the Company's shareholders. Under the Policy, the CEO/Managing Director is required to accumulate and maintain a minimum shareholding of 100% of annual fixed pay, and 50% of annual fixed pay for the CFO within a five year period. The Policy also contains details of the Non-Executive Director's minimum shareholding as set out on this page. The Policy can be viewed on the Company's website at www.sigmahealthcare.com.au.

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 2023 was $9,702,903 incl GST (2022: $8,348,124) The amounts receivable at balance date from Mr David Manuel and his Director-related entities included within trade debtors in Note 22 was $1,378,085 (2022: $1,109,924). 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 V Ramsunder	12 months	12 months
Mr J Sells	12 months	6 months
Mr N Simonsz	6 months	6 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.

Non-Executive Director Remuneration

Remuneration for the Company's Non-Executive Directors reflects the 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.

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 28.

There has been no fee increase since the Board's decision to reduce fees for all positions from 1 November 2021. Total fees and superannuation actually paid to the Non-Executive Directors for the financial year was $912,479, as set out in Table 1 on page 25.

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

Role	Annual Fee Structure* Since 1 November 2021
Chairman	$290,000
Non-Executive Director	$120,000
Risk Management and Audit Committee – Chair	$40,000
Nomination and Remuneration Committee – Chair	$40,000
Risk Management and Audit Committee – Member	$15,000
Nomination and Remuneration Committee – Member	$15,000

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

Remuneration Report continued

For the year ended 31 January 2023

Executive Remuneration Updates

Moving into the new financial year, the business continues a rebuilding phase under the new CEO and to a large extent, a new leadership team, with an emphasis on delivering growth, enhancing earnings and simplifying the business. To suitably drive growth while rewarding and retaining the CEO and the CFO, the Board is seeking to make a change to its variable remuneration structure in FY2023/2024.

A summary of the changes to the terms and conditions for FY2023/2024 for both Mr Ramsunder and Mr Simonsz are set out below:

Short Term Incentive (STI)	Following a review of our remuneration arrangements in order to maintain a competitive remuneration framework, and in recognition of Mr Ramsunder's performance, for the financial year 2023/2024, the Board has approved an increase in STI opportunity for Mr Ramsunder from a maximum of 80% of fixed remuneration to 100% of fixed remuneration, if specified annual performance targets as set by the Board are achieved in accordance with the STI plan. For the 2023/2024 financial year, the STI will be delivered via a combination of cash and deferred equity (75% & 25% respectively). This deferred equity will not be forfeited if employment was to end during the deferral period (other than in bad leaver circumstances). In the Board's view, a sufficient retention mechanism will exist as a result of the change being made to remuneration with the introduction of the EE Grant in the 2023/2024 financial year.
Employee Equity Grant (EE Grant)	The Company will issue performance rights to the value of 200% fixed remuneration as part of a "one off" EE Grant for the 2023/2024 financial year. The EE Grant will run over 3 years and is subject to two performance measures – being Absolute TSR (50%) and Earnings Per Share (25%) with 25% of the EE Grant vesting upon continued service at the conclusion of the 3 years. Mr Ramsunder's EE Grant will be subject to shareholder approval at the Company's 2023 Annual General Meeting. The EE Grant replaces the historical LTI, being a loan funded share plan which will be discontinued. As the Company focuses on implementing its new growth strategy, the loan funded share plan will be replaced by a 3 year rights plan for the 2024/2025 financial year. The Board is of the view that a rights plan is a more appropriate and aligned reward mechanism to Sigma's strategy. The Board is currently considering TSR and earnings based measures for the LTI plan and this will be concluded closer to the end of the 2023/2024 financial year. This LTI will not include a service element. Following a review of the market competitiveness of the remuneration arrangements and the change from a share loan plan for Mr Ramsunder and the CFO, the Board has increased Mr Ramsunder's maximum opportunity under the LTI from 80% to 100% of fixed remuneration, with 40% of fixed remuneration for the CFO.

TABLE 1: Statutory remuneration disclosure for key management personnel of the Company and Group: financial year 2022/23

	Short Term Benefits				Post-employment Benefits					Value in Share-Based Plans			
	Salary and Base Fees[1] $	Committee Fees $	Cash Short-term Incentive[2] $	One-off Awards[10] $	Superannuation Benefits $	Other Long Term Benefits[3] $	Other Short Term Benefits[4] $	Termination Payments $	Total Remuneration excluding Value in Share-Based Plans $	Rights[5] $	Loan Funded Shares[5] $	Total Remuneration including Value in Share-Based Plans $	Share Based Payments as Proportion of Remuneration[7] %
NON-EXECUTIVE DIRECTORS													
Mr R Gunston[6]	120,833	–	n/a	n/a	9,820	n/a	–	–	130,653	n/a	n/a	130,653	–
Ms C Bartlett	120,000	40,000	n/a	n/a	16,467	n/a	–	–	176,467	n/a	n/a	176,467	–
Mr D Manuel	120,000	30,000	n/a	n/a	15,438	n/a	–	–	165,438	n/a	n/a	165,438	–
Mr M Sammells	217,205	25,897	n/a	n/a	21,323	n/a	–	–	264,425	n/a	n/a	264,425	–
Ms K Spargo	120,000	39,103	n/a	n/a	16,393	n/a	–	–	175,496	n/a	n/a	175,496	–
Subtotal for Non-Executive Directors	**698,038**	**135,000**	**n/a**	**n/a**	**79,441**	**n/a**	**–**	**–**	**912,479**	**n/a**	**n/a**	**912,479**	**–**
EXECUTIVES													
Mr V Ramsunder	1,044,608	–	450,000	n/a	24,574	711	165,293	–	1,685,186	1,113,575	351,196	3,149,957	47
Mr J Sells[8]	124,251	–	–	n/a	23,245	1,268	–	–	148,764	8,947	50,722	208,433	29
Mr N Simonsz[9]	266,353	–	73,242	165,000	10,830	183	–	–	515,608	24,414	–	540,022	5
Subtotal for Executives	**1,435,212**	**–**	**523,242**	**165,000**	**58,649**	**2,162**	**165,293**	**–**	**2,349,558**	**1,146,936**	**401,918**	**3,898,412**	**40**
TOTAL	**2,133,250**	**135,000**	**523,242**	**165,000**	**138,090**	**2,162**	**165,293**	**–**	**3,262,037**	**1,146,936**	**401,918**	**4,810,891**	**32**

1. For Non-Executive Directors, includes base fees paid in cash and shares as per the Non-Executive Directors Share Plan detailed on page 23. For the Executives, includes base salary and amounts in respect to annual leave expense movement.
2. Represents the reward under the 2022/23 STI plan. Of the STI payment made to Mr Ramsunder, $450,000 was paid in cash, with the remaining payment made by way of rights. Of the STI payment made to Mr Simonsz, $73,242 was paid in cash, with the remaining payment made by way of rights.
3. Includes amounts in respect to long service leave expense movement.
4. Represents the costs met by the company in relation to Mr Ramsunder's relocation, such as airfares and housing assistance. A number of these benefits were subject to FBT totalling $3,022 which is included in this column.
5. The value of the rights and loan funded shares determined using the Black-Scholes option pricing model is expensed over the vesting period, therefore the amount disclosed above for the current year includes loan funded shares allocated in prior years.
6. Deceased 5 July 2022.
7. Includes amounts expensed in relation to rights and loan funded shares. Excludes share purchases under the Non-Executive Directors Share Plan.
8. The balances relate to the period as KMP.
9. Appointed as Chief Financial Officer from 29 August 2022.
10. Represents a sign on payment for Mr Simonsz upon commencement.

TABLE 2: Statutory remuneration disclosure for key management personnel of the Company and Group: financial year 2021/22

	Short Term Benefits				Post-employment Benefits					Value in Share-Based Plans			
	Salary and Base Fees[1] $	Committee Fees $	Cash Short-term Incentive[2] $	One-off Awards $	Superannuation Benefits $	Other Long Term Benefits[3] $	Termination Payments $	Total Remuneration excluding Value in Share-Based Plans $	Rights[4] $	Loan Funded Shares[4] $	Total Remuneration including Value in Share-Based Plans $	Share Based Payments as Proportion of Remuneration[5] %
NON-EXECUTIVE DIRECTORS												
Mr R Gunston	313,274	–	n/a	n/a	22,787	n/a	–	336,061	n/a	n/a	336,061	–
Ms C Bartlett	125,421	42,623	n/a	n/a	16,449	n/a	–	184,493	n/a	n/a	184,493	–
Mr D Bayes[6]	35,722	6,106	n/a	n/a	3,974	n/a	–	45,802	n/a	n/a	45,802	–
Mr D Manuel	125,421	44,200	n/a	n/a	16,595	n/a	–	186,216	n/a	n/a	186,216	–
Mr M Sammells	125,421	50,778	n/a	n/a	17,242	n/a	–	193,441	n/a	n/a	193,441	–
Ms K Spargo	125,421	33,079	n/a	n/a	15,528	n/a	–	174,028	n/a	n/a	174,028	–
Subtotal for Non-Executive Directors	**850,680**	**176,786**	**n/a**	**n/a**	**92,575**	**n/a**	**–**	**1,120,041**	**n/a**	**n/a**	**1,120,041**	**–**
EXECUTIVES												
Mr M Hooper[6]	1,396,660	n/a	–	n/a	20,823	22,707	–	1,440,190	–	–	1,440,190	–
Mrs J Pearson[6]	444,564	n/a	–	n/a	18,074	9,126	–	471,764	–	–	471,764	–
Mr J Sells[6]	109,452	n/a	–	n/a	4,779	2,306	–	116,537	19,387	18,147	154,071	24
Subtotal for Executives	**1,950,676**	**n/a**	**–**	n/a	**43,676**	**34,139**	**–**	**2,028,491**	**19,387**	**18,147**	**2,066,025**	**2**
TOTAL	**2,801,356**	**176,786**	**–**	**n/a**	**136,251**	**34,139**	**–**	**3,148,532**	**19,387**	**18,147**	**3,186,066**	**1**

1. For Non-Executive Directors, includes base fees paid in cash and shares as per the Non-Executive Directors Share Plan detailed on page 23. For the Executives, includes base salary and amounts in respect to annual leave expense movement.
2. Represents cash payments in respect to the 2021/22 STI plan.
3. Includes amounts in respect to long service leave expense movement.
4. The value of the rights and loan funded shares determined using the Black-Scholes option pricing model is expensed over the vesting period, therefore the amount disclosed above for the current year includes loan funded shares allocated in prior years.
5. Includes amounts expensed in relation to rights and loan funded shares. Excludes share purchases under the Non-Executive Directors Share Plan
6. The balances relate to the period as KMP. Mr Hooper ceased to be KMP on 31 December 2021. Mrs Pearson ceased to be KMP on 18 November 2021. Mr Sells was KMP from 18 November 2021

TABLE 3a: LTI loan funded shares: details of movement during the financial year 2022/23

						Number of Loan Funded Shares						Loan Value and Balance[3]			
Executive	**Grant Date**	**Share Price at Grant $**	**Fair Value Per Share Grant Date[1] $**	**Exercise Price $**	**Exercise Date[2]**	**Balance at 01/02/22**	**Granted During the Year**	**Vested During the Year**	**Forfeited During the Year**	**Exercised During the Year**	**Balance at 31/01/23**	**Loan Value at Grant Date $**	**Loan Balance at 01/02/22 $**	**Loan Repayments During the Year[4] $**	**Loan Balance at 31/01/23 $**
Mr V Ramsunder	01/02/2022	0.4650	0.1100	0.4650	01/02/2025	–	10,179,605	–	–	–	10,179,605	4,733,516	4,733,516	50,898	4,682,618
Mr J Sells[5]	01/02/2020	0.6000	0.1350	0.6000	01/02/2023	2,583,679	–	–	–	–	2,583,679	1,550,207	1,511,083	–	1,511,083
	01/02/2021	0.6750	0.1450	0.6750	01/02/2024	2,246,692	–	–	–	–	2,246,692	1,516,517	1,482,496	–	1,482,496
	01/02/2022	0.4650	0.1100	0.4650	01/02/2025	–	2,089,224	–	–	–	2,089,224	971,489	971,489	–	971,489
Mr N Simonsz[6]	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

1. For accounting purposes, the fair value of the loan funded shares was 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. Represents loan repayment through forfeited shares and/or dividend payment.
5. The number of shares and loan balance at 31 January 2023 represents the balance at the date on which Mr J Sells ceased to be a KMP on 11 April 2022.
6. Mr N Simonsz was not eligible to participate in the 2022 LTI plan.

TABLE 3a: LTI loan funded shares: details of movement during the financial year 2021/22

						Number of Loan Funded Shares						Loan Value and Balance[3]			
Executive	**Grant Date**	**Share Price at Grant $**	**Fair Value Per Share Grant Date[1] $**	**Exercise Price $**	**Exercise Date[2]**	**Balance at 01/02/21**	**Granted During the Year**	**Vested During the Year**	**Forfeited During the Year**	**Exercised During the Year**	**Balance at 31/01/22**	**Loan Value at Grant Date $**	**Loan Balance at 01/02/21 $**	**Loan Repayments During the Year[4] $**	**Loan Balance at 31/01/22 $**
Mr M Hooper[5]	01/02/2020	0.6000	0.1350	0.6000	01/02/2023	8,493,355	–	–	8,493,355	–	–	5,096,013	5,096,013	5,096,013	–
Mr J Sells[6]	01/02/2020	0.6000	0.1350	0.6000	01/02/2023	2,583,679	–	–	–	–	2,583,679	1,550,207	1,550,207	39,124	1,511,083
	01/02/2021	0.6750	0.145	0.6750	01/02/2024	–	2,246,692	–	–	–	2,246,692	1,516,517	1,516,517	34,021	1,482,496
Mrs J Pearson[7]	01/02/2020	0.6000	0.1350	0.6000	01/02/2023	2,140,097	–	–	–	–	2,140,097	1,284,058	1,284,058	32,407	1,251,651
	01/02/2021	0.6750	0.145	0.6750	01/02/2024	–	1,935,404	–	–	–	1,935,404	1,306,398	1,306,398	29,308	1,277,090

1. For accounting purposes, the fair value of the loan funded shares was 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. Represents loan repayment through forfeited shares and/or dividend payment.
5. The number of shares and loan balance at 31 January 2022 represents the balance at the date on which Mr M Hooper ceased to be a KMP on 31 December 2021.
6. The number of shares and loan balance at 1 February 2021 represents the balance at the date on which Mr J Sells became a KMP on 18 November 2021.
7. The number of shares and loan balance at 31 January 2022 represent the balance at the date on which Mrs J Pearson ceased to be a KMP on 18 November 2021.

TABLE 3b: Rights: details of movement during the financial year 2022/23

Executive	Grant Date	Fair Value Per Right at Grant[1] $	Exercise Price $	Exercise Date[2]	Number of Rights: Balance at 01/02/22	Granted During the Year	Vested During the Year	Vested %	Forfeited During the Year	Exercised During the Year	Balance at 31/01/23	Vesting Date	Expiry Date
Mr V Ramsunder	01/02/2022	0.4400	–	01/02/2023	–	1,482,423	1,482,423	100%	–	–	1,482,423	31/01/2023	31/01/2026
	01/02/2022	0.4200	–	01/02/2024	–	1,482,422	–		–	–	1,482,422	31/01/2024	31/01/2026
Mr J Sells[3]	01/02/2019	0.5000	–	01/02/2020	225,663	–	–		–	225,663	–	31/01/2020	31/01/2023
	01/02/2019	0.4700	–	01/02/2021	180,530	–	–		–	180,530	–	31/01/2021	31/01/2023
	01/04/2022	0.5100	–	01/12/2022		382,775	–		–	–	382,775	30/11/2022	01/12/2025
Mr N Simonsz	–	–	–	–	–	–	–		–	–	–	–	–

1. For accounting purposes, the fair value of the rights was calculated using the Black-Scholes option pricing model with Monte Carlo simulations.
2. Rights will only vest after satisfying the specific vesting conditions and are subject to forfeiture conditions.
3. The number of rights at 31 January 2022 represents the balance at the date on which Mr J Sells ceased to be a KMP on 11 April 2022.

TABLE 4a: Shareholdings of key management personnel

2023	Number of Shares at 01/02/2022	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 31/01/2023
NON-EXECUTIVE DIRECTORS						
Mr R Gunston[1]	628,549	35,140	–	–	–	663,689
Mr D Manuel	349,191	33,419	–	–	–	382,610
Ms K Spargo	294,666	33,546	120,000	–	–	448,212
Ms C Bartlett	180,483	35,647	60,000	–	–	276,130
Mr M Sammells	74,985	50,398	–	–	–	125,383
Subtotal for Non-Executive Directors	**1,527,874**	**188,150**	**180,000**	**–**	**–**	**1,896,024**
EXECUTIVES						
Mr V Ramsunder	–	–	–	–	–	–
Mr J Sells[1]	3,782,695	406,193	–	–	–	4,188,888
Mr N Simonsz[2]	–	–	–	–	–	–
Subtotal for Executives	**3,782,695**	**406,193**	**–**	**–**	**–**	**4,188,888**
TOTAL	**5,310,569**	**594,343**	**180,000**	**–**	**–**	**6,084,912**

1. The number of shares at 31 January 2023 represent the balance at the date on which Mr R Gunston (5 July 2022) and Mr J Sells ceased to be a KMP on 11 April 2022.
2. The number of shares at 1 February 2022 represent the balance at the date on which Mr N Simonsz became a KMP on 29 August 2022.

2022	Number of Shares at 01/02/2021	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 31/01/2022
NON-EXECUTIVE DIRECTORS						
Mr R Gunston	556,188	72,361	–	–	–	628,549
Mr D Bayes[1]	445,834	7,141	–	–	(319,499)	133,476
Mr D Manuel	309,936	39,255	–	–	–	349,191
Ms K Spargo	256,253	38,413	–	–	–	294,666
Ms C Bartlett	141,715	38,768	–	–	–	180,483
Mr M Sammells	34,253	40,732	–	–	–	74,985
Subtotal for Non-Executive Directors	**1,744,179**	**236,670**	**–**	**–**	**(319,499)**	**1,661,350**
EXECUTIVES						
Mr M Hooper[2]	15,044,467	595,817	–	–	–	15,640,284
Mr J Sells[3]	3,782,695	–	–	–	–	3,782,695
Mrs J Pearson[4]	196,461	130,325	–	–	–	326,786
Subtotal for Executives	**19,023,623**	**726,142**	**–**	**–**	**–**	**19,749,765**
TOTAL	**20,767,802**	**962,812**	**–**	**–**	**(319,499)**	**21,411,115**

1. The number of shares at 31 January 2022 represents the balance at the date on which Mr D Bayes ceased to be a KMP on 12 May 2021.
2. The number of shares at 31 January 2022 represents the balance at the date on which Mr M Hooper ceased to be a KMP on 31 December 2021.
3. The number of shares at 1 February 2021 represents the balance at the date on which Mr J Sells became a KMP on 18 November 2021.
4. The number of shares at 31 January 2022 represent the balance at the date on which Mrs J Pearson ceased to be a KMP on 18 November 2021.

TABLE 4b: Performance rights and options (loan funded shares) holdings of key management personnel

2023	Number of Rights/Options at 01/02/2022	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 31/01/2023
NON-EXECUTIVE DIRECTORS					
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
Mr M Sammells	n/a	n/a	n/a	n/a	n/a
Subtotal for Non-Executive Directors	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
EXECUTIVES					
Mr V Ramsunder	–	13,144,450	–	–	13,144,450
Mr J Sells[1]	5,236,564	2,471,999	(406,193)	–	7,302,370
Mr N Simonsz	–	–	–	–	–
Subtotal for Executives	**5,236,564**		**(406,193)**		**20,446,820**
TOTAL	**5,236,564**	**15,616,449**	**(406,193)**		**20,446,820**

1. The number of rights at 31 January 2023 represent the balance at the date on which Mr J Sells ceased to be a KMP on 11 April 2022.

2022	Number of Rights/Options at 01/02/2021	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 31/01/2022
NON-EXECUTIVE DIRECTORS					
Mr R Gunston	n/a	n/a	n/a	n/a	n/a
Mr D Bayes[1]	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
Mr M Sammells	n/a	n/a	n/a	n/a	n/a
Subtotal for Non-Executive Directors	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
EXECUTIVES					
Mr M Hooper[2]	10,557,124	–	(595,817)	(9,895,449)	65,858
Mr J Sells[3]	5,665,172	–	–	(428,608)	5,236,564
Mrs J Pearson[4]	2,633,220	1,942,904	(130,325)	(296,940)	4,148,859
Subtotal for Executives	**18,855,516**	**1,942,904**	**(726,142)**	**(10,620,997)**	**9,451,281**
TOTAL	**18,855,516**	**1,942,904**	**(726,142)**	**(10,620,997)**	**9,451,281**

1. The number of rights at 31 January 2022 represents the balance at the date on which Mr D Bayes ceased to be a KMP on 12 May 2021.
2. The number of rights at 31 January 2022 represents the balance at the date on which Mr M Hooper ceased to be a KMP on 31 December 2021.
3. The number of rights at 1 February 2021 represents the balance at the date on which Mr J Sells became a KMP on 18 November 2021.
4. The number of rights at 31 January 2022 represent the balance at the date on which Mrs J Pearson ceased to be a KMP on 18 November 2021.

Auditor's Independence Declaration

Deloitte.

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22 March 2023

The Board of Directors
Sigma Healthcare Limited
Level 6, 2125 Dandenong Road
Clayton VIC 3168

Dear Board Members

Auditor's Independence Declaration to 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 2023, 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 faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

XDelaney

X Delaney
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

Consolidated statement of comprehensive income

For the year ended 31 January 2023

	Note	2023 $'000	2022 $'000
Sales revenue	2	**3,660,240**	3,446,164
Cost of goods sold		**(3,405,832)**	(3,208,219)
Gross profit		**254,408**	237,945
Other revenue	2	**101,669**	103,305
Other expense		**(6,485)**	(1,647)
Warehousing and delivery expenses		**(161,596)**	(154,915)
Sales and marketing expenses		**(48,783)**	(61,668)
Administration expenses		**(82,616)**	(93,016)
Impairment expense	3	**(6,989)**	–
Depreciation and amortisation	3	**(30,336)**	(27,691)
Profit before financing costs and tax expense (EBIT)		**19,272**	2,313
Finance income		**597**	221
Finance costs		**(14,407)**	(10,841)
Net finance costs		**(13,810)**	(10,620)
Profit/(loss) before income tax		**5,462**	(8,307)
Income tax (expense)/benefit	4	**(2,435)**	1,971
Profit/(loss) for the year after tax		**3,027**	(6,336)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(22)**	(4)
Income tax relating to components of other comprehensive income	4	**7**	1
Items that will not be reclassified to profit or loss:			
Net change in fair value of equity instruments	18	**(1,555)**	718
Income tax relating to components of other comprehensive income	4	**467**	(215)
Other comprehensive income/(loss) for the year (net of tax)		**(1,103)**	500
Total comprehensive income/(loss) for the year		**1,924**	(5,836)
Profit/(loss) attributable to:			
Owners of the Company		**1,811**	(7,239)
Non-controlling interest		**1,216**	903
Profit/(loss) for the year		**3,027**	(6,336)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**708**	(6,739)
Non-controlling interest	20	**1,216**	903
Total comprehensive income/(loss) for the year		**1,924**	(5,836)
		Cents per share	Cents per share
Earnings/(loss) per share (cents) attributable to owners of the Company			
– Basic earnings/(loss) per share	5	**0.2**	(0.7)
– Diluted earnings/(loss) per share	5	**0.2**	(0.7)

The above consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes to the consolidated financial statements.

Consolidated balance sheet

As at 31 January 2023

	Note	2023 $'000	2022 $'000
Current assets			
Cash and cash equivalents	30	**16,650**	31,145
Trade and other receivables	8	**332,476**	358,683
Inventories	9	**324,851**	321,640
Income tax receivable		**4,974**	66
Prepayments		**6,897**	50,087
Other financial assets	18	**–**	14
Total current assets		**685,848**	761,635
Non-current assets			
Trade and other receivables	8	**1,306**	783
Property, plant and equipment	11	**200,231**	193,237
Goodwill and other intangible assets	12	**118,243**	128,050
Right-of-use assets	14b	**90,692**	88,327
Other financial assets	18	**16,077**	17,632
Net deferred tax assets	4	**61,676**	58,617
Total non-current assets		**488,225**	486,646
Total assets		**1,174,073**	1,248,281
Current liabilities			
Bank overdraft	17, 30	**3,681**	15,375
Trade and other payables	10	**449,765**	407,008
Lease liabilities	14a	**9,263**	10,318
Provisions	13	**13,692**	23,027
Deferred income		**956**	1,886
Total current liabilities		**477,357**	457,614
Non-current liabilities			
Borrowings	17	**80,000**	165,000
Lease liabilities	14a	**134,041**	132,739
Provisions	13	**4,909**	4,150
Total non-current liabilities		**218,950**	301,889
Total liabilities		**696,307**	759,503
Net assets		**477,766**	488,778
Equity			
Contributed equity	15	**1,234,462**	1,225,455
Reserves	16	**3,043**	2,867
Accumulated losses		**(761,587)**	(741,134)
Non-controlling interest	20	**1,848**	1,590
Total equity		**477,766**	488,778

The above consolidated balance sheet is to be read in conjunction with the accompanying notes to the consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 January 2023

		Contributed equity		Reserves						
	Note	Issued capital $'000	Treasury shares $'000	Fair value reserve $'000	Foreign currency translation reserve $'000	Options/ performance rights reserve $'000	Employee share reserve $'000	Accumu-lated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 February 2021		**1,286,144**	**(66,231)**	**(594)**	**241**	**2,887**	**2,694**	**(711,469)**	**687**	**514,359**
Profit/(loss) for the year		–	–	–	–	–	–	(7,239)	903	(6,336)
Other comprehensive income/(loss)		–	–	503	(3)	–	–	–	–	500
Total comprehensive income/(loss) for the year		**–**	**–**	**503**	**(3)**	**–**	**–**	**(7,239)**	**903**	**(5,836)**
Transactions with owners in their capacity as owners:										
Employee shares exercised	15(b)	–	320	–	–	–	–	–	–	320
Share-based remuneration plans		–	–	–	–	(13)	–	–	–	(13)
Dividends paid	6	–	–	–	–	–	855	(20,782)	–	(19,927)
Dividends applied to equity compensation plan		–	–	–	–	–	(125)	–	–	(125)
Reclassification of settled and expired share-based transactions		–	5,222	–	–	(1,497)	(1,548)	(2,177)	–	–
Reclassification of revaluation reserve – disposal of investments		–	–	(533)	–	–	–	533	–	–
		–	5,542	(533)	–	(1,510)	(818)	(22,426)	–	(19,745)
Balance at 31 January 2022		**1,286,144**	**(60,689)**	**(624)**	**238**	**1,377**	**1,876**	**(741,134)**	**1,590**	**488,778**
Balance at 1 February 2022		**1,286,144**	**(60,689)**	**(624)**	**238**	**1,377**	**1,876**	**(741,134)**	**1,590**	**488,778**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**1,811**	**1,216**	**3,027**
Other comprehensive loss		**–**	**–**	**(1,088)**	**(15)**	**–**	**–**	**–**	**–**	**(1,103)**
Total comprehensive income/(loss) for the year		**–**	**–**	**(1,088)**	**(15)**	**–**	**–**	**1,811**	**1,216**	**1,924**
Transactions with owners in their capacity as owners:										
Employee shares exercised	15(b)	**–**	**1,352**	**–**	**–**	**–**	**–**	**–**	**–**	**1,352**
Share-based remuneration plans		**–**	**–**	**–**	**–**	**1,931**	**–**	**–**	**–**	**1,931**
Dividends paid	6	**–**	**–**	**–**	**–**	**–**	**584**	**(15,544)**	**(980)**	**(15,940)**
Dividends applied to equity compensation plan		**–**	**–**	**–**	**–**	**–**	**(301)**	**–**	**–**	**(301)**
Reclassification of settled and expired share-based transactions		**–**	**7,655**	**–**	**–**	**(156)**	**(779)**	**(6,720)**	**–**	**–**
Derecognition of minority interest on disposal of a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**22**	**22**
		–	**9,007**	**–**	**–**	**1,775**	**(496)**	**(22,264)**	**(958)**	**(12,936)**
Balance at 31 January 2023		**1,286,144**	**(51,682)**	**(1,712)**	**223**	**3,152**	**1,380**	**(761,587)**	**1,848**	**477,766**

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 consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 January 2023

	Note	2023 $'000	2022 $'000
Cash flows from operating activities			
Receipts from customers		**4,167,892**	3,906,930
Payments to suppliers and employees		**(4,009,629)**	(3,937,034)
Interest received		**597**	221
Interest paid		**(6,382)**	(4,114)
Income taxes paid		**(9,740)**	(12,283)
Net cash inflow/(outflow) from operating activities	30	**142,738**	(46,280)
Cash flows from investing activities			
Payments for property, plant and equipment, software and intangibles		**(29,399)**	(14,205)
Payments to acquire financial assets		**–**	(2,387)
Proceeds from sale of a subsidiary, net of cash disposed		**445**	–
Proceeds from sales of financial assets		**300**	–
Proceeds from sale of property, plant and equipment		**50**	–
Net cash outflow from investing activities		**(28,604)**	(16,592)
Cash flows from financing activities			
(Repayments of)/proceeds from borrowings	30	**(85,000)**	165,000
Repayments of lease liabilities	14a	**(16,880)**	(16,377)
Proceeds from employee shares exercised		**879**	195
Dividends paid – Sigma		**(14,960)**	(19,927)
Dividends paid – non-controlling interests	6, 20	**(980)**	–
Net cash (outflow)/inflow from financing activities		**(116,941)**	128,891
Net (decrease)/increase in cash and cash equivalents		**(2,807)**	66,019
Cash and cash equivalents held at the beginning of the financial year		**15,770**	(50,251)
Effects of exchange rate changes on cash and cash equivalents		**6**	2
Net cash and cash equivalents at the end of the financial year[1]	30	**12,969**	15,770

1. Net cash and cash equivalents include cash and cash equivalents and bank overdraft as reported in the consolidated balance sheet.

The above consolidated statement of cash flows is to be read in conjunction with the accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 January 2023

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 22 March 2023.

Basis of preparation

The consolidated 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");
- in order to conform with the current period's presentation, certain comparatives have been re-classified;
- 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*.

Going concern

The Directors have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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 consolidated 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 21 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 an 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 consolidated 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.

Inventory provision

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of standard 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.

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.

Software as a Service (SAAS) costs adjustments in the 2022 financial year

Pursuant to the IFRS Interpretation Committee (IFRIC) agenda decision in relation the application of IAS 38 Intangible Assets to Configuration or Customisation Costs in a Cloud Computing Arrangement, the Group adopted the accounting policy to expense the costs in relation to configure and customise SAAS arrangements in the 2022 financial year and beyond.

Significant changes in the current reporting period

The introduction of new accounting standards did not lead to any material change in measurement or disclosure in these financial statements. Refer to Note 31 for details of other new accounting standards and interpretations, as well as standards issued but not yet effective.

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
Carrying value of inventory	9
Depreciation of property, plant and equipment and transfer of capital work-in-progress	11
Impairment of goodwill and other intangible assets	12

Restatement of comparative information

Certain amounts in the comparative financial year ended have been reclassified to conform to the current financial year disclosure.

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
2. Sales and other revenue
3. Expenses
4. Taxation
5. Earnings per share
6. Dividends
7. Subsequent events

1. Segment information

Information on 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 have been identified as the Chief Executive Officer and Managing Director (CEO) and Chief Financial Officer (CFO) as disclosed in the Remuneration Report on pages 10 to 31. For the year ended 31 January 2023, it was concluded that the Group continues to operate only in the Healthcare segment.

The aggregation criteria under AASB 8 *Operating segments* has been applied to include the results of the operations of Sigma, Central Healthcare, NostraData, and Medication Packaging Systems Australia (MPS) within the Healthcare segment. Sigma, NostraData and MPS are separate cash generating units for impairment testing purposes.

Segment information provided to the CODM

The CODM primarily uses Net Profit After Tax (attributable to owners of the company) to assess the operating performance of the business.

Geographical segments

The Group operates predominantly within Australia.

Information on major customers

One customer group contributed revenues which forms 29% of the Group revenues (2022: 27%). This customer has a service contract which is in place until June 2024. Sales revenue for the financial year ended to 31 January 2023 was $1,068.7 million (2022: $940.8 million).

2. Sales and other revenue

	2023 $'000	2022 $'000
Sales revenue	**3,660,240**	3,446,164
Other revenue		
Commissions and fees	**50,219**	50,322
Membership revenue	**16,005**	17,096
Marketing services and promotional revenue	**34,778**	34,989
Sundry revenue	**667**	898
Total other revenue	**101,669**	103,305

Recognition and measurement

The Group derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the revenue streams summarised above and, in the tables, below.

The presentation of sales revenue and other revenue is consistent with the segment reporting (refer to Note 1) as the Group has one reportable segment.

For each revenue stream, the Group has assessed the recognition of revenue, including the timing, in accordance with AASB 15 *Revenue from Contracts with Customers*. A summary of the nature, performance obligations under the relevant contracts and timing of revenue recognition by stream is summarised below.

Sales revenue

Revenue stream	Description	Performance obligation	Timing of recognition
Sale of goods	Sales of goods to customers, which include an agreed period over which the inventory can be returned. Consideration recognised is net of settlement credits (including customer rebates and discounts) and a provision for returns.	Delivery of goods to customer	Point in time
Community service obligation (CSO) income	Income earned from the Government to fulfil minimum delivery requirements for specified medicines to pharmacies in accordance with the Community Pharmacy Agreement ('CPA').	Compliance with obligations of the CPA	Over time

Other revenue

Revenue stream	Description	Performance obligation	Timing of recognition
Commissions and fees	Fees billed for services performed by the Group, including deliveries of dangerous goods and administration of discounts on products sold, and packaging fees.	Completion of services to be provided	Point in time
Membership revenue	Fees received to provide access to use the intellectual property associated with the Group's banners.	Over the term of the licence agreement	Over time
Marketing services and promotional revenue	Income received from suppliers for promotional and advertising services rendered.	Completion of services to be rendered	Point in time
Sundry revenue	Revenue from other services provided, including provision of data and other licencing fees.	Completion of the service requirements	Over time

Contract costs

The Group provides upfront incentives to franchisees upon signing of the franchise agreement. These costs represent incremental costs of obtaining a contract and are deferred and amortised over the life of the agreements.

Notes to the consolidated financial statements continued

For the year ended 31 January 2023

3. Expenses

	Note	2023 $'000	2022 $'000
Profit before tax includes the following specific expenses:			
Employee benefits expense		**155,999**	143,663
Defined contribution plans		**7,957**	8,976
Employee share-based payments expense	29	**1,931**	(13)
Total employee benefits expense		**165,887**	152,626
Amortisation – brand names	12	**482**	328
Amortisation – software	12	**3,307**	3,087
Depreciation – buildings	11	**1,043**	1,683
Depreciation – plant and equipment	11	**14,010**	12,024
Depreciation – right-of-use assets	14c	**11,494**	10,569
Total depreciation and amortisation		**30,336**	27,691
Write down of inventories to net realisable value		**32,841**	10,252
Net impairment loss/(reversal) on trade debtors		**(1,049)**	6,764
Impairment loss – goodwill[1]	12	**6,989**	-

1. Impairment loss – goodwill

Following a review of market conditions, including inflation and interest rates expectations during the half year, Sigma adjusted discount rates and reduced forecast growth rates and cash flows across the MPS Cash Generating Unit (CGU), resulting in an impairment charge being recorded at the half year period. The Group recognised an impairment to the carrying value of the MPS CGU of $7.0 million. The decrease in the estimated recoverable amount compared to prior year reflects the cessation of contractual services to the Cura business services agreement. These factors, together with uncertainties surrounding future growth rates, contributed to a lower estimation of future cash flows attributable to this CGU resulting in the impairment charge as recorded in 1H23. Refer Note 12.

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 29 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 of inventories.

Impairment of trade debtors

Included in sales and marketing expenses in the consolidated statement of comprehensive income. Refer to Note 8 for details of trade and other receivables.

4. Taxation

	2023 $'000	2022 $'000
(a) Income tax expense		
Current tax	**5,563**	7,563
Deferred tax	**(2,395)**	(9,685)
Adjustments for current income tax of prior periods	**(733)**	151
Total income tax expense/(benefit)	**2,435**	(1,971)
(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable:		
Profit/(loss) before income tax	**5,462**	(8,307)
Tax at the Australian company tax rate of 30% (2022: 30%)	**1,639**	(2,492)
Tax effect of differential corporate tax rates	**63**	(6)
Tax effect of amounts which are not deductible in calculating taxable income:		
Recoupment of capital losses not previously recorded	**–**	46
Other items	**1,602**	419
Amounts (over)/under provided in prior periods	**(869)**	62
Total income tax expense/(benefit)	**2,435**	(1,971)
(c) Amounts recognised directly in equity		
Net change in fair value of financial asset	**(467)**	215
Exchange differences on translation of foreign operations	**(7)**	(1)
Total amounts recognised directly in equity	**(474)**	214

	2023 $'000	2022 $'000
(d) Deferred tax		
Trade and other receivables	**4,939**	8,035
Inventories	**10,514**	5,225
Trade and other payables and accruals	**4,528**	3,469
Provisions for employee benefits	**4,269**	6,020
Intangible assets	**(148)**	(203)
Property, plant and equipment	**17,368**	17,351
Right-of-use assets and lease liabilities	**16,776**	17,319
Other	**3,430**	1,401
Net deferred tax assets	**61,676**	58,617
Deferred tax assets	**89,212**	85,767
Deferred tax liabilities	**(27,536)**	(27,150)
Net deferred tax assets	**61,676**	58,617
Balance at the beginning of the year	**58,617**	49,148
Amount credited to profit and loss	**2,395**	9,685
Amount credited/(charged) to other comprehensive income	**474**	(214)
Underprovision in prior year	**(136)**	(89)
Other	**326**	87
Balance at the end of the year	**61,676**	58,617

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, which were recognised in other comprehensive income.

Unrecognised deferred tax losses

Deferred tax assets have not been recognised in respect of capital losses of $194,983,811 tax effected (2022: $194,273,811) 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 predominantly arose from the historic sale of the Group's pharmaceutical division.

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 periods.

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.

4. Taxation continued

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 21 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 consolidated financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

5. Earnings per share

	2023 Cents per share	2022 Cents per share
(a) Basic and diluted earnings/(loss) per share		
Basic earnings/(loss) per share	**0.2**	(0.7)
Diluted earnings/(loss) per share	**0.2**	(0.7)

	2023 $'000	2022 $'000
(b) Reconciliation of earnings/(loss) used in calculating basic and diluted earnings/(loss) per share		
Profit/(loss) attributable to owners of the Company	**1,811**	(7,239)

	2023 No '000	2022 No '000
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**990,392**	988,392
Adjustments for calculation of diluted earnings per share:		
Performance rights/options	**21,459**	28,604
Effect of shares held under Sigma Employee Share Plan	**3,250**	9,748
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**1,015,101**	1,026,744

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 29 and in the Remuneration Report.

6. Dividends

	2023		2022	
	Cents per share	$'000	Cents per share	$'000
Recognised amounts				
Final dividend – prior year	**1.0**	**10,593**	1.0	10,593
Interim dividend – current year	**0.5**	**5,296**	1.0	10,593
Dividends recognised by the parent entity		**15,889**		21,186
Less: dividends paid on the shares held by Sigma Employee Share Plan		**(345)**		(404)
Less: dividends paid on the shares issued under the Sigma Employee Share Plan		**(584)**		(855)
Dividends recognised by non-controlling interests		**980**		–
Dividends paid by the Group		**15,940**		19,927

All dividends declared and subsequently paid by the Company have been 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.

	2023 $'000	2022 $'000
Dividend franking account		
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2022: 30%)	**1,990**	4,560

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 payment of the amount of the current income tax payable.

7. Subsequent events

Subsequent to 31 January 2023, the following events and transactions have occurred:

Dividend

Since the end of the year, the Directors have resolved to pay a final dividend of 0.5 cent per share fully franked, accordingly this dividend is not provided for in the balance sheet at 31 January 2023. The ex-dividend date is 30 March 2023, the record date is 31 March 2023 and it is expected to be paid on 18 April 2023. The total amount payable is $5.3 million.

Central Healthcare Services Limited Pty Ltd ("CHS") assets disposal

On 10 March 2023, the Group announced the signing of an agreement for the disposal of certain hospital operations and assets of its subsidiary Central Healthcare Services Pty Ltd to Clifford Hallam Healthcare Pty Ltd. Central Healthcare Services Pty Ltd will be renamed Sigma Healthcare Logistics Pty Ltd for ongoing operations in relation to third party logistics and other services. The completion is expected to occur on 31 March 2023.

Other than the matters discussed above, there has not been any other matter or circumstances that have arisen since 31 January 2023 that have 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.

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
9. Inventories
10. Trade and other payables
11. Property, plant and equipment
12. Goodwill and other intangible assets
13. Provisions and contingencies
14. Right-of-use assets and lease liabilities

8. Trade and other receivables

	2023 $'000	2022 $'000
Current		
Trade receivables	**325,574**	368,583
Provision for expected credit losses	**(14,404)**	(25,267)
Other receivables	**21,306**	15,367
Total current receivables	**332,476**	358,683
Non-current		
Other loans receivable	**1,306**	783
Total non-current receivables	**1,306**	783
Movements in the provision for expected credit losses:		
Carrying value at the beginning of the year	**(25,267)**	(19,262)
Provision (recognised)/released during the year	**2,220**	(7,012)
Receivables written off during the year as uncollectible	**8,643**	1,007
Carrying value at the end of the year	**(14,404)**	(25,267)

8. Trade and other receivables continued

Trade receivables

Trade and other receivables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment (expected credit losses). 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.

Impairment of trade receivables

The Group measures the provision for expected credit losses (ECL) using the simplified approach to measure ECL, which uses a lifetime expected loss allowance for all trade receivables. The Group determines lifetime expected credit losses for groups of trade receivables with shared credit risk characteristics. Groupings are based on customer, trading term and ageing.

An expected credit loss rate is determined for each group, based on the historic credit loss rates for the group, adjusted for other current observable data that may materially impact the Group's future credit risk. This other observable data includes the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. For trade receivables with significant balances and/or are credit impaired, these are assessed for ECL on an individual basis. There has been no change in the estimation techniques during the current reporting period.

For information on the Group's credit risk management refer to Note 18.

	Not due $'000	0-30 days $'000	31-60 days $'000	60+ days $'000	Total $'000
2023					
Average loss rate	**1.98%**	**16.28%**	**39.60%**	**47.94%**	**4.42%**
Trade receivables	**301,441**	**8,936**	**3,833**	**11,364**	**325,574**
Provision for expected credit losses	**5,983**	**1,455**	**1,518**	**5,448**	**14,404**
2022					
Average loss rate	5.16%	21.93%	31.28%	45.56%	6.86%
Trade receivables	342,545	15,104	4,949	5,985	368,583
Provision for expected credit losses	17,679	3,313	1,548	2,727	25,267

9. Inventories

	2023 $'000	2022 $'000
At Cost		
Finished goods	**359,898**	339,055
Provision for obsolescence	**(35,047)**	(17,415)
Net inventories	**324,851**	321,640

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

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

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

	Note	2023 $'000	2022 $'000
Current			
Trade payables		**406,012**	352,273
Other payables and accruals		**43,753**	54,735
Total current payables	18	**449,765**	407,008

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 18.

11. Property, plant and equipment

	Note	Land and buildings $'000	Plant and equipment $'000	Work in progress $'000	Total $'000
At 1 February 2021					
Cost		73,203	136,706	52,401	262,310
Accumulated depreciation		(2,514)	(66,168)	–	(68,682)
Net book amount		70,689	70,538	52,401	193,628
Year ended 31 January 2022					
Opening net book amount		70,689	70,538	52,401	193,628
Additions		–	1,555	12,922	14,477
Transfers		26,832	36,457	(63,289)	–
Disposals		–	(1,161)	–	(1,161)
Depreciation	3	(1,683)	(12,024)	–	(13,707)
Closing net book amount		95,838	95,365	2,034	193,237
At 31 January 2022					
Cost		99,761	162,035	2,034	263,830
Accumulated depreciation		(3,923)	(66,670)	–	(70,593)
Net book amount		**95,838**	**95,365**	**2,034**	**193,237**
Year ended 31 January 2023					
Opening net book amount		**95,838**	**95,365**	**2,034**	**193,237**
Additions		**–**	**1,443**	**26,584**	**28,027**
Transfers		**10,034**	**18,584**	**(28,618)**	**–**
Disposals		**–**	**(5,980)**	**–**	**(5,980)**
Depreciation	3	**(1,043)**	**(14,010)**	**–**	**(15,053)**
Closing net book amount		**104,829**	**95,402**	**–**	**200,231**
At 31 January 2023					
Cost		**109,771**	**144,125**	**–**	**253,896**
Accumulated depreciation		**(4,942)**	**(48,723)**	**–**	**(53,665)**
Net book amount		**104,829**	**95,402**	**–**	**200,231**

Capital work in progress

The costs remain in work in progress during the construction phase and transferred to the property, plant and equipment asset class when the item is considered ready for their intended use and then depreciated over their expected useful lives as noted below.

Recognition and measurement

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment (if any). 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
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 (CGU).

12. Goodwill and other intangible assets

	Note	Goodwill $'000	Brand names $'000	Software $'000	Other intang-ibles $'000	Work in progress $'000	Total $'000
At 1 February 2021							
Cost		102,960	25,692	28,954	940	4,321	162,867
Accumulated amortisation		–	(13,702)	(19,518)	(940)	–	(34,160)
Net book amount		102,960	11,990	9,436	–	4,321	128,707
Year ended 31 January 2022							
Opening net book amount		102,960	11,990	9,436	–	4,321	128,707
Additions		–	–	102	–	2,654	2,756
Transfers		–	–	5,381	–	(5,381)	–
Foreign currency movements		–	2	–	–	–	2
Amortisation	3	–	(328)	(3,087)	–	–	(3,415)
Closing net book amount		102,960	11,664	11,832	–	1,594	128,050
At 31 January 2022							
Cost		102,960	25,681	34,553	940	1,594	165,728
Accumulated amortisation		–	(14,017)	(22,721)	(940)	–	(37,678)
Net book amount		**102,960**	**11,664**	**11,832**	**–**	**1,594**	**128,050**
Year ended 31 January 2023							
Opening net book amount		**102,960**	**11,664**	**11,832**	**–**	**1,594**	**128,050**
Additions		**–**	**–**	**1,184**	**–**	**566**	**1,750**
Transfers		**–**	**–**	**2,038**	**–**	**(2,038)**	**–**
Foreign currency movements		**–**	**(16)**	**–**	**–**	**–**	**(16)**
Impairment loss	3	**(6,989)**	**–**	**–**	**–**	**–**	**(6,989)**
Disposals		**(750)**	**–**	**(13)**	**–**	**–**	**(763)**
Amortisation	3	**–**	**(482)**	**(3,307)**	**–**	**–**	**(3,789)**
Closing net book amount		**95,221**	**11,166**	**11,734**	**–**	**122**	**118,243**
At 31 January 2023							
Cost		**95,221**	**25,543**	**34,575**	**940**	**122**	**156,401**
Accumulated amortisation		**–**	**(14,377)**	**(22,841)**	**(940)**	**–**	**(38,158)**
Net book amount		**95,221**	**11,166**	**11,734**	**–**	**122**	**118,243**

Capital work in progress

The costs remain in work in progress during the development phase and transferred to computer software when the item is considered ready for their intended use and then amortised over their expected useful lives as noted below.

Other intangibles consist of customer relationships and supplier contracts.

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 3 to 7 years. The estimated useful lives and amortisation method are reviewed annually at the end of the reporting period.

Impairment of goodwill, intangible assets and non-current 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 CGUs. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The Group recognised the following non-cash impairment expense related to non-current assets:

	2023 $'000	2022 $'000
Impairment of goodwill – MPS	6,989	–
Total impairment expense	**6,989**	–

Impairment testing of goodwill

Goodwill is tested for impairment annually, or more frequently when indicators of impairment are identified. In testing for impairment, the carrying amount of each Cash Generating Unit (CGU) is compared against the recoverable amount.

For each CGU tested, the recoverable amount has been calculated based on the value in use, using a discounted cash flow (DCF) approach. The DCF uses post-tax cash flow projections based on the most recent one year approved budget and two years financial forecasts, with the remaining two years extrapolated using a growth rate and is discounted at an appropriate after-tax discount rate, taking into account the Group's weighted average cost of capital adjusted for any risks specific to the CGU.

Terminal growth rates applied in the DCF are based on estimates of long-term inflation, GDP growth in the country in which the CGU primarily operates and estimates of long-term performance of each CGU.

The allocation of goodwill to each CGU and assumptions applied in calculating the recoverable amounts of the goodwill in testing for impairment include:

	Allocated Goodwill		Post-Tax Discount Rates		Long-Term Growth Rates	
Cash generating unit	**2023 $'000**	**2022 $'000**	**2023[3] %**	**2022 %**	**2023 %**	**2022 %**
Sigma	**85,294**	77,519	**8.5%**	8.3%	**3.0%**	2.5%
NostraData	**6,157**	6,157	**7.4%**	7.5%	**2.5%**	2.5%
Medical Packing Systems (MPS)[1]	**3,770**	10,759	**9.3%**	9.0%	**2.5%**	2.5%
Medical Industries Australia (MIA)[2]	–	8,525	–	7.5%	–	2.5%
Total goodwill	**95,221**	102,960				

1. Goodwill impairment recognised at the half year ended 31 July 2022 for Cura.
2. Medical Industries Australia (MIA) ceased being a separate CGU in the 2H23 following amalgamation into the Sigma CGU.
3. A change to the methodology of calculating beta for the purposes of the discount rate was adopted.

Significant estimates made

The cash flow projections used in the impairment test are made with consideration to other available information and estimations including past and actual performance to date, assumptions around future performance and expected revenue and cost growth.

Reasonably possible change sensitivity

The Sigma CGU impairment test is most sensitive to assumptions in the future gross margin growth rates. The value in use model assumes that the gross profit margin will increase from that achieved in 2023 over the forecast period. The cash flows in the budget includes a number of planned initiatives and efficiency savings which are forecast to be margin accretive. If the higher margin rate is not achieved or if operational efficiencies are not sustained, the resulting reduction in margins would reduce the recoverable amount in relation to the goodwill allocated to the Sigma CGU.

Specifically for the Sigma CGU, the value in use model results in a headroom of $440m. The following impacts may arise from reasonably possible changes in critical assumptions:

- The value in use model assumed that between 2024 and 2028, the business achieves a margin compound annual growth rate (CAGR) of at least 9.71%. In the event margin growth in the period reduces below 5.35% CAGR and costs are unchanged, an impairment of the goodwill allocated to the Sigma CGU may be required.
- The value in use model assumes a post-tax discount rate of 8.5%. In the event that the post-tax discount rate increases above 12.71%, an impairment of the goodwill allocated to the Sigma CGU may be required.

The MPS CGU impairment test is most sensitive to assumptions in the future revenue growth rates and increasing margins. The value in use model assumes that the rate of revenue growth will increase from that achieved in 2023 over the forecast period. The cash flows in the budget includes a number of planned initiatives and productivity improvements which are forecast to increase revenue. If the higher revenue growth rate is not achieved or if improvements in productivity output are not realised and expenses continue at forecast levels, the resulting reduction in margins would reduce the recoverable amount in relation to the goodwill allocated to the MPS CGU.

Specifically for the MPS CGU, the value in use model results in a headroom of $3.6m. The following impacts may arise from reasonably possible changes in critical assumptions:

- The value in use model assumed that between 2024 and 2028, the business achieves an other income compound annual growth rate (CAGR) of at least 4.97%. In the event other income growth in the period reduces below 4.59% CAGR and costs are unchanged, an impairment of the goodwill allocated to the MPS CGU may be required.
- The value in use model assumes a post-tax discount rate of 9.3%. In the event that the post-tax discount rate increases above 10.0%, an impairment of the goodwill allocated to the MPS CGU may be required.

13. Provisions and contingencies

Provisions

	2023 $'000	2022 $'000
Current		
Employee benefits	**10,999**	17,194
Restructuring	**654**	4,230
Lease make good	**–**	1,004
Other	**2,039**	599
Total current provisions	**13,692**	23,027
Non-current		
Employee benefits	**786**	337
Lease make good	**4,123**	3,813
Total non-current provisions	**4,909**	4,150

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 the 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, it is recorded at the present value of those cash flows.

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 twelve 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.

Restructuring

Restructuring provisions are recognised at the point when a detailed plan for the restructure has been developed and implementation has commenced. The cost of restructuring provided is the estimated future cash flows, discounted at the appropriate rate which reflects the risks of the cash flow.

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of a current employee according to a detailed formal plan without possibility of withdrawal or upon the provision of an offer to encourage voluntary redundancy.

Lease make good

A provision for lease make good/restoration is recognised in relation to the properties held under 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.

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.

Contingent liabilities

A contingent liability is a present obligation arising from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

14. Right-of-use assets and lease liabilities

The Group leases various distribution centres and premises as well as warehouse machinery, motor vehicles and office equipment, typically for fixed periods of 3 to 15 years. The Group's leases may have extension options in order to maximise operational flexibility when managing contracts. These options are exercisable only by the Group and not the respective lessor. The lease agreements are negotiated individually and do not impose any covenants.

(a) Lease liabilities

The movement in lease liabilities from 1 February 2022 to the year end 31 January 2023 is presented below:

	Total $'000
At 31 January 2022	
Current lease liabilities	10,318
Non-current lease liabilities	132,739
Lease liabilities	**143,057**
Year ended 31 January 2023	
Opening lease liability at 1 February 2022	**143,057**
Additions	**18,851**
Disposals	**(8,477)**
Interest incurred	**6,753**
Payments on lease liabilities	**(16,880)**
Closing lease liabilities	**143,304**
At 31 January 2023	
Current lease liabilities	**9,263**
Non-current lease liabilities	**134,041**
Lease liabilities	**143,304**

(b) Right-of-use assets

The recognised right-of-use assets relate to the following assets:

	Land and buildings $'000	Plant and equipment $'000	Total $'000
At 31 January 2022			
Cost	93,042	4,609	97,651
Accumulated depreciation	(7,932)	(1,392)	(9,324)
Net book amount	**85,110**	**3,217**	**88,327**
Year ended 31 January 2023			
Opening net book amount	**85,110**	**3,217**	**88,327**
Additions	**17,484**	**1,671**	**19,155**
Disposals	**(5,225)**	**(71)**	**(5,296)**
Depreciation	**(9,261)**	**(2,233)**	**(11,494)**
Closing net book amount	**88,108**	**2,584**	**90,692**
At 31 January 2023			
Cost	**103,930**	**6,066**	**109,996**
Accumulated depreciation	**(15,822)**	**(3,482)**	**(19,304)**
Net book amount	**88,108**	**2,584**	**90,692**

(c) Amounts recognised in the consolidated statement of comprehensive income

	Note	2023 $'000	2022 $'000
Depreciation expense on right-of-use assets	3	**11,494**	10,569
Interest expense on lease liabilities		**6,753**	6,607
Operating expenses on leases		**1,690**	2,277

Operating expenses on leases are for short-term leases and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). The Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease. These leases are not included in right-of-use assets or corresponding lease liabilities in accordance with AASB 16 *Leases*.

14. Right-of-use assets and lease liabilities continued

(d) Leases – recognition and measurement

At inception of a contract, the Group assesses whether a contract is, or contains, a lease based on the definition of a lease in accordance with AASB 16. In line with the standard, a contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a corresponding lease liability at the lease commencement date for all leases with the exception of leases of low value assets (predominantly office equipment) or short-term leases. The Group recognises lease payments associated with low value or short-term leases as an expense on a straight-line basis over the lease term.

Lease liabilities

Lease liabilities are initially measured at the present value of all lease payments that are not paid at the commencement of the contract, discounted using the rate implicit in the lease, or if a rate is not implied, the Group's incremental borrowing rate.

Lease payments included for the purpose of measuring the lease liability include:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on a rate or index;
- expected payments under residual value guarantees; and
- payments of penalties for termination of a lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Lease payments are allocated between the lease liability and finance costs. The finance cost is recorded to profit or loss over the lease term (interest expense) to produce a constant periodic rate of interest on the lease liability for each year.

Lease liabilities are remeasured when there is a lease modification, a change in future lease payments (e.g. a change in an index or rate) or a change in lease term, most notably if the Group changes its assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded to profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Right-of-use assets are recorded at cost comprising the following amounts:

- the amount of the initial lease liability;
- lease payments made at or prior to the lease commencement, less any lease incentives received;
- initial direct costs incurred; and
- estimated costs to dismantle, remove or restore the leased asset.

Right-of-use-assets are subsequently measured at cost less accumulated depreciation and any impairment losses. The assets are depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment as per Note 11.

Right-of-use assets are assessed for impairment in accordance with AASB 136 *Impairment of Assets* as disclosed in Note 12. The value of right-of-use assets will be reduced by any impairment losses and adjusted for certain remeasurements of the lease liabilities.

Extension periods (lease term)

The Group assesses at lease commencement whether it is reasonably certain to exercise any applicable lease extension options, and when reasonably certain, such a period is included in the lease term for determining the lease liability. In making the determination, management considers all facts and circumstances that create an economic incentive to exercise an extension option.

The assessment is reviewed if a significant event or significant change in circumstances occurs which affects this assessment that is within the control of the Group.

Capital structure and financing

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

15. Contributed equity
16. Reserves
17. Borrowings
18. Financial risk management

15. Contributed equity

	2023 $'000	2022 $'000
Issued capital:		
Ordinary shares fully paid	**1,286,144**	1,286,144
Issued capital held by equity compensation plan:		
Treasury shares	**(51,682)**	(60,689)
Total contributed capital	**1,234,462**	1,225,455

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

	No. of Shares	$'000
Balance at 1 February 2021	1,059,276,416	1,286,144
Shares bought on market	–	–
Balance at 31 January 2022	**1,059,276,416**	**1,286,144**
Shares bought on market	**–**	**–**
Balance at 31 January 2023	**1,059,276,416**	**1,286,144**

(b) Movements in treasury share capital

	No. of Shares	$'000
Balance at 1 February 2021	(72,082,585)	(66,231)
Shares bought on market	–	–
Employee shares exercised	1,545,311	320
Reclassification of settled and expired share-based transactions	–	5,222
Balance at 31 January 2022	**(70,537,274)**	**(60,689)**
Shares bought on market	**–**	**–**
Employee shares exercised	**3,747,269**	**1,352**
Reclassification of settled and expired share-based transactions	**–**	**7,655**
Balance at 31 January 2023	**(66,790,005)**	**(51,682)**

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.

16. Reserves

	2023 $'000	2022 $'000
Reserves:		
Fair value reserve	**(1,712)**	(624)
Foreign currency translation reserve	**223**	238
Options/performance rights reserve	**3,152**	1,377
Employee share reserve	**1,380**	1,876
Total	**3,043**	2,867

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 on unvested shares held by Sigma Employee Share Plan referred to in Note 29. The reserve will reverse against share capital held by the equity compensation plan when the shares vest.

17. Borrowings

	2023 $'000	2022 $'000
Current		
Secured bank overdraft	**3,681**	15,375
Total current borrowings	**3,681**	15,375
Non-current		
Secured cash advance facilities	**80,000**	165,000
Total non-current borrowings	**80,000**	165,000

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 twelve months from balance date and intends to do so.

Credit facilities

The Group maintains the following credit facilities:

	2023		2022	
	Total facility $'000	Unused $'000	Total facility $'000	Unused $'000
Secured bank overdraft facility (Tranche A)	**135,000**	**131,319**	135,000	119,625
Secured cash advance facilities (Tranche B)	**115,000**	**35,000**	185,000	20,000
Corporate credit card	**1,500**	**1,308**	1,500	1,396

Westpac debt facility (Receivables Purchase Facility)

The Company has a debt facility with the Westpac Banking Corporation (Westpac), which includes:

- **Tranche A** – an overdraft facility of $135 million. This expires 19 November 2025. $3.7 million was drawn down at balance date and is classified as current borrowings in "Secured bank overdraft facility".
- **Tranche B** – a cash advance facility of $115 million. This expires 19 November 2025. $80.0 million was drawn down at balance date and is classified as non-current borrowings in "Secured cash advance facilities".

Tranche A and Tranche B are secured using eligible trade receivables of Sigma Healthcare Limited and Central Healthcare Services Pty Ltd. The facility imposes rights and obligations on the Group with respect to the quality and maintenance of the receivables, collection of receivables, settlement and reporting to the financier.

Westpac revolving debt facility (Revolving Debt Facility)

In October 2021 the Group agreed to a $70 million three-year revolving debt facility with Westpac for general corporate purposes and business development activities. The revolving facility was cancelled on 31st of August 2022.

Borrowing costs capitalised

The amount of borrowing costs capitalised for the year ended 31 January 2023 relating to the borrowings was $750,833 (2022: $672,500). The interest rate applicable to the debt facilities is variable, and Sigma does not hedge the interest rate. The costs associated with the debt facilities are recorded in "finance costs" in the consolidated statement of comprehensive income.

Debtor securitisation programme (Sigma Rewards Facility)

The Group operates a debtor securitisation programme. This programme 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 programme are transferred to a third party. Accordingly, the debtors are recorded off balance sheet. The costs associated with this programme are recorded in "sales and marketing expenses" in the consolidated statement of comprehensive income. The facility expires 19 November 2025 and has a limit of $15 million, with $14.9 million utilised as at 31 January 2023.

18. 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 seeks to minimise the effects of these risks which includes the use of financial instruments, including derivatives, if deemed appropriate, although use of derivatives is minimal, both in the current period and historically.

The Group Treasury Policy, approved by the Board, governs the management of foreign currency risk, interest rate risk, credit risk and liquidity risk, with mandatory monthly reporting requirements. The use of financial derivatives is also governed by the Treasury Policy which provides written principals on their use. The Group does not enter or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group holds the following financial assets and liabilities at year end:

	2023 $'000	2022 $'000
Financial assets		
Cash and cash equivalents	**16,650**	31,145
Trade and other receivables	**333,782**	359,466
Other financial assets	**16,077**	17,646
Total financial assets	**366,509**	408,257
Financial liabilities		
Trade and other payables	**449,765**	407,008
Borrowings	**83,681**	180,375
Total financial liabilities	**533,446**	587,383

(a) Market risk

(i) Foreign exchange risk

The Group operates predominantly within Australia with the majority of operations denominated in Australian dollars. The Group does make payments to some suppliers in foreign currencies, predominantly in United States dollars, Euros and New Zealand dollars, which does provide exposure to fluctuations in the value of these financial commitments due to the changes in foreign currency rates.

In accordance with the Treasury Policy, the Group manages the risk of foreign currency rate fluctuations by using forward foreign exchange contracts to fix the exchange rates when committed cashflows in foreign currencies are above an approved criteria. In practice, the use of these instruments and having contracts outstanding as at period end dates has not been common, as often payment commitments are not significant, or short term in nature.

18. Financial risk management continued

(a) Market risk continued

(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.

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 2023 (2022: 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 using a sensitivity analysis performed using a 100-basis point variation. The sensitivity has been measured by the quantitative impact on profit before tax ("profit" in the table) if the variation were to occur.

	31 January 2023				31 January 2022			
	Balance $'000	Weighted avg. rate	-1% Profit $'000	+1% Profit $'000	Balance $'000	Weighted avg. rate	-1% Profit $'000	+1% Profit $'000
Cash and cash equivalents	**16,650**	**0.10%**	**(167)**	**167**	31,145	0.10%	(311)	311
Borrowings – secured	**(83,681)**	**2.53%**	**837**	**(837)**	(180,375)	2.86%	1,804	(1,804)
Total (decrease)/ increase			**670**	**(670)**			1,493	(1,493)

(iii) Equity price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, rather than changes in interest rates and/or exchange rates. These price movements may be caused by factors specific to the individual financial asset, its issuer, or factors affecting all similar financial assets traded on the market.

The Group has exposure to equity price risk through investments in shares of listed entities that are traded in an active market and investments in shares in unlisted entities not traded in an active market recorded in "Other financial assets". These investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

The potential impact of movements in price risk on the Group's profit and loss and equity resulting from 10% increase/decrease in value of equity securities at reporting date are shown below. The sensitivity has been performed using a 10% variation as management consider this to be reasonable having regard to historic movements in equities. The sensitivity has been measured by the quantitative impact on profit before tax ("profit" in the table) if the variation were to occur.

	31 January 2023			31 January 2022		
	Balance $'000	-10% Profit $'000	+10% Profit $'000	Balance $'000	-10% Profit $'000	+10% Profit $'000
Other financial assets						
Investments – active market (Level 1)	**4,203**	**(420)**	**420**	5,758	(576)	576
Investments – other observable input (Level 2)	**–**	**–**	**–**	14	(1)	1
Investments – non-traded (Level 3)	**11,874**	**(1,187)**	**1,187**	11,874	(1,187)	1,187

(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 trade 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 impairment losses.

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. Forecast and actual cash flows are closely monitored in line with Sigma's Treasury Policy and reported to the Board on a monthly basis.

The Group's finance facilities and the amounts unused at balance date are summarised in Note 17. 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 the Group's financial assets and liabilities are due within the next twelve months, except for the Group's debt facility which matures on 19 November 2025 as disclosed in Note 17.

(d) Fair value of financial instruments

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 considers 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.

Financial instruments at fair value

The financial assets and liabilities recorded at fair value by the Group are investments (other financial assets) and forward foreign exchange contracts.

The investments in listed entities are considered Level 1 financial instruments as the fair value is based on a quoted price in an active market, and investments in unlisted entities are considered Level 3 financial instruments as the fair value is based on unobservable inputs for the asset or liability.

For forward foreign exchange contracts, these are considered level 2 financial instruments with their fair value determined by present value of future cash flows based on the forward exchange rates at the year end date.

The investments and value of the forward foreign exchange contracts are classified as fair value through other comprehensive income and fair value is determined in the manner described above.

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Balance at 1 February 2022	5,758	14	11,874	17,646
Disposals/transfers	–	(14)	–	(14)
Movements in fair value – gain/(loss)	(1,555)	–	–	(1,555)
Balance at 31 January 2023	4,203	–	11,874	16,077

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.

19. Business acquisitions

Recognition and measurement

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.

20. Non-controlling interest

	2023 $'000	2022 $'000
Non-controlling interest		
Balance at beginning of the year	1,590	687
Share of profit for the year	1,216	903
Dividends paid	(980)	–
Derecognition of minority interest on disposal of a subsidiary	22	–
Total	1,848	1,590

The non-controlling interests 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.

21. Details of controlled entities

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

	Country of incorporation	Ownership interest 2023 %	Ownership interest 2022 %
Parent Entity			
Sigma Healthcare Limited[b]	Australia		
Subsidiaries			
Chemist Club Pty Limited[a,c]	Australia	100	100
Sigma Company Limited[a,c]	Australia	100	100
Allied Master Chemists of Australia Limited[a,c]	Australia	100	100
Guardian Pharmacies Australia Pty Ltd[a,c]	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[a,c]	Australia	100	100
Sigma (W.A.) Pty Ltd[a,c]	Australia	100	100
Central Healthcare Pty Ltd[a,c]	Australia	100	100
Central Healthcare Services Pty Ltd[a,c]	Australia	100	100
Linton Street Pty Ltd[a,c]	Australia	100	100
PriceSave Pty Ltd[a,c]	Australia	100	100
PharmaSave Australia Pty Ltd[a,c]	Australia	100	100
Discount Drugstores Pty Ltd[a,c]	Australia	100	100
NostraData Pty Ltd	Australia	51	51
MPS Hold Co. Pty Ltd[a,c]	Australia	100	100
Medical Industries Australia Hold Co. Pty Ltd[a,c]	Australia	100	100
Crucible Health Pty Ltd[a,c]	Australia	100	100
Sigma Healthcare Hospital Services Pty Ltd[a,c]	Australia	100	100
Tromax Pty Ltd[a,c]	Australia	100	100
ACN 133 432 096 Pty Ltd[a]	Australia	100	100
Wholelife Pharmacy Pty Ltd[d]	Australia	–	51

a. These wholly owned companies are subject to a deed of cross guarantee (see Note 24).
b. Sigma Healthcare Limited is the head entity within the tax consolidated group.
c. These wholly owned subsidiaries are members of the tax consolidated group.
d. The Wholelife business has been disposed of during the financial year.

22. 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 21. 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 28 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 2023 was $9,702,903 incl. GST (2022: $8,348,124). The amounts receivable at balance date from Directors or Director-related entities included within trade debtors in Note 8 was $1,378,085 (2022: $1,109,924). 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.

23. Parent company financial information

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

	2023 $'000	2022 $'000
Balance sheet		
Current assets	**169,379**	160,046
Non-current assets	**363,762**	363,542
Total assets	**533,141**	523,588
Current liabilities	**242,441**	215,038
Total liabilities	**242,441**	215,038
Net assets	**290,700**	308,550
Equity		
Issued capital	**281,511**	281,511
Reserves	**1,314**	(4)
Accumulated profit	**7,875**	27,043
Total equity	**290,700**	308,550
Financial performance		
(Loss)/profit for the year	**(3,275)**	21,285
Total comprehensive (losses)/income for the year	**(3,275)**	21,285

(a) Guarantees entered into by parent entity

The parent entity has provided financial guarantees in respect of the total debt facility (Note 17). As at 31 January 2023, the balance drawn from the total facility is $83,681,000 (2022: $180,375,000). The facility is secured by way of deed over eligible trade receivables.

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 21). 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.

23. Parent company financial information continued

(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 2023 was $363,511,000 (2022: $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 period (2022: 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 for the Group. The parent entity did not have any other contingent liabilities as at 31 January 2023 (2022: nil).

(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 2023 (2022: nil).

24. Deed of cross guarantee

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 the wholly owned Australian controlled entities listed in Note 21 footnote (a) 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 2023, are set out below:

(a) Statement of comprehensive income

	2023 $'000	2022 $'000
Sales revenue	**3,661,266**	3,446,164
Cost of goods sold	**(3,405,832)**	(3,208,219)
Gross profit	**255,434**	237,945
Other revenue	**89,247**	91,784
Other expense	**(6,485)**	(1,647)
Warehousing and delivery expenses	**(161,596)**	(154,914)
Sales and marketing expenses	**(42,142)**	(53,760)
Administration expenses	**(81,068)**	(93,009)
Impairment expense	**(6,989)**	–
Depreciation and amortisation	**(30,056)**	(27,399)
Profit/(loss) before financing costs and tax expense (EBIT)	**16,345**	(1,000)
Finance income	**591**	221
Finance costs	**(14,407)**	(10,841)
Net finance costs	**(13,816)**	(10,620)
Profit/(loss) before income tax	**2,529**	(11,620)
Income tax (expense)/benefit	**(3,089)**	2,957
Loss for the year	**(560)**	(8,663)
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(22)**	(4)
Income tax relating to components of other comprehensive income	**7**	1
Items that will not be reclassified to profit or loss:		
Net change in fair value of equity instruments	**(1,555)**	718
Income tax relating to components of other comprehensive income	**467**	(215)
Other comprehensive income/(loss) for the year (net of tax)	**(1,103)**	500
Total comprehensive loss for the year	**(1,663)**	(8,163)
Summary of movements in consolidated accumulated losses		
Accumulated losses at the beginning of the financial period	**(739,444)**	(708,355)
Profit/(loss) for the year	**(560)**	(8,663)
Reclassification of settled and expired share-based transactions	**(6,720)**	(2,177)
Reclassification of revaluation reserve – disposal of investments	**–**	533
Dividends paid	**(15,544)**	(20,782)
Accumulated losses at the end of the financial period	**(762,268)**	(739,444)

(b) Balance sheet

	2023 $'000	2022 $'000
Current assets		
Cash and cash equivalents	**12,692**	26,229
Trade and other receivables	**329,660**	355,729
Inventories	**324,851**	321,645
Income tax receivable	**5,309**	261
Prepayments	**6,387**	49,733
Other financial assets	**–**	5,268
Total current assets	**678,899**	758,865
Non-current assets		
Trade and other receivables	**4,883**	783
Property, plant and equipment	**200,029**	193,027
Goodwill and other intangible assets	**111,243**	128,717
Right-of-use assets	**90,692**	88,327
Other financial assets	**23,889**	17,631
Net deferred tax assets	**58,707**	57,415
Total non-current assets	**489,443**	485,900
Total assets	**1,168,342**	1,244,765
Current liabilities		
Bank overdraft	**3,681**	15,375
Trade and other payables	**425,058**	381,377
Lease liabilities	**9,263**	10,318
Provisions	**13,328**	22,697
Deferred income	**–**	498
Total current liabilities	**451,330**	430,265
Non-current liabilities		
Borrowings	**80,000**	165,000
Lease liabilities	**134,041**	132,739
Provisions	**4,909**	4,150
Total non-current liabilities	**218,950**	301,889
Total liabilities	**670,280**	732,154
Net assets	**498,062**	512,611
Equity		
Contributed equity	**1,257,511**	1,249,427
Reserves	**2,819**	2,628
Accumulated losses	**(762,268)**	(739,444)
Total equity	**498,062**	512,611

Other disclosures

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

25. Expenditure commitments

Expenditure commitments existed at the end of year in respect of:

	2023 $'000	2022 $'000
Capital expenditure contracted but not provided for in the financial report and payable	**2,882**	40,997
Total expenditure commitments	**2,882**	40,997

26. Auditors' remuneration

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

	2023 $	2022 $
Auditors of the parent entity – Deloitte Touche Tohmatsu		
Audit and review of financial reports of the entity or any controlled entity	**755,460**	467,000
Other advisory services	**–**	1,500
Total remuneration	**755,460**	468,500

The Directors are satisfied that the provision of these non-audit services ("Other advisory services") by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Further detail is provided in the Directors' Report.

27. Guarantees

Guarantees existed at the end of year in respect of:

	2023 $'000	2022 $'000
Bank guarantees	**6,644**	6,040
Total guarantees	**6,644**	6,040

As at 31 January 2023, the Group has obtained bank guarantees from a financial institution of $6,644,000 (2022: $6,040,000) for securing the leased premises and warehouses held under the Group and with $nil (2022: nil) being utilised as at year end.

28. Key management personnel compensation

The compensation paid or payable to key management personnel of the Group is set out below:

	2023 $	2022 $
Short-term employee benefits	**3,121,785**	3,041,568
Post-employment benefits	**138,090**	136,251
Long-term benefits	**2,162**	34,139
Share-based payments	**1,548,854**	37,534
Total key management personnel compensation	**4,810,891**	3,186,066

Key management personnel ("KMP") and remuneration disclosures are provided in the Remuneration Report on pages 10 to 31.

Disclosures relating to related party transactions with Directors or key management personnel are set out in Note 22.

29. 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:

	2023 $'000	2022 $'000
Share-based payment expense:		
Shares (loan funded) issued under the employee share plan and executive long-term incentive plan	**175**	259
Rights issued under the executive long-term incentive plan	**–**	(410)
Rights issued under the short-term incentive plan	**1,756**	138
Total	**1,931**	(13)

The Group has an employee share plan and share-based remuneration schemes for executive and non-executive management (excluding non-executive Directors).

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

Up until the financial year 2021/22, the Group's Employee Share Plan periodically offered 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 (SESA), a controlled entity. At balance date 10,738,000 shares are on issue (2022: 17,621,011).

Interest free loans from SESA 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, they 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 SESA for later sale on market to repay the remaining balance of the loan.

Upon deciding to introduce a company wide Short Term Incentive Plan for financial year 2022/2023, the Company decided not to run an employee share scheme offering for this financial year. While the existing loan funded plans from previous years remain on foot, a company wide scheme has the potential to deliver a more immediate financial return than the employee loan funded share plan.

Share-based remuneration schemes

The Group has the following share-based remuneration schemes:

Executive loan funded share plan (long-term incentive plan):

The Group has 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. For the year ended 31 January 2020 (grant date: 1 February 2019) the Group used a rights issue (see below) for the executive long-term incentive (LTI) plan as opposed to issuing loan funded shares. For the current year (grant date: 1 February 2022), the Group has reverted to using loan funded shares for the executive long-term incentive plan.

Executive long-term incentive plan – rights issue (zero exercise price):

As noted above, for the year ended 31 January 2020 (grant date: 1 February 2019) the Company implemented a rights issue for the executive long-term incentive plan. Participants were issued rights with a three-year performance period subject to service and forfeiture conditions.

Executive short-term incentive plans – rights issue (zero exercise price):

During the year ended 31 January 2020 (grant date: 1 February 2019) the Company implemented a rights issue as part of an executive short-term incentive plan designed to drive successful business transformation outcomes covering the two-year period to 31 January 2021.

During the year ended 31 January 2022 (grant date: 1 December 2021) the Company implemented a rights issue as part of an executive short-term incentive plan covering the 12-month period to 30 November 2022.

During the year ended 31 January 2023 (grant date: 1 April 2022) the Company implemented a rights issue as an addition to the right issue granted on 1 December 2021 as noted above, covering the 8-month period to 31 November 2022. The Company also implemented a sign on rights issue to the new CEO (grant date: 1 February 2022) covering the 24-month period to 31 January 2024.

In accordance with the provisions of these share-based remuneration schemes, executives and non-executive managers within the Group are granted options to purchase ordinary shares at various issue prices (loan funded schemes) or acquire shares at a zero-exercise price (rights issues).

Details of the features of each share-based remuneration scheme are provided on pages 19 to 22 of the Remuneration Report.

Loan funded share plans

Unvested shares held under any loan funded share plans are owned by the Group until they vest. Unvested shares are held at cost and are eliminated on consolidation within equity.

Dividends paid by Sigma Healthcare Limited on shares held under loan funded share plans not issued to employees are eliminated in full on consolidation. Any Dividends applied to repay loan balances are recorded in a separate reserve account as they represent part of the exercise price "paid" by the employee. Dividends of forfeited shares are subsequently transferred back to retained earnings/accumulated losses.

Outstanding share options and rights

The tables below reconcile the outstanding share options granted under the Group's share-based remuneration schemes at the beginning and end of the financial year.

Executive loan funded share plan (long-term incentive (LTI) plan)

	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year
2023					
Number of outstanding loan funded shares	**22,463,684**	**19,048,721**	**–**	**(18,625,495)**	**22,886,910**
Weighted average exercise price	**$0.64**	**$0.47**	**–**	**$0.59**	**$0.53**
2022					
Number of outstanding loan funded shares	37,964,717	11,423,679	–	(26,924,712)	22,463,684
Weighted average exercise price	$0.72	$0.68	–	$0.78	$0.64

29. Employee share plans and share-based payments continued

Executive long-term incentive (LTI) plan – rights issue (zero exercise price)

	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year
2023					
Number of outstanding performance rights	**1,424,882**	**–**	**–**	**(1,424,882)**	**–**
Total	**1,424,882**	**–**	**–**	**(1,424,882)**	**–**
2022					
Number of outstanding performance rights	3,068,186	–	–	(1,643,304)	1,424,882
Total	3,068,186	–	–	(1,643,304)	1,424,882

Executive short-term incentive (STI) plans – rights issue (zero exercise price)

	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year
2023					
Number of outstanding performance rights	**2,589,686**	**3,347,620**	**(1,729,758)**	**(191,388)**	**4,016,160**
Total	**2,589,686**	**3,347,620**	**(1,729,758)**	**(191,388)**	**4,016,160**
2022					
Number of outstanding performance rights	1,854,765	1,722,490	(987,569)	–	2,589,686
Total	1,854,765	1,722,490	(987,569)	–	2,589,686

Fair value of options granted

The fair value of options granted are independently determined by an external consultant engaged by the Company. The fair value of each option granted is measured on the date of grant using the Black-Scholes option pricing model that considers the terms and components on the option and market-based performance hurdles. It does not consider non-market-based performance hurdles.

The fair value and inputs into the valuation for share options granted during the year and unexercised are set out below:

	Executive LTI plan – rights issue ROIC tranche	Executive LTI plan – rights issue TSR tranche
Grant date	1 February 2022	1 February 2022
Fair value	$0.13	$0.09
Inputs into the model:		
Grant date share price	$0.465	$0.465
Exercise price	$0.465	$0.465
Expected volatility	30%	30%
Vesting life	3 Years	3 Years
Option life	5 Years	5 Years
Expected dividend yield	4.0%	4.0%
Risk free interest rate	1.65%	1.65%

	Executive STI plan – rights issue (Zero exercise price)	Executive STI plan – rights issue (Zero exercise price)	Executive STI plan – rights issue (Zero exercise price)
Grant date	1 February 2022	1 February 2022	1 April 2022
Fair value	$0.44	$0.42	$0.51
Inputs into the model:			
Grant date share price	$0.465	$0.465	$0.525
Exercise price	$0.000	$0.000	$0.000
Expected volatility	30%	30%	30%
Vesting life	1 Year	2 Years	8 Months
Option life	4 Years	4 Years	3 Years 8 Months
Expected dividend yield	4.0%	4.0%	4.0%
Risk free interest rate	N/A	N/A	N/A

30. 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:

	Note	2023 $'000	2022 $'000
Cash and cash equivalents:			
Cash and bank balances		**16,650**	31,145
Secured bank overdraft facility	17	**(3,681)**	(15,375)
Total		**12,969**	15,770

Reconciliation of profit for the year to net cash flows from operating activities

	2023 $'000	2022 $'000
Profit/(loss) for the year	**3,027**	(6,336)
Depreciation expense	**26,547**	24,276
Amortisation expense	**3,789**	3,415
Interest expense on leases	**6,753**	6,607
Share-based payments expense	**1,931**	(13)
Impairment of financial assets	**6,989**	–
Loss on disposal of property, plant and equipment and investments	**6,485**	1,647
Others	**55**	246
Change in assets and liabilities:		
Change in inventories	**(3,211)**	27,498
Change in net taxes	**(7,306)**	(14,253)
Change in prepayments	**43,207**	(40,205)
Change in trade and other receivables	**27,497**	(30,732)
Change in trade payables	**53,542**	(7,112)
Change in provisions	**(11,215)**	2,512
Change in other payables and deferred income	**(15,352)**	(13,830)
Net cash flows from (used in) operating activities	**142,738**	(46,280)

Reconciliation of liabilities arising from financing activities

	Secured loans $'000	Unsecured loans $'000	Total $'000
2022			
Total liability 1 February 2021	–	–	–
Net cash flow	165,000	–	165,000
Non-cash flow	–	–	–
Total liability 31 January 2022	**165,000**	**–**	**165,000**
2023			
Net cash flow	**(85,000)**	**–**	**(85,000)**
Non-cash flow	**–**	**–**	**–**
Total liability 31 January 2023	**80,000**	**–**	**80,000**

The secured bank overdraft facility is not included in financing activities as it is considered with cash and cash equivalents.

31. New accounting standards

New accounting standards and interpretations

In the current period, the Group has adopted all 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 annual reporting periods commencing on or after 1 February 2022, including the following:

- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*
- AASB 2021-3 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021*
- AASB 2021-7a *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections [general editorials]*

None of these standards have had a material impact on the Group in the current period and are not expected to have a material impact in future reporting periods or on foreseeable future transactions.

31. New accounting standards continued

Standards on issue but not yet effective

The following new accounting standards and interpretations have been published that are not mandatory for the 31 January 2023 year end reporting period and have not yet been applied by the Group within this financial report:

- AASB 10 *Consolidated Financial Statements and AASB 128 Investments in Associates (amendments)* – Effective for annual periods beginning on or after 1 January 2023, with earlier application permitted.
- AASB 17 *Insurance Contracts* – Effective for annual periods beginning on or after 1 January 2023.
- AASB 2020–1 and AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current* – Effective for annual periods beginning on or after 1 January 2023.
- AASB 2020–3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments* – Effective for annual periods beginning on or after 1 January 2023.
- AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2* – Effective for annual period beginning on or after 1 June 2022

The Group does not believe these new accounting standards, amendments and interpretations will have a material impact on the financial statements in future periods.

Directors' declaration

For the year ended 31 January 2023

In the opinion of the Directors of Sigma Healthcare Limited:

(a) The consolidated financial statements and notes, set out on pages 33 to 64, 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 2023 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 21 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 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 2023 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 Michael Sammells
Chairman

Mr Vikesh Ramsunder
CEO and Managing Director

Melbourne
22 March 2023

Independent auditor's report

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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 2023, 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 2023 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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have 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 the directors of the Company, would be in the same terms if given to the 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.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Assessment of the recoverability of goodwill *Refer to note 12* As at 31 January 2023, the Group had goodwill totalling $95.2 million net of an impairment recognised during the 31 July 2022 half-year of $7.0 million relating to the MPS cash generating unit. The recovery of goodwill is subject to judgement in determining assumptions and estimates involved in evaluating the recoverable values of the cash generating units ("CGUs'). As disclosed in note 12, management applied a 'value in use' approach for all CGUs. Under a 'value in use' approach, discounted cash flow models were prepared, which included assumptions relating to: • Future cash flows for each CGU, including forecast gross profit margins and sales and other revenue growth rates; • Capital expenditure; • Discount rates; and • Terminal value growth rates. Changes to these assumptions can impact the recoverable amount determined for each CGU. As disclosed in note 12, the Sigma and MPS CGUs, where our risk and key audit matter is pinpointed, are highly sensitive to changes in key assumptions, notably forecast gross profit margins, sales and other revenue growth rates and discount rates.	Our procedures included, but were not limited to: • 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; • Assessing the design and implementation of relevant controls within management's impairment assessment process, including the preparation, review and Board approval of cash flow forecasts supporting this process; and • In conjunction with our valuation specialists, we evaluated the key assumptions used in management's recoverable amount analysis for the Sigma and MPS CGUs including: o Assessing the basis for management's forecast cash flows including sales and other revenue growth rates, gross profit margins, capital expenditure and terminal value growth assumptions including consideration of historical growth trends and support for future forecast revenue growth and cost savings and external market information; o Assessing management's historical forecasting accuracy of the Group's operating results; o Recalculating an expected discount rate and comparing this to the discount rate adopted by management; o Performing sensitivity analysis on key assumptions in the impairment models to simulate alternative market conditions and outcomes; and o Assessing the integrity and mathematical accuracy of the impairment models prepared by management. We also assessed the adequacy of the disclosures in the notes to the financial statements.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter

Valuation and existence of inventory
 	
Refer to note 9
 	
The Group has total net inventory of $324.9 million as at 31 January 2023, which is recognised 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 Group has recognised an inventory provision of $35.0 million as at 31 January 2023, an increase of $17.6 million in the current financial year. Significant judgement is involved in relation to determining the inventory provision and includes consideration of current customer demands, historical inventory write-offs, inventory turnover trends and other analysis.
 	
The Group performs either cycle counts or periodic stocktakes depending on the inventory held at the specific distribution centre. The materiality of the inventory balance and the number of distribution centres used by the Group result in inventory valuation and existence being considered a key audit matter.
	Our procedures included, but were not limited to:
	
	• Obtaining an understanding of the process undertaken by management to identify individual inventory balances that are obsolete, slow moving or have other characteristics that suggest the balance is unrecoverable;
	• Reviewing the Group's inventory provision policy and assessing the design and implementation of relevant controls within management's inventory costing and provision processes;
	• Challenging management's view of slow moving and obsolete inventory by:
	  o Assessing the completeness of management's assessment through audit procedures on the determination of cost and net realisable value; and
	  o Assessing the adequacy of the provision against current customer demands, historical inventory write-offs and inventory turnover.
	• Attending cycle counts close to year-end and performing independent inventory count procedures at locations deemed to have a material risk to the Group's financial report; and
	• Obtaining the results from a sample of cycle counts and stocktakes performed during the financial year and validating that variances have been accurately recognised.
	
	We also assessed the adequacy of the disclosures in the notes to the financial statements.

Operation of financial reporting Information Technology (IT) controls The Group's IT systems are key to the daily operations and the integrity of the financial reporting process. Ensuring the IT systems have appropriate general IT controls is fundamental in mitigating the potential for fraud and/or error as a result of change/s to an application or underlying data. Post the migration to a new IT platform in the second half of the 31 January 2022 financial year, we assessed the general IT control environment and identified various deficiencies which require remediation in order for controls reliance to be placed. Since these deficiencies were raised, the Group have implemented and continue to implement a number of enhanced controls to strengthen the general IT control environment. In order for reliance to be placed on the general IT control environment in future reporting periods, sufficient remediation of the deficiencies will be required.	Our procedures included, but were not limited to: • Obtaining an understanding of key business processes and their associated IT systems, general IT controls, application controls and IT dependant manual controls; • Evaluating and testing the design and implementation of any relevant general IT controls, application controls and IT dependant manual controls with the assistance of our IT audit specialists related to key business processes; • Obtaining an understanding of the remediation of the general IT control deficiencies identified in the 31 January 2022 financial year; • Considering the broader IT environment including the governance process and controls to monitor and enforce control awareness across the Group; and • Responding to the identified IT control findings by designing and performing alternative or additional procedures as well as varying the nature, timing and extent of the substantive procedures performed.

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Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 31 January 2023, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do 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 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, 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.

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.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- 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's 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, actions taken to eliminate threats or safeguards applied.

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 10 to 31 of the Directors' Report for the year ended 31 January 2023.

In our opinion, the Remuneration Report of Sigma Healthcare Limited, for the year ended 31 January 2023, complies with section 300A of the *Corporations Act 2001*.

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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

XDelaney
X Delaney
Partner
Chartered Accountants
Parramatta, 22 March 2023

Shareholder information

Equity security holders

As at 15 March 2023, the Company has 1,059,276,416 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 15 March 2023 (as named on the register of shareholders):

Name	Ordinary shares Number held	Ordinary shares % of issued shares
HMC CAPITAL PARTNERS HOLDINGS PTY LTD	202,034,368	19.07%
CITICORP NOMINEES PTY LIMITED	182,778,084	17.25%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	118,845,999	11.22%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	83,059,531	7.84%
PACIFIC CUSTODIANS PTY LIMITED	35,188,143	3.32%
SIGMA EMPLOYEE SHARE ADMIN P/L	33,222,595	3.14%
UBS NOMINEES PTY LTD	28,607,742	2.70%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED NT- COMNWLTH SUPER CORP	17,579,895	1.66%
NATIONAL NOMINEES LIMITED	17,135,773	1.62%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	9,811,532	0.93%
BNP PARIBAS NOMS PTY LTD	9,271,084	0.88%
MR MARK ROBERT HOOPER	8,990,863	0.85%
INVIA CUSTODIAN PTY LIMITED	7,596,480	0.72%
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	5,300,285	0.50%
DE FAZIO CAPITAL PTY LTD	5,000,000	0.47%
NETWEALTH INVESTMENTS LIMITED	3,223,629	0.30%
CITICORP NOMINEES PTY LIMITED	2,609,335	0.25%
ALPHAGEN CAPITAL PTY LTD	2,500,000	0.24%
MR JEFFREY SELLS	2,400,021	0.23%
BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	2,280,888	0.22%
Total top 20 holders	**777,436,247**	**73.39%**
Total other holders	**281,840,169**	**26.61%**
Grand total	**1,059,276,416**	**100.00%**

Note: Excludes shares that are subject to trading restrictions

Shareholder information continued

Substantial shareholders

The following table shows the substantial holders as notified to the Company in substantial holding notices as at 15 March 2023:

Name	Noted date of change	Number of equity securities	Voting power
HMC Capital Limited	23 January 2023	202,034,368	19.07%
Paradice Investment Management Pty Ltd	15 September 2022	84,697,796	7.99%
Mitsubishi UFJ Financial Group, Inc.	28 January 2022	76,161,143	7.19%
Dimensional Entities	8 July 2022	53,033,672	5.01%

Holdings distribution

Range	Number of holders
100,001 and Over	451
10,001 to 100,000	4,331
5,001 to 10,000	2,653
1,001 to 5,000	6,305
1 to 1,000	1,684
Total	15,424
Unmarketable Parcels	837

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 have been issued to employees as part of long-term and short-term incentive plans for the financial year ended 31 January 2023.

- The maximum number of ordinary shares which may be issued if the performance conditions are achieved is 4,014,568.
- Participants do not have voting rights.

Five year summary

	2023 $'m	2022 $'m	2021 $'m	2020 $'m	2019 $'m
Operating results					
Sales revenue	**3,660.2**	3,446.2	3,400.4	3,244.3	3,976.8
EBITDA	**49.6**	30.0	68.6	24.2	76.5
EBIT	**19.3**	2.3	40.0	(3.1)	63.0
Profit/(loss) before tax	**5.5**	(8.3)	28.6	(15.8)	52.0
Profit/(loss) after tax	**3.0**	(6.3)	45.0	(11.5)	37.0
Financial position					
Working capital	**230.0**	313.3	294.2	233.8	406.2
Fixed assets (including intangibles)[5]	**409.2**	409.6	417.0	434.7	349.6
Lease liabilities	**143.3**	143.1	148.9	50.1	–
Other assets/(liabilities)	**48.9**	58.2	2.4	4	1.7
Capital employed[1]	**544.8**	638.0	564.6	622.4	757.5
Net debt	**67.0**	149.2	50.3	146.0	243.2
Net assets	**477.8**	488.8	514.4	476.4	514.3
Shareholder related					
Dividend					
– ordinary per share	**1.5c**	2.0c	–	3.0c	4.0c
– total dividends	**15.9**	21.2	–	31.8	42.4
Earnings/(loss) per share	**0.2c**	(0.7c)	4.4c	(1.3c)	3.8c
Dividend payout ratio	**530%**	n/a	–	n/a	116%
Net tangible asset backing per share	**34c**	34c	36c	32c	37c
Market capitalisation (balance date)	**673**	477	699	636	572
Ratio and returns					
EBIT margin[2]	**0.5%**	0.1%	1.2%	-0.1%	1.5%
Gearing[3]	**12.3%**	23.4%	8.9%	23.5%	32.1%
Interest cover[4]	**3.6x**	2.8x	6.0x	1.9x	6.9x

1. Net assets plus borrowings less cash and cash equivalents.
2. EBIT/sales revenue.
3. Net debt/capital employed (year-end).
4. Reported EBITDA/Net financing costs (times).
5. Includes right-of-use assets.

Contact

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Directors and Senior Management

Refer to pages 20–22 of the Annual Review or visit www.sigmahealthcare.com.au

Company Secretary

Kara McGowan
General Counsel and Company Secretary
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Clayton VIC 3168 Australia

Corporate Affairs (investor, media or government enquiries)

Gary Woodford
Head of Corporate Affairs

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Auditors

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29 Connell Road
Oakleigh VIC 3166 Australia

Tel 1800 003 938 (within Australia)

11 Spireton Place
Pendle Hill NSW 2145 Australia

Tel 1800 003 938 (within Australia)


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