Growth through transformation

Annual Report 2019/20

Sigma Healthcare

Connecting health solutions

Contents

ABN 15 088 417 403

Corporate Governance, Environmental and Social Statements

For the year ended 31 January 2020

Sigma Healthcare Limited (**Company**) and its controlled entities (**Group**) is committed to delivering high quality health care services, long-term sustainable growth and shareholder returns. The Board recognises the importance of governance, environmental and social matters to our shareholders, suppliers and customers.

This is reflected in the Company's statement as values, as approved by the Board and published on the Company's website (www.sigmahealthcare.com.au). The Company's overarching value statement is as follows:

> *At Sigma, we believe a united team and safe environment promote culture. We do this by trusting our team and partners. We openly communicate and hold each other accountable in a respectful way.*

This Corporate Governance, Environmental and Social Statement (**Statement**) was approved by the Board and is current as at 25 March 2020.

1. ASX Corporate Governance Principles and Recommendations

The Directors and management of the Company are committed to ensuring that the Group's business is conducted in accordance with high standards of corporate governance, including those described in the ASX Corporate Governance Council "Corporate Governance Principles and Recommendations" ("ASX Principles and Recommendations").

The Company's current corporate governance policies and practices comply with the 4th edition of the ASX Principles and Recommendations, which applies to the Company for the year ended 31 January 2021. In the 2019/2020 reporting period, the Company complied in all material respects with the 3rd edition of the ASX Principles and Recommendations.

A checklist cross-referencing the ASX Principles and Recommendations (3rd and 4th editions) against the disclosures in this Statement is provided at the end of this Statement.

2. Our Board

(a) Role

The Board is primarily responsible for setting the strategic direction and endorsing the values of the Company and the Group, to effectively guide and oversee management of the Group and to approve, review and oversee implementation of the Group's risk management systems and governance practices, strategies and policies.

The Board has adopted a Board Charter (published on the Company's website) which sets out the structure and governance requirements of the Board and respective responsibilities of the Board and the "**Senior Executive Team**" comprising the CEO & Managing Director (**CEO**) and a number of the CEO's key direct reports.

Under the Board Charter, the Board has reserved responsibilities for a range of matters, including:

- endorsing the Company's values and standards of conduct;
- defining the Company's purpose, establishing strategic goals and approving management's business plans and strategic opportunities;
- overseeing the management of the Company;
- succession planning;
- appointment and annual evaluation of the CEO;
- setting risk appetite for management in alignment with strategic goals;
- monitoring the Company's performance with the aim of maximising long-term returns to the Company's security holders at an acceptable level of risk;
- approving the Company's financial plans, operating budgets and major capital expenditure;
- reviewing and ratifying policies and systems of risk management, codes of conduct, legal compliance and corporate governance.

(b) Company Secretary

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board. This includes agendas, Board papers and minutes, advising the Board and its Committees on governance matters, monitoring and ensuring that the Board and Committee policies and procedures are followed, communication with regulatory bodies and the ASX and statutory and other filings. Under the Board Charter, responsibility for approving appointment and removal of the Company Secretary is reserved for the Board.

(c) Board Composition

The Board currently consists of one Executive and seven Non-Executive Directors, including the Chair, following the appointment of Mr Michael Sammells effective from 1 February 2020. Throughout the 2019/2020 reporting period, the Board consisted of one Executive and six Non-Executive Directors, including the Chair.

The Company's Constitution and Board Charter set out the process for the election and appointment of Directors, including the following:

- The Board is authorised to appoint Directors to vacancies and to elect the Chair. Any Director appointed by the Board must stand for election at the next annual general meeting (AGM) of security holders following their appointment.
- One third of Directors (excluding the CEO and a Director appointed to fill a casual vacancy and rounded down to the nearest whole number) must retire at every AGM. Other than the CEO, no Director may remain in office for more than three years without resigning and standing for re-election.

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For the year ended 31 January 2020

Before a Director is appointed or put forward for election, the Company undertakes checks into the proposed director's character, experience, education, criminal record and bankruptcy history.

Prior to each AGM:

- the Board determines whether it will recommend to security holders that they vote in favour of the re-election of each Non-Executive Director seeking election on a rotational basis with the other Directors. Board support for Directors retiring and seeking re-election is not automatic; and
- the Company provides security holders, in the notice of meeting for the AGM, material information in its possession relevant to a decision on whether or not to elect or re-elect a Non-Executive Director. This includes information about the Director's relevant skills and qualifications, current material directorships and, for existing Directors seeking re-election, their length of tenure.

(d) Board Skills, Experience and Selection Process

The Board is committed to ensuring that the Company's Directors have a collective mix of skills, background, experience, knowledge, education, expertise and diversity aligned with the Company's strategic direction. The Board also strives to retain a balance between long-serving directors with established experience and knowledge of the Company's business and history, and new directors who bring different insights and fresh perspectives. The Board considers this diversity is required to effectively govern the Group.

The Board members have a broad and diverse range of skills and experience across a number of business areas. The Board identifies the key skills and experience required for the effective management of the business, including those required in the future. These key attributes are critical inputs to the Board review, development and succession planning processes. The key Board skills and experience are detailed below.

Skills	
Leadership	Driving engagement and enablement, leading organisational change
Risk management	Risk frameworks, setting risk appetite, building and adapting organisational risk culture
Remuneration	Executive incentive arrangements, performance targets, and superannuation
Governance and compliance	Group wide governance and compliance systems, processes and frameworks
Health and safety	Driving proactive health and safety initiatives and programs
Government relations/policy	Interaction with government and regulators and involvement in public policy decisions
Financial expertise	Accounting, financial reporting, corporate finance, financial internal controls, financial and capital management strategies
Corporate strategy	Setting and reviewing organisational strategy, organic growth and merger and acquisition opportunities

Experience	
Healthcare and pharmaceutical industry	Relevant experience from within the Company's primary industry and with the compliance, decision-making structures and operational disciplines of such highly regulated industries
Retail and wholesale	Experience within the Company's core operational disciplines
Franchising, small and medium enterprises	Knowledge of franchising regulations and small business operations and challenges
Logistics	Large scale and time critical logistics, automation technology
ASX	Listed company leadership experience at Executive and Board level
Business transformation	Involvement in transformational, continuous improvement and innovative projects
Information technology	IT strategies and networks, latest innovations in data storage and security
Customer data and insights	Driving strategic insights from the collection and analysis of customer data

The Board believes that orderly succession and renewal contributes to strong corporate governance and is achieved by careful planning and continual review. The People and Remuneration Committee reviews the size and composition of the Board regularly and at least once a year as part of the Board evaluation process.

When the need for a new Director is identified, the required experience and competencies of the new director are defined in the context of the above skills and experience matrix and any gaps that may exist. Generally, a list of potential candidates is identified based on these skills required and other issues such as geographic location and diversity criteria. External advisors may be employed where necessary to search for prospective Board members.

Candidates are assessed against the required skills and on their qualifications, backgrounds and personal qualities. In addition, candidates are sought who have a proven track record in creating security holder value and the required time to commit to the position. Appropriate background and other checks are undertaken before the People and Remuneration Committee recommends the most appropriate candidate(s) for consideration by the Board as a whole.

(e) Appointment and Induction of New Directors

New Non-Executive Directors are issued with a formal letter of appointment that sets out the key terms and conditions of their appointment, including Director's duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding involvement with Committee work. An induction program is in place that encompasses all aspects of the Company's business, including touring the Sigma Group's facilities and meeting key management personnel.

(f) Performance Reviews and Professional Development

Each Director is a member of the Australian Institute of Company Directors and has access to professional development opportunities to ensure they maintain the skills and knowledge required to perform their roles effectively.

The Chair, on the advice of the People and Remuneration Committee, periodically conducts an internal review of the Non-Executive Directors which, amongst other things, identifies whether there is a need for the Director to undertake further professional development. The results of the internal performance review are reported back to the People and Remuneration Committee. In addition, the Board, on the advice of the People and Remuneration Committee, periodically engages an independent third party to undertake a formal, external review of the Board.

The Chair conducted an internal review of the Non-Executive Directors in the 2019/2020 reporting period. An external board review was not considered to be required in the 2019/2020 reporting period.

The Board reviews the performance of the CEO against the Board-approved key performance indicators on an annual basis. This review was conducted in the 2019/2020 reporting period.

(g) Independence of Directors

As required under the Board Charter, the majority of Directors, including the Chair, are independent Non-Executive Directors.

The Board's definition of 'independence' is outlined in the Board Charter and has recently been updated in line with the revised commentary in the 4th edition of the ASX Principles and Recommendations. The 2019/2020 and 2020/2021 definitions are as follows:

2019/2020 Definition	2020/2021 Definition
An independent director is a non-executive director who: 1. is not a substantial security holder of the Company or an officer of, or otherwise associated with, a substantial security holder of the Company. A substantial security holder is a security holder who holds more than 3% of the issued capital of the Company; 2. within the last three years has not been employed in an executive capacity by the Company, or been a director after ceasing to hold any such employment; 3. within the last three years has not been a principal of a material professional adviser or a material consultant to Sigma, or senior employee of such a consultant or adviser materially associated with the service provided;	An independent Director is a Non-executive Director who is free of any interest, position or relationship that might influence, or reasonably perceived to influence, in a material respect, the Director's capacity to bring an independent judgment to bear on issues before the Board and to act in the best interest of the Company as a whole rather than in the interests of an individual security holder or other party. This includes a person who: 1. is not, does not represent, and has not within the last three years been an officer or employee of, or professional adviser to, a substantial security holder of the Company. A substantial security holder is a security holder who holds more than 3% of the issued capital of the Company; 2. is not, and has not been employed in an executive capacity by the Company or any of its child entities, within the three years prior to them serving on the Board;

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2. Our Board continued

(g) Independence of Directors continued

2019/2020 Definition	2020/2021 Definition
4. is not a material supplier or customer of the Company, or an officer of or otherwise associated with a material supplier or customer. A material supplier or customer is a supplier or customer who controls more than 5% of the value of the Company's total purchases or 5% of the value of the Company's total sales or more than 50% of the suppliers or customers purchases or sales are from or to the Company; 5. has no material contractual relationship with the Company other than as a director of the Company; 6. has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and 7. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company. The Board may determine that a Non-executive Director is independent notwithstanding the existence of a relationship of the kind referred to above. The Board will state its reasons for making that determination.	3. is not, and has not within the last three years been, in a material business relationship (e.g. as a supplier, professional adviser, consultant or customer) with the entity or any of its child entities, or is an officer of, or otherwise associated with, someone with such a relationship. A material supplier or customer is a supplier or customer who controls more than 5% of the value of the Company's total purchases or 5% of the value of the Company's total sales or more than 50% of the suppliers or customers purchases or sales are from or to the Company; 4. does not receive performance-based remuneration (including options or performance rights) from, or participate in an employee incentive scheme of, the Company; 5. does not have close personal ties with any person who falls within any of the categories described above; and 6. has not been a Director of the Company for such a period that their independence from management and substantial holders may have been compromised.

The Board reviewed the independence of each Non-Executive Director against both of these definitions and found there was no material change in its conclusion about the independence of each Non-Executive Director. The Board's assessment of the independence of each Non-Executive Director is as follows:

- Mr Brian Jamieson (Chair) – independent. The Board considers that, notwithstanding Mr Jamieson's length of tenure as a Director of the Company (from May 2003 – present) and deep understanding of the business, Mr Jamieson and his relationships are sufficiently removed from management to be considered independent.
- Mr Raymond Gunston – independent.
- Mr David Manuel – not independent. Mr Manuel is a practising pharmacist and customer of the Sigma Group. The Board values the insight and advice provided by Mr Manuel. In addition to being a skilled Board member, as an owner of multiple pharmacies he brings firsthand experience and insights that contribute greatly to the Board. The Board considers that the materiality of his relationship is such that it does not interfere with his capacity to bring an independent judgement on issues before the Board and to act in the best interests of Sigma and its security holders generally.
- Mr David Bayes – independent. The Board considers that, notwithstanding Mr Bayes' length of tenure as a Director of the Company (from June 2007 – present) and deep understanding of the business, Mr Bayes and his relationships are sufficiently removed from management to be considered independent.
- Ms Christine Bartlett – independent.
- Ms Kathryn Spargo – independent.
- Mr Michael Sammells – independent.

Independent Directors are required to identify and disclose any matter which may affect their independent status. In addition, only those transactions permitted by the Company's Constitution and the *Corporations Act 2001* (Cth) are conducted with Directors or their related parties. These are on the same commercial terms and conditions applying to any other external party, supplier or customer. Directors are required to disclose in writing any related party transactions. Related party transactions are set out in the notes to the Company's financial report.

On a regular basis, Non-Executive Directors meet without the CEO or other members of management being present, to ensure that the Non-Executive Directors maintain independence of thought and judgement. The Non-Executive Directors also meet independently with the external auditors at least twice a year. Directors have a right of access to all Company information and executives.

(h) Conflict of Interest

Directors must identify any actual or potential conflict of interest they may have in dealing with the Company's affairs and subsequently to refrain from participating in any discussion or voting on those matters. If a potential conflict of interest is likely to arise, the Director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while those matters are considered. Accordingly, the Director concerned takes no part in discussion nor exercises any influence over other members of the Board if a potential conflict of interest exists.

(i) Access to Information and Independent Advice

Directors are entitled, in fulfilling their duties and responsibilities, to obtain independent professional advice on any matter connected with the discharge of their responsibilities, with prior notice to the Chair, at the Company's expense.

(j) Directors' Fees and Remuneration

The details of remuneration paid to each Director during the financial year and the principles behind the setting of such remuneration are included in the Remuneration Report.

(k) Shareholdings of Directors

Directors' shareholdings are detailed in the Directors' Report and are updated by notification to the ASX. The rules and procedures governing the dealing in securities by Directors is set out in the Group's Share Trading Policy as noted further below.

To align the interests of Non-Executive Directors with shareholders, 25% of each Non-Executive Director's post-tax fees are used to purchase the Company's shares on market every three months. Further details of the Company's remuneration strategy and principles are outlined in the Remuneration Report.

3. Board Committees

The Board has two standing committees (**Committees**) to facilitate and assist the Board in fulfilling its responsibilities. Other committees may be established from time to time with specific responsibilities as delegated by the Board. The Committees are governed by Charters, which detail their specific functions and responsibilities. Copies of the Committee Charters are available on the Company's website. The Board Charter requires the Board to review each Committee's Charter every two years. In addition, each Charter requires the relevant Committee to review its Charter at regular intervals.

The Committees make recommendations to the Board. They have no decision-making power except where expressly authorised by the Board. The relevant qualifications and experience of individual Committee members are set out in the Directors' Report.

The attendance and composition of the Committees as at, and throughout the financial year ended 31 January 2020, is summarised in the Directors' Report.

(a) Risk Management and Audit Committee (RMAC)

The RMAC comprises Mr Ray Gunston (Chair), Mr David Bayes, Ms Kathryn Spargo and Mr Michael Sammells, who are all independent Non-Executive Directors. Mr Gunston, who is not the Chair of the Board, is the Chair of the RMAC. Mr Gunston, Mr Bayes, Ms Spargo and Mr Sammells all have relevant financial, commercial and risk management qualifications and/or experience, details of which are provided in the Directors' Report. The RMAC has authority, within the scope of its responsibilities, to seek any information it requires from any employee of the Group or external party.

Consistent with its Charter, RMAC's main responsibility is to advise and assist the Board on the establishment and maintenance of a risk management framework, internal controls and standards for the management of the Group and to monitor the quality and reliability of the financial information of the Group.

The RMAC recommends the appointment, removal and remuneration of the external auditors. It also reviews the activities and organisational structure of the internal audit function. Prior approval of the RMAC must be gained for non-audit services to be performed by the external auditor. There are specified qualitative limits on non-audit services to ensure that the independence of the auditor is maintained. There is also a requirement that the audit partner responsible for the audit to not perform in that role for more than five years.

(b) People and Remuneration Committee

The People and Remuneration Committee comprises Mr David Bayes (Chair), Mr Ray Gunston, Mr David Manuel and Ms Christine Bartlett who are all Non-Executive Directors.

Consistent with its Charter, the Committee's main responsibilities are to advise the Board on remuneration policies and practices, assess the necessary and desirable competencies of Board members, evaluate Board performance, review Board and management succession plans and to make specific recommendations on remuneration packages for the CEO, Non-Executive Directors and senior management based on an annual review.

The People and Remuneration Committee is primarily responsible for providing recommendations to the Board about the remuneration strategy, policies and practices applicable to Non-Executive Directors and the Senior Executive Team, including the CEO, and Senior Executives. Further details of the responsibilities and activities of the People and Remuneration Committee, remuneration policies and structures, details of remuneration and retirement benefits paid to Directors are set out in the Remuneration Report. As such, the Company does not require a separate nominations committee. The Board's processes for ensuring it has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively and to manage succession issues are outlined in Section 2(c) to (f) and Section 8 of this Statement.

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For the year ended 31 January 2020

4. CEO and Senior Executive Team

(a) Appointment

The Board is responsible for appointing and removing the CEO and for approving the appointment and replacement of the Senior Executive Team.

The Company undertakes appropriate checks into all members of the Senior Executive Team. All members of the Senior Executive Team are appointed under written agreements.

(b) Performance and Remuneration

The Company's Remuneration Policy was designed to recognise the competitive environment within which the Company operates and also emphasise the requirement to attract and retain high calibre talent in order to achieve sustained improvement in the Company's performance.

The overriding objective of the Remuneration Policy is to ensure that an individual's remuneration package accurately reflects their experience, level of responsibility, individual performance and the performance of Sigma. The key principles are to:

- attract, retain, motivate and reward high calibre talent;
- ensure remuneration principles are applied fairly and consistently across the business;
- foster a partnership between employees and shareholders through employee ownership of Company shares;
- drive community and customer interests by ensuring rewards are only paid where outcomes have been achieved in the interests of the community and customers; and
- link reward to delivery of the Company's financial and strategic goals which deliver value for shareholders.

In accordance with the policy, evaluation of senior executive performance and remuneration is undertaken by the CEO on an annual basis. Evaluation of the CEO's performance and remuneration is undertaken by the People and Remuneration Committee and Board on an annual basis. Performance reviews for the CEO and other members of the Senior Executive Team were conducted during the reporting period in accordance with the process described above.

Further details on key management personnel remuneration, including equity-based remuneration, are disclosed in the Remuneration Report. The rules regarding trading in Sigma's shares are set out within the Share Trading Policy, which can be found on the Company's website.

5. Integrity of Reporting

The Group has put in place controls designed to ensure the integrity of its financial reporting and that the Group complies with all regulatory requirements relevant to its reporting.

(a) Financial Control

The Board, advised by the RMAC, is responsible for the Company's overall system of internal financial control.

The Board has received certifications from the CEO and Acting CFO in connection with the financial statements for the Group for the reporting period. The certifications provide a declaration, in accordance with Section 295A of the *Corporations Act 2001* (Cth), as to the integrity of the financial statements and confirm that opinions are founded on a sound system of risk management and internal control which is operating effectively.

(b) External Auditor

The Board has established a framework for the relationship between the Company and the external auditor, which ensures that:

- recommendations made by the external auditor and other independent advisers are critically evaluated and, where appropriate, applied;
- the ability of the external auditors to carry out their statutory audit is in no way impaired;
- consideration is given to what, if any, services other than their statutory audit role may be provided by the auditors;
- any other services provided by the auditors, other than their statutory audit role, are approved and monitored; and
- the Company has defined policies and procedures in place as appropriate internal controls to manage risk effectively.

The external auditor is invited to attend the annual meeting of the Company to answer questions from shareholders in relation to the audit.

(c) Internal Audit Function

The Company has a co-sourced internal audit function comprising external service providers (Ernst and Young) which report into an internal team. The internal audit function reports directly to the RMAC in relation to its audit functions. The internal auditors provide independent and objective assurance on the adequacy and effectiveness of the Company's systems for internal control.

(d) Verification Process for Periodic Corporate Report

The Company internally verifies the integrity of all periodic corporate reports released to the market that are not reviewed by an external auditor. A verification certificate and supporting material/evidence has been provided by the relevant team member for each material statements in this Annual Report.

6. Corporate Governance Policies

The Company has adopted the following policies which have been prepared having regard to the ASX Principles and Recommendations and are available on the Company's website at http://investorcentre.sigmahealthcare.com.au/corporate-governance/governance-documents under "Governance Documents".

The Board regularly reviews the performance and effectiveness of the Company's corporate governance policies and procedures and, if appropriate, amends those policies and procedures or adopts new policies or procedures, to uphold the integrity of the Company's corporate governance framework.

(a) Code of Conduct

The Company expects all Directors, members of the Senior Executive Team and other team members of the Group to act honestly and with integrity and to conduct themselves in accordance with the highest ethical standards of corporate and individual behaviour. The Company has developed and communicated its Code of Conduct to all Directors, members of the Senior Executive Team and team members. The Code of Conduct sets out the practices which are necessary to maintain confidence in the Company's integrity and promotes:

- honest and ethical behaviour;
- respect for people and property; and
- legal compliance.

Directors, the Senior Executive Team and team members of the Group are required to comply with both the spirit and letter of all laws which apply to the Company and the principles of the Code of Conduct, including:

- minimising conflicts of interest and disclosing possible or potential conflicts;
- avoiding receiving material gifts or benefits from third parties in connection with the Company's business;
- reporting any knowledge of fraud, material error, breach of law or of a concealed practice against the interest of the Company;
- not using any Company asset on an unauthorised basis for personal use or gain (including goods, money, equipment, corporate cards, intellectual property or the services of other areas of the organisation);
- treating all stakeholders (Company team members, security holders, customers, suppliers, the public and others on the Company's behalf) courteously, fairly and without harassment or unlawful discrimination in any form; and
- complying with all federal, state and local laws and regulations.

The Company requires all Directors, members of the Senior Executive Team and other team members who become aware of an actual or suspected violation of the Code of Conduct to report that violation to a nominated reporting person. This process allows for confidential reporting of any potential violation without disadvantage to the team member. Material breaches of the Code are reported to the People and Remuneration Committee.

(b) Diversity Policy

The Company has adopted a Diversity Policy, which is described in further detail below.

(c) Continuous Disclosure and Market Communications Policy

The policy outlines a set of procedures and guidelines to ensure the Company complies with all applicable legal and regulatory requirements, including ASX Listing Rules, relating to disclosure. Subject to recognised exceptions, this ensures the timely disclosure to the ASX of any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Company's securities.

The policy also documents the Group's approach and commitment to effective communication with shareholders. Sigma has a comprehensive security holder engagement program which includes briefings, presentations and events. The program includes scheduled and ad-hoc briefings with institutional and private investors, the Australian Shareholders Association, analysts and the financial media and aims to provide and facilitate effective two-way communication with Sigma's investors. Security holders may elect to, and are encouraged to, receive communications from the Company and its securities registry electronically.

In addition, to encourage participation at meetings of security holders, the Company provides a live webcast of its AGM and half- and full-year results. For the purpose of the AGM, security holders can submit questions prior to the event, which are then answered at the AGM, or ask questions live at the venue during the AGM. Details of scheduled events are published on the Company's website, and existing shareholders receive an email with details. The Company also requires all substantive resolutions at a meeting of security holders to be decided by poll, rather than by show of hands.

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6. Corporate Governance Policies continued

(d) Share Trading Policy

The policy applies to Directors, the Senior Executive Team and team members (including employees and contractors) wishing to participate as security holders in the Company. Australian insider trading laws prohibit people who possess non-public price sensitive information from dealing in securities or passing on that information to other people who may deal in securities. The Company's policy is designed to protect Directors, team members and their associates, as well as the Company's security holders, against acts of insider trading that, either willingly or unknowingly, would disadvantage holders of the Company's securities.

The policy employs the use of blackout periods to restrict trading during times where sensitive, non-public information may be held. In addition, those persons must notify the Company in advance of any proposed dealing in the Company's securities.

Under the terms of the policy, persons to which the policy applies are prohibited from entering into hedging transactions which operate to limit the economic risk of their securities in the Company (including under any employee share scheme or equity-based remuneration scheme) and are prohibited from entering margin loan arrangements to fund the acquisition of securities in the Company or in relation to which the Company's securities may be used as security against loan repayment.

(e) Whistleblower Policy

The Company is committed to maintaining high standards of openness, governance and accountability. It wants to create an environment where people feel safe to report any wrongdoing without fear of reprisal. Although most allegations of misconduct or wrongdoing will be reported via internal channels (supervisor/manager or outside reporting lines, if necessary), the Company recognises that there will be occasions when people would rather make an anonymous disclosure. The Company has therefore appointed an external provider to receive allegations of wrongdoing pursuant to the Company's Whistleblower Policy. The RMAC is notified of material incidents reported under the Whistleblower Policy.

(f) Anti-bribery and Corruption Policy

The Company understands the importance of ensuring that its Board, Senior Executive Team and team members act with the utmost integrity. Bribery and corruption have long been prohibited under the Company's Code of Conduct and Fraud Policy. In addition, the Board has recently approved the adoption of a standalone Anti-Bribery and Corruption Policy. This prohibits the Board, Senior Executive Team and all team members of the Sigma Group from engaging in bribery or corrupt conduct and provides particular guidance in relation to political donations, gifts, travel and hospitality. It establishes reporting lines for actual or suspected breaches and ensures that material breaches are reported to the RMAC.

7. Risk Assessment and Management

The Board is committed to the identification, assessment and management of risk throughout the Company's business activities. The Company has established policies for the oversight and management of material business risks. The Company's overarching Risk Management Policy can be found on the Company's website.

The Board's committee structure forms an important part of the risk management process. Through the RMAC, the Board has required management to design and implement a risk management and internal control system to manage the Company's material business risks. It receives regular reports on specific business areas where there may exist significant business risk or exposure.

The Company recognises that risk management is an intrinsic part of each manager's day-to-day activity. Each business division is individually responsible and financially accountable for ensuring that there are appropriate systems and structures in place for the protection of its people and assets, in accordance with Sigma's risk policies and systems.

Management reports to the Board through the RMAC as to the effectiveness of the Company's management of its material business risks on a quarterly and annual basis. The RMAC's review of the Group's risk takes into account whether the Company is operating with due regard to the Board's approved risk appetite for material risks. The RMAC continually considers whether the Group's risk management framework remains appropriate and conducts a formal review of that framework every two years (or as otherwise required).

The RMAC has reviewed the risk management framework during the reporting period in accordance with this policy. Further information about the Company's material risks is provided in the Operating and Financial Review.

8. Diversity and Inclusion

The Company respects and values the benefits of a diverse and inclusive workforce that reflects the communities in which we operate and embraces diversity of thought. We believe that in order to be a high performing, agile and innovative organisation we must leverage the full potential of all of our people. Diversity in this context includes experience, gender, age, caring responsibilities, cultural identity, disability, ethnicity, religious beliefs, education, family and relationship status, gender identity and sexual orientation.

Relevant policies are in place and made available to all team members at commencement with the company and via our Intranet to support a diverse and inclusive workforce. These include the Diversity Policy and The Good Working Relationships Policy. Policies designed to recognise and support the diverse needs of our workforce are also in place including a Flexible Working Arrangements Policy and Carers and Parental leave policies.

Our HR policies around recruitment and learning and development ensure that these processes are encouraging the attraction, retention and development of a diverse workforce.

Specifically, at the Board level, the Company is seeking to ensure each Non-Executive Director contributes towards a broad mix of skills including financial, retail, operational, fiduciary, human resources and strategic.

(a) Gender Diversity

The Board values and is committed to promoting gender diversity at the Board level. Two of the last three Board appointments have been women.

From a senior executive perspective, the current gender mix is 20% female. This reduced from the 2019 senior executive gender mix of 50% and is attributed to the resignation of two female senior executives during the 2019/2020 year. In addition to this, the senior executive team grew by one with the commencement of the new CIO in January 2020.

The Board has also continued its efforts to ensure gender pay equity exists within the business. Consistent with the previous year, a detailed gender pay gap analysis was conducted as part of the 2019 remuneration review process. The results of the analysis confirmed that gender pay variances are not prevalent at Sigma when comparing male and female salaries both for like-for-like positions and by-level. The majority of variances could be adequately explained, with only a small number of adjustments required (affecting both male and female employees) to enhance pay equity.

In line with the ASX Principles and Recommendations, the Company makes the following disclosures in relation to gender diversity.

(b) Measurable Objectives and Progress

The Company's diversity policy, measurable objectives for achieving gender diversity have been set by the Board and are reviewed annually in order to ensure they remain relevant and to assess the Company's progress towards achieving them. The Company has made the following progress towards achieving the measurable objectives set for the 2019/2020 reporting period:

Measurable Objectives	Progress for 2019/2020 Reporting Period
Aim to increase the proportion of women on the Board as vacancies and circumstances permit	No Board vacancies arose during the financial year.
Aim to increase the proportion of women in executive and senior management positions as vacancies and circumstances permit	There were two executive vacancies recruited over the financial year. For one role, a male was appointed to the role from a shortlist that included women. For the other role, a female was appointed on an interim basis and is not currently on the senior executive team. A female Company representative sits on the interviewing panel for all executive and senior management vacancies. For each of these vacancies a diverse candidate pool is reviewed with the aim of interviewing suitable candidates from both genders. During recruitment activities the Company endeavours to balance the need to select the most suitably qualified and experienced candidate for the role with the advantages of promoting a diverse workforce.

The Company aspires for gender equality at all levels of the organisation. In accordance with the 4th edition of the ASX Principles and Recommendations, the Board has set the measurable objective for each level of the organisation to have 50% of each gender, with an acceptable tolerance of 10% either side of that target. This objective applies for the 2020/2021 reporting period.

Corporate Governance, Environmental and Social Statements continued

For the year ended 31 January 2020

8. Diversity and Inclusion continued

(b) Measurable Objectives and Progress continued

Proportion of Women Employees and Board Members

In accordance with the ASX Principles and Recommendations, the Company makes the following disclosures in relation to the proportion of women in the organisation:

Disclosure Requirement	Disclosure
Proportion of women employees in the whole Group	As at 31 January 2020, 59% of the Group's employees were women.
Proportion of women in the Senior Executive Team	As at 31 January 2020, 20% of Senior Executive Team positions were held by women.
Proportion of women in senior management[2] positions	As at 31 January 2020, 51% of senior management positions within the Company were held by women.
Proportion of women on the Board of the Company	As at 31 January 2020, 33% of the Company's Non-Executive Directors were women.

1. The Senior Executive Team comprises the CEO and a number of the CEO's key direct reports.
2. Senior management positions are those within the top three layers of the organisation.

9. Environmental Statement

The Company is committed to ensuring it operates in an environmentally sustainable manner. This commitment resulted in the Board approving in August 2019 an Environmental Management and Sustainability Policy, available at sigmahealthcare.com.au, which recognised the Company's commitment to:

- identifying and effectively managing and mitigating environmental risks from all work practices;
- entrenching sustainable packaging as a priority for the Company, including committing to using the Covenant Sustainable Packaging Guidelines;
- cultivating an employee culture committed to achieving our objectives under this policy; and
- implementing strategies and a reporting framework to give effect to our objectives stated under this policy.

In line with this policy, the Company has been identifying the major business inputs that contribute to our overall environmental footprint and progressively implementing actions to help to reduce this footprint. As a wholesale distribution business, the key focus areas identified were within our Distribution Centre network and through our logistics network.

(a) Energy

The Company has been undertaking a major investment program to upgrade the Group's DC network. During this phase, there are periods where duplicate DC facilities are operating in tandem, as we transition from the old site to the new site. This does have a short-term negative impact on our environmental footprint. Notwithstanding this, an analysis across our DC network indicates that the actions we have taken to date have resulted in a 10% reduction in our total CO_2 emissions.

This has been achieved through a combination of upgrading to LED lighting in our existing DCs, and in our new DCs, installing a number of energy saving features such as solar power that is currently delivering approximately 20% of our electricity requirements, LED lighting, timer switches, and solar hot water. As our investment program continues and the operation of duplicate sites declines, we would anticipate incremental improvements across our network. Sigma is also currently assessing a business case to expand our solar panel installation, with a view to potentially increasing our solar power generation. This is subject to final review and approval.

(b) Logistics Route Management

A core part of the Group's business is ensuring the delivery of medicines to community pharmacies usually within 24-hours. This is a regulated essential service for patient health that helps deliver the Governments National Medicines Policy (NMP). Within that framework, we have employed sophisticated route management systems to optimise the efficiency of our logistics work and therefore reduce the environmental impact. This includes grouping of delivery locations to minimise kilometres travelled and fast-tracking picking of orders to reduce travel time during peak hours. This continues to be a focus for the business in the year ahead.

(c) Packaging

The Company is a signatory to the Australian Packaging Covenant. As such, the Company has committed to implementing plans and actions to reduce our packaging utilisation to improve our environmental impact.

In distributing our products to pharmacies, the Group continues to utilise returnable and recyclable cardboard boxes. Upon delivery to the community pharmacy, empty boxes are returned for re-use. In 2020, the Group used, returned and re-used cardboard tote boxes six times on average.

In 2019, the Group acted to significantly reduce the environmental impact of the packaging utilised within our business. This action has led to the removal of over 17,000 lineal metres of traditional plastic bubble wrap in 2020, replaced with 28,000 lineal metres of paper based, earth friendly alternatives which are recyclable, biodegradable and compostable.

(d) Waste Management

Waste management actions across the business have seen the Group continue to improve its recovery and diversion from waste. Total waste across the business for the 12-months to 31 January 2020 was 2,645.51 tonnes, with 71.70% recovered or diverted from waste. This is an improvement on the previous year, when 63.9% was recovered or diverted.

Actions to drive the improvement have been widespread but have included 54,557 coffee cups diverted from landfill through the Simply Cups Closed Loop campaign. Further action has now been implemented to encourage utilisation of re-usable cups.

10. Social Statement

We believe our people are one of our greatest assets and our success is the result of a collaborative team effort.

Creating a safe and rewarding place to work is our commitment which in turn means we are attracting and retaining a team that is passionate about performing and delivering on our promises to customers and shareholders.

Our focus for the 2019/20 financial year has been on delivering business transformation and implementing changes that will enable us to better support our customers and franchise partners.

(a) Culture and Engagement

A number of initiatives were implemented over the year to continue to support a culture of transformation and better equip our leaders to support their teams through times of change. We introduced workshops focusing on managing self and others through change, implemented an online "Managing myself through Change" learning module available to all team members and, and conducted regular Change Leader forums. The Change Leader forums gave leaders the opportunity to be updated on our transformation and change initiatives, share their experiences and reinforce the importance of strong leadership in times of change.

Other initiatives included:

- Further embedding our Performance Review Framework that was introduced in 2018. The framework continues to have equal emphasis on outcomes achieved and behaviours demonstrated.
- Introduction of new online compliance training modules focused on working safely at Sigma, positive workplace behaviours, plus reinforcing our company values and our unrelenting commitment to safety.
- Management of the people impacts of both the DC Network Optimisation and MC/CW exit across the year. An unfortunate reality was that in total over 300 permanent roles were no longer required. We are proud of the manner in which these changes were managed with dignity, respect and sensitivity in all instances. All exiting team members were well supported with outplacement services to assist in their transition out of the Group. Managers were supported with training in change management prior to the commencement of the CW exit process to prepare them for the changes and to enable them to provide supportive leadership to their teams.

Whilst a number of new initiatives were developed during the year, we also built on those from last year. In regard to communication, we addressed feedback and refined how we share information with team members through video messaging and the CEO blog. Many of our team members and leaders had the opportunity to share their 'day in the life of' with our broader team and we continue to receive positive feedback on the value of this style of communication.

We continued to run Leadership Labs with a particular emphasis on upskilling new managers and leaders across the Group. 28 Leadership Labs were delivered with 171 leaders participating in sessions throughout the year.

- This year we introduced a new in-house culture and engagement survey tool that is well aligned to our values and provides the flexibility to undertake regular pulse surveys throughout the year on key issues of importance. Pleasingly, we continued to build on our engagement score and saw a positive uplift of 7.5% from the previous year. Whilst our response rate was lower than previous year at 59%, the survey was available for participation across our entire Sigma Group for the first time:
- 72% of respondents told us they believed in the success of the Sigma Healthcare strategy;
- 71% agreed that the changes we are implementing are the right thing for the organisation's future success and 76% believe the changes are necessary for our ongoing success;
- 92% of respondents said they were confident in managing themselves in an environment of constant change;
- 91% of respondents feel safe at work and 89% are comfortable raising safety concerns with their manager.

We also continued to see positive momentum for our two employee Net Promotor Score (eNPS) survey items of "On balance, how likely would you be to recommend Sigma as a great place to work" (+16.3 from 2018) and "On balance, how likely would you be to recommend Sigma as the best choice for services provided" (+16.5 from 2018). This is very reassuring given the significant change experienced throughout the 2019 year.

Corporate Governance, Environmental and Social Statements continued

For the year ended 31 January 2020

10. Social Statement continued

(b) Health and Safety Performance

We understand that providing safe and healthy workplaces empowers our team members to perform at their best. In turn this helps create a healthy culture for our team, the Company and our customers.

The Board receives monthly activity and metrics reporting for our key performance areas, programs, training and campaigns, including incident trending, physical injury and mental health and wellbeing outcomes.

Our three predominant incident types throughout 2019 remain the same as 2018, which were falls from height-items, cuts/lacerations, and impact with objects – mobile plant against fixed items. Regular analysis of these incident types identified key themes and opportunities for reduction, which were implemented and are ongoing.

They include:

- Powered mobile plant competency assessment and induction for all mobile plant operators;
- Personal protective equipment requirements across logistics and dose administration facilities;
- Housekeeping and hazard reporting, specifically sharp edge removal on fixtures, fittings, containers and plant/equipment.

Other key programs that build on our mental health and wellbeing structure for the year were:

- Delivery of our Mentally Healthy Workplaces program, in conjunction with Medibank Health;
- Participation in RUOK Day, supporting and talking about mental health and wellbeing;
- Continuation of our drug and alcohol awareness and testing program for all sites and contractors;
- Assisting team members to quit smoking by providing free, personally tailored cessation programs and products in conjunction with our Professional Services team;
- Free influenza vaccinations for team members through in-house delivery and participating pharmacies;
- Health and Safety Management System Audits.

Each year we undertake health and safety management system compliance auditing as part of our reporting and governance activity, across all sites. The internal audits are undertaken by accredited auditors within our Health and Safety team. This year's results showed an improvement in performance over the previous year, with a result of 93%, up from 86%. This is a positive outcome given the dynamic operating changes the Group has experienced over the period, including the consolidation of warehousing operations across several states. Each site has developed a Safety Action Plan for addressing any non-compliance areas identified from their audit, and to track safety activity and performance throughout the year.

(c) Lost Time Injury/Lost Time Injury Frequency Rate (LTI/LTIFR)

The Group recorded three LTIs for the year, 12 less than the previous year. (LTI = one or more lost shifts/days following the incident). Of these, two injuries resulted in greater than five lost days. Our LTIFR for the year was 4.10, a decrease on the previous year and while commensurate with the decrease in LTI's, a significant reduction in direct labour hours increased the final figure. Each LTI is investigated and used as a learning opportunity for both the related site and the Group as a whole.

(d) Shine at Sigma

Providing recognition and feedback to our people is a fundamental driver of engagement and we encourage all our leaders to provide feedback to their people on a regular basis. We believe in recognising our team members who demonstrate the Company's values in an outstanding way, and we are very proud of the many examples of this across the whole organisation. The Shine Awards continued to deliver many inspiring examples of this in 2019 and the power of peer nomination adds weight to the importance of these awards. After a year of significant change, the Shine Awards were reinvigorated in September 2019. We are proud to say we had a total of 78 team members nominated through 47 nominations by peers for Shine Awards in a mixture of individual and team nominations. Nine nominated team members were awarded Shine Awards for 2019.

This year our overall Shine at Sigma winner was Mary Lance, a Queensland based Business Development Manager for Amcal and Guardian. Mary was nominated for her outstanding efforts in coordinating and collaborating with others in the business to generate donations of over the counter pharmacy products, water, and emotional support for six pharmacies in her New South Wales and Queensland territory who were affected by drought and bushfires in October 2019. Mary also personally delivered products and assisted customers in these pharmacies. Mary is renowned for going over and above and always putting others before herself. She is a very valued team member and we congratulate Mary on receiving this award.

In line with the Company's philosophy of supporting the communities in which we operate Mary was invited to select a charity of her choice to which the Company would make a donation. Mary chose to donate her $3,000 allocation to the Tenterfield Salvation Army Corp who were on the ground providing much needed support to those impacted.

The Company is deeply committed to contributing to healthier communities through sustainable, socially responsible and ethical practices.

Through our large wholesale and pharmacy network with over 3,000 customers, we are proud to support local communities and improve the health of Australians wherever we can.

(e) The Summer Foundation

Today more than 5,800 young Australians with disability and complex support needs end up living in Residential Aged Care because there are no other alternatives. Many are aged in their 30s or 40s, living with people in their 80s, as they are forced to accept the latest housing vacancy with people they have not chosen to live with. The Summer Foundation are working to achieve a change in policy and practice in relation to young people in aged care so that young people with a disability have the right to live where, how and with whomever they choose.

The Company was delighted to continue our support of the Summer Foundation's mission and advocacy work with a donation of over $35,000 through the generosity of attendees, matched by the Company, at our annual Sigma Supplier Gala in July 2019.

(f) Guardian Pharmacy's Partnership with St Vincent de Paul Society (Vinnies)

The Group's leaders, team members, suppliers and customers have contributed to Vinnies through fundraising, volunteering and the donation of money and goods in partnership with Guardian Pharmacy.

In 2019, the Guardian Angel Knitting Program turned 21 – continuing the Guardian Pharmacy initiative which has provided homemade knitted garments for those in need. For a third year, we were proud to partner with Vinnies to ensure knitted items were passed on to those who needed them most. By sewing or knitting jumpers, scarves, beanies and other items and dropping them off at a local Guardian pharmacy, our customers have generously provided dignity and comfort for those who are most vulnerable. This year the Knitting for Good program donated warm garments, helping vulnerable members of our community and increasing Guardian's positive impact in our community. Without our Angels we would not be able to provide this care and support.

Together with our Guardian Angel Knitting program, we were pleased to offer care and support to the thousands experiencing homelessness by participating in the Melbourne CEO Sleep Out on June 20, 2019. The Vinnies CEO Sleep Out brings together leaders to support those most vulnerable through the winter months by raising awareness and funds to help combat homelessness. Our Guardian team raised over $15,000 for much needed funding of 50 supporting programs, 131 beds and 525 meals.

(g) Drought Support

The Company is here to help in the tough times. We recognise the vital role our pharmacies play in supporting their communities and appreciate that during severe water shortages, their role is critical. With support from our generous supply partners, we banded together to donate almost $60,000 of free personal care items to Queensland and New South Wales drought-affected and fire-impacted communities late last year through our Tenterfield, Stanthorpe and Warwick pharmacy partners.

(h) Bushfire Emergency Support

Like all Australians, we were incredibly saddened by the devasting loss of life, property and livelihood during the 2019/20 summer bushfire emergency. As a pharmaceutical wholesaler, the Company's main priority during times of emergency is to deliver medicines and other pharmaceutical supplies to our Australian communities. Under unprecedented challenging conditions, our team provided exceptional support to deliver supplies together with emergency services, relief agencies and transport partners and wanted to do all we can to help those in need.

In response, the Company pledged $50,000 to St. Vincent de Paul Society Bushfire Appeal in addition to a $25,000 donation to the Alliance Pharmacy Bushfire Relief Appeal to support bushfire-affected pharmacies in NSW and Victoria. We also offered financial assistance to our stores in bushfire affected areas to help them get back on their feet and tripled all team member workplace giving donations to the Bushfire Relief Appeal 2020, giving just over $3,000 to each of the following causes:

- St Vincent de Paul Society Bushfire Appeal
- Australian Red Cross Disaster Relief and Recovery
- WWF Australia.

Corporate Governance, Environmental and Social Statements continued

For the year ended 31 January 2020

11. ASX Principles and Recommendations Checklist

Ref	ASX Recommendation (3rd Edition of ASX Principles and Recommendations)	Section[1]	Compliance in 2019/20 Reporting Period	4th edition of ASX Principles and Recommendations (applicable to 2020/2021 reporting period)	
				Material Change from 3rd Edition	Comments
Principle 1: Lay Solid Foundations for Management and Oversight					
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	2(a)	 Yes Yes	• Required to have and disclose Board Charter. • Updated commentary about types of matters that should be reserved exclusively for the Board.	The Company's Board Charter is (and was during the 2019/20 reporting period) published on the Company's website and has recently been updated to take into account updated commentary in the 4th edition of the ASX Principles and Recommendations.
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	2(c)	 Yes Yes	• Required to undertake appropriate checks before appointing senior executives.	The Company's existing recruitment practices comply with the new requirement. See Section 4(a).
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	2(e) and 4(a)	Yes	N/A	N/A
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	2(b)	Yes	N/A	N/A

1. Refers to the section of this Statement unless otherwise stated.

Ref	ASX Recommendation (3rd Edition of ASX Principles and Recommendations)	Section[1]	Compliance in 2019/20 Reporting Period	4th edition of ASX Principles and Recommendations (applicable to 2020/2021 reporting period) – Material Change from 3rd Edition	Comments
1.5	A listed entity should: (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either: (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	9	(a) Yes (b) Yes (c) Yes (1) Yes (2) Yes	• Required to disclose full Diversity Policy. • Required to set measurable objectives for achieving gender diversity across the Board, senior executives and workforce generally, and to disclose these for the current period. • Required to have target of 30% of each gender at Board level.	The Company's Diversity Policy is (and was during the 2019/20 reporting period) published on the Company's website. The Company's measurable objectives for achieving gender diversity for the 2020/21 are disclosed in this Statement and comply with the 4th edition of the ASX Principles and Recommendations. See section 9.
1.6	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	2(f), 3(b) and 4(b)	(a) Yes (b) Yes	N/A	N/A
1.7	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	4(b)	(a) Yes (b) Yes	• Requirement for the performance evaluation process to be undertaken every reporting period.	The Company's existing HR practices comply with the new requirement. See Section 4(b).

Corporate Governance, Environmental and Social Statements continued

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11. ASX Principles and Recommendations Checklist continued

Ref	ASX Recommendation (3rd Edition of ASX Principles and Recommendations)	Section[1]	Compliance in 2019/20 Reporting Period	4th edition of ASX Principles and Recommendations (applicable to 2020/2021 reporting period): Material Change from 3rd Edition	Comments
Principle 2: Structure the Board to Add Value					
2.1	The board of a listed entity should:	2(d) and 3(b)		N/A	N/A
	(a) have a nomination committee which:		N/A		
	(1) has at least three members, a majority of whom are independent directors; and				
	(2) is chaired by an independent director, and disclose:				
	(3) the charter of the committee;				
	(4) the members of the committee; and				
	(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or				
	(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.		Yes		
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	2(d)	Yes	N/A	N/A
2.3	A listed entity should disclose:	2(g) and Directors' Report		• Updated commentary about what constitutes an "independent director".	The Board has updated its definition of independence in accordance with the update commentary. See Section 2(g).
	(a) the names of the directors considered by the board to be independent directors;		Yes		
	(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and		Yes		
	(c) the length of service of each director.		Yes		
2.4	A majority of the board of a listed entity should be independent directors.	2(g)	Yes	As for recommendation 2.3 above.	As for recommendation 2.3 above.

Ref	ASX Recommendation (3rd Edition of ASX Principles and Recommendations)	Section[1]	Compliance in 2019/20 Reporting Period	4th edition of ASX Principles and Recommendations (applicable to 2020/2021 reporting period) — Material Change from 3rd Edition	Comments
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	2(g)	Yes	As for recommendation 2.3 above.	As for recommendation 2.3 above.
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	2(e)	Yes	• Requirement to have program for periodically reviewing the professional development needs of existing directors.	The new requirement is covered by the Company's existing evaluation processes for the CEO and Non-Executive Directors. See Sections 2(f) and 4(b).
Principle 3: Promote Ethical and Responsible Decision-making					
3.1	A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	6(a)	 Yes Yes	• Requirement to disclose entire code of conduct. • Requirement to ensure that the board or a committee of the board is informed of any material breaches.	The Company's Code of Conduct is (and was during the 2019/20 reporting period) published on the Company's website. The Code was recently updated to refer to the existing practice whereby material breaches of the Code are referred to the People and Remuneration Committee.
				• Requirement to articulate and disclose the Company's values.	The Company's statement of values is (and was during the 2019/20 reporting period) published on the Company's website.
				• Requirement to have and disclose a whistleblower policy. • Requirement to ensure that a board, or committee of the board, is informed of any material incidents reported under the policy.	The Company's Whistleblower Policy is (and was during the 2019/20 reporting period) published on the Company's website. The policy was recently updated to refer to the existing practice whereby the RMAC is informed of any material incidents under the policy.

Corporate Governance, Environmental and Social Statements continued

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11. ASX Principles and Recommendations Checklist continued

Ref	ASX Recommendation (3rd Edition of ASX Principles and Recommendations)	Section[1]	Compliance in 2019/20 Reporting Period	4th edition of ASX Principles and Recommendations (applicable to 2020/2021 reporting period) – Material Change from 3rd Edition	Comments
				• Requirement to have and disclose an anti-bribery and corruption policy. • Requirement to ensure that a board, or committee of the board, is informed of any material breaches of the policy.	The Company's new Anti-Bribery and Corruption Policy is published on the Company's website. Material breaches of the policy are referred to the RMAC. The standalone policy builds on the Company's Code of Conduct and Fraud Policy, which also prohibit bribery and corrupt conduct.
Principle 4: Safeguard Integrity in Corporate Reporting					
4.1	The board of a listed entity should:	3(a), 5 and Directors' Report		N/A	N/A
	(a) have an audit committee which:				
	(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and		Yes		
	(2) is chaired by an independent director, who is not the chair of the board, and disclose:		Yes		
	(3) the charter of the committee;		Yes		
	(4) the relevant qualifications and experience of the members of the committee; and		Yes		
	(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or		Yes		
	(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.		N/A		

Ref	ASX Recommendation (3rd Edition of ASX Principles and Recommendations)	Section[1]	Compliance in 2019/20 Reporting Period	4th edition of ASX Principles and Recommendations (applicable to 2020/2021 reporting period)	
				Material Change from 3rd Edition	Comments
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	5(a)	Yes	N/A	N/A
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	5(b)	Yes	• Replaced with requirement to disclose process used to verify the integrity of any periodic corporate report released to the market that is not audited or reviewed by an external auditor.	See Section 5(d).
Principle 5: Make Timely and Balanced Disclosure					
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	6(c)	 Yes Yes	• Requirement to disclose full disclosure policy.	The Company's Continuous Disclosure and Market Communications Policy is (and was during the 2019/20 reporting period) published on the Company's website.
				• Requirement to ensure that Board receives copies of all material market announcements promptly after they have been made.	Consistent with the Company's existing Continuous Disclosure and Market Communications Policy.
				• Requirement to ensure that new and substantive investor or analyst presentations are released on ASX Market Announcements Platform prior to the presentation.	Consistent with the Company's existing Continuous Disclosure and Market Communications Policy.

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11. ASX Principles and Recommendations Checklist continued

Ref	ASX Recommendation (3rd Edition of ASX Principles and Recommendations)	Section[1]	Compliance in 2019/20 Reporting Period	4th edition of ASX Principles and Recommendations (applicable to 2020/2021 reporting period) – Material Change from 3rd Edition	Comments
Principle 6: Respect the Rights of Shareholders					
6.1	A listed entity should provide information about itself and its governance to investors via its website.	2 – 4	Yes	N/A	N/A
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	6(c)	Yes	N/A	N/A
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	6(c)	Yes	• Requirement to disclose details of how this is facilitated and encouraged (not just the relevant policies/processes).	These details are disclosed in Section 6(c).
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	6(c)	Yes	N/A	N/A
				• Requirement for all substantive resolutions at a meeting of security holders to be decided by poll rather than by show of hands.	This is the Company's existing practice.

Ref	ASX Recommendation (3rd Edition of ASX Principles and Recommendations)	Section[1]	Compliance in 2019/20 Reporting Period	4th edition of ASX Principles and Recommendations (applicable to 2020/2021 reporting period): Material Change from 3rd Edition	Comments
Principle 7: Recognise and Manage Risk					
7.1	The board of a listed entity should:	3(a), 7 and Directors' Report		N/A	N/A
	(a) have a committee or committees to oversee risk, each of which:				
	(1) has at least three members, a majority of whom are independent directors; and		Yes		
	(2) is chaired by an independent director,		Yes		
	and disclose:				
	(3) the charter of the committee;		Yes		
	(4) the members of the committee; and		Yes		
	(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or		Yes		
	(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.		N/A		
7.2	The board or a committee of the board should:	3(a)		• Requirement for the annual review to take into account whether the company is operating with due regard to the risk appetite set by the board.	The review considers whether the Company is performing with due regard to the risk appetite set by the Board, particularly having regard to the Company's material risks.
	(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and		Yes		
	(b) disclose, in relation to each reporting period, whether such a review has taken place.		Yes		
7.3	A listed entity should disclose:	5(c)		• Changes to disclosures required for companies that do not have an internal audit function.	These changes do not impact the Company, as it has an internal audit function.
	(a) if it has an internal audit function, how the function is structured and what role it performs; or		Yes		
	(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.		N/A		
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	9 and 10 and Operating and Financial review	Yes	• Requirement to disclose whether the Company has any material exposure to environmental or social risks and how it manages or intends to manage those risks.	See Sections 9 and 10 and the Operating and Financial Review.

Corporate Governance, Environmental and Social Statements continued

For the year ended 31 January 2020

11. ASX Principles and Recommendations Checklist continued

Ref	ASX Recommendation (3rd Edition of ASX Principles and Recommendations)	Section[1]	Compliance in 2019/20 Reporting Period	4th edition of ASX Principles and Recommendations (applicable to 2020/2021 reporting period): Material Change from 3rd Edition	Comments
Principle 8: Remunerate Fairly and Responsibly					
8.1	The board of a listed entity should:	3(b)		N/A	N/A
	(a) have a remuneration committee which:				
	(1) has at least three members, a majority of whom are independent directors; and		Yes		
	(2) is chaired by an independent director, and disclose:		Yes		
	(3) the charter of the committee;		Yes		
	(4) the members of the committee; and		Yes		
	(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or		Yes		
	(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.		N/A		
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	Remuneration Report	Yes	N/A	N/A
8.3	A listed entity which has an equity-based remuneration scheme should:	6(d)		N/A	N/A
	(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and		Yes		
	(b) disclose that policy or a summary of it.		Yes		

Directors' Report
For the year ended 31 January 2020

The Directors present their report on Sigma Healthcare Limited (the Company) and its controlled entities (the Group) for the year ended 31 January 2020.

Directors

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

Name	Particulars
Mr Brian Jamieson *FCA, FAICD* Non-Executive Chairman and Director	Appointed a Director of Sigma Healthcare Limited in May 2003, and Chairman of Sigma Healthcare Limited in June 2010. Mr Jamieson is a Non-Executive Director of IODM Limited, Highfield Resources Limited and the Bionics Institute. He is a former Managing Partner of Minter Ellison Lawyers Melbourne, former Chief Executive of KPMG Australia, former Chairman of Mesoblast Limited and former Director of Bank of Western Australia Limited, HBOS Australia Limited, Tigers Realm Coal Limited, Oz Minerals Limited, Tatts Group Limited and CareAustralia. Mr Jamieson has over 30 years' experience in providing advice and audit services to a diverse range of public and large private companies. He has not held any directorships of listed entities in addition to those set out above during the last three years.
Mr Mark Hooper *BBus (Acc), CPA, FFTP, MAICD* CEO & Managing Director	Appointed Managing Director of Sigma Healthcare Limited in August 2010. Mr Hooper has a broad range of experience in finance, commercial and operational matters primarily in the mining and pharmaceutical industries. Mr Hooper is a former Chief Financial Officer and Executive Director of PaperlinX Limited. From 2006 to 2008 Mr Hooper was the Chief Financial Officer and Chief Operating Officer for the Pharmacy and Consumer business for Symbion Health Limited. Prior to that Mark was Chief Financial Officer of Sigma from 2001 to 2006. Mr Hooper has not held a directorship of any other listed entity during the last three years.

Name	Particulars
Mr David Bayes *FAICD* Non-Executive Director, Chairman of the People and Remuneration Committee, Member of the Risk Management and Audit Committee	Appointed a Director of Sigma Healthcare Limited in June 2007. Mr Bayes is the current Chairman of Plarre Foods Pty Ltd, a food manufacturing and retail franchise group trading as Ferguson Plarre Bakehouses, is a Non-Executive Director of Shine Corporate Ltd and the Australian Institute of Company Directors, and is the current President of the Victoria Council, Australian Institute of Company Directors. Mr Bayes has over 35 years' experience in multi-outlet retail business and has held a variety of board and executive positions including former Chief Executive Officer of Choice Hotels Australasia, Chief Operating Officer of Mortgage Choice, Chief Executive Officer and Director of Bakers Delight, former Non-Executive Director of Chiquita Brands South Pacific Ltd, former Non-Executive Director of North Western Healthcare Network and former Vice President and Director of McDonald's Australia. Mr Bayes has not held any directorships of listed entities in addition to those set out above during the last three years.
Mr Raymond M Gunston *BComm (Hons), DipEd, FCPA, FTA, GAICD* Non-Executive Director, Chairman of the Risk Management and Audit Committee, Member of the People and Remuneration Committee	Appointed a Director of Sigma Healthcare Limited in July 2010. Mr Gunston is a Non-Executive Director and Chairman of the Board Audit and Risk Committee of Hotel Property Investments Limited. He has over 40 years of extensive corporate and financial services experience in the public and private sectors, specialising in finance, treasury, mergers and acquisitions, and accounting. He is a former Chief Financial Officer of Tatts Group Limited, and a former director of many of the Tatts Group's subsidiary and associate companies, and the former Interim CEO for the Essendon AFL Football Club. Mr Gunston is currently General Manager – Infrastructure, Major Projects and Investment of the Australian Football League. Mr Gunston has not held any directorships of listed entities in addition to those set out above during the last three years.

Directors' Report continued
For the year ended 31 January 2020

Directors continued

Name	Particulars
Mr David G Manuel *BPharm, MPS, MAICD* Non-Executive Director, Member of the People and 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, and Elements Health Care 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 a directorship of any other listed entity during the last three years.
Ms Kathryn (Kate) D Spargo *LLB (Honours), BA, FAICD* Non-Executive Director, Member of Risk Management and Audit Committee	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 Non-Executive Director at Sonic Healthcare Limited, Adairs Limited, and CIMIC Ltd. Ms Spargo has held a directorship in listed entities over the past three years as Non-Executive Director in Xenith IP Ltd and Fletcher Building Limited. In addition, Ms Spargo's current positions in unlisted companies include Chairman of ColInvest and Director at the Geelong Football Club and Future Fuels Cooperative Research Centre.

Name	Particulars
Ms Christine Bartlett *BSc, MAICD* Non-Executive Director, Member of People and 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 iCare and TAL. Ms Bartlett is a member of Chief Executive Women, and the Australian Institute of Company Directors.
Mr Michael Sammells *BBus (Acc), FCPA, GAICD* Non-Executive Director, Member of Risk Management and Audit Committee	Appointed a Director of Sigma Healthcare Limited in February 2020. 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.

Each of the directors held office for the whole financial year and since the end of the financial year, except for Mr Michael Sammells who was appointed 1 February 2020.

Principal Activity

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

The Group has a national presence in the hospital pharmacy distribution market, and through its network infrastructure, provides third party and fourth party logistics services.

The Group also provides dose administration aid and related services through its Medication Packaging Systems business and the supply of medical and allied products through its Medical Industries Australia business.

There have been no significant changes in the nature of the principal activities during the year.

Operating and Financial Review

The operating and financial review, which forms part of this Directors' Report, is presented separately on pages 28 to 33.

Environmental Regulations

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

Dividends

A fully franked interim dividend of 1 cent, amounting to $10,594,000 was paid on 4 October 2019.

Since the end of the year the Directors have resolved to not pay a final dividend.

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.

Non-audit Services

Details of the amounts paid to the auditor of the Company, Deloitte, and its related practices, for audit and other services provided during the year are set out in Note 25.

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.

The directors are satisfied that the provision of these non-audit services during the period 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* for the following reasons:

- all non-audit services have been approved by the RMAC or Chairman of the RMAC in accordance with the Company's policy for the independence of its external auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 53.

Remuneration Report

Details of the Group's Remuneration Policy in respect of the Directors and Senior Managers are included in the Remuneration Report on pages 34 to 52, which forms part of this Directors' Report. Details of the remuneration paid to each Non-Executive Director, the CEO and Managing Director and other Senior Managers are also detailed in the Remuneration Report.

Directors' Report continued
For the year ended 31 January 2020

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.

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

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

	Number of fully paid ordinary shares	Number of performance rights/options over fully paid ordinary shares
Mr B Jamieson	990,295	-
Mr M Hooper	12,676,960	21,617,790
Mr D Bayes	410,407	-
Mr R Gunston	498,668	-
Mr D Manuel	274,644	-
Ms K Spargo	222,932	-
Ms C Bartlett	103,714	-
Mr M Sammells (commenced 1 February 2020)	-	-

Board and Committee Meeting Attendance

The following table sets out the number of directors' meetings held during the year and the number attended by members of the Board or relevant Committee who were Directors during this time. During the year, 13 Board meetings, 5 Risk Management and Audit Committee meetings and 4 People and Remuneration Committee meetings were held.

	Board of Directors		Risk Management and Audit Committee		People and Remuneration Committee	
Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Mr B Jamieson	13	13	-	-	-	-
Mr M Hooper	13	13	-	-	-	-
Mr D Bayes [1, 2]	13	13	5	5	4	4
Mr R Gunston [1, 2]	13	13	5	5	4	4
Mr D Manuel [2]	13	13	-	-	4	4
Ms K Spargo [1]	13	13	5	5	-	-
Ms C Bartlett [2]	13	13	-	-	4	4

1. Risk Management and Audit Committee Members
2. People and Remuneration Committee Members

Subsequent Events

Subsequent to 31 January 2020, the following events and transactions have occurred:

Amendment to Debt Facilities

Since the end of the year, the Group has reached agreement with Westpac to amend its Receivables Purchase Facility and Sigma Rewards Facility, extending the maturity of all debt beyond 12 months from the date of this report. Details of the amendment are in Note 16 Borrowings in the notes to the consolidated financial statements.

COVID-19 (Coronavirus)

The outbreak of novel coronavirus (COVID-19), now considered a global pandemic, has spread globally since first identified in mainland China on 30 December 2019. Australia recorded its first confirmed case of COVID-19 on 25 January 2020 and as at 25 March 2020 this number has grown to over 1,800.

In an effort to contain the spread of the virus, quarantine restrictions, travel restrictions, limitations of social gatherings, the closure of businesses and schools and other restrictive measures have been increasingly introduced in Australia, with these measures escalating on 22 March 2020 with some states closing their borders, and shutting down non-essential services. These measures are not dissimilar to actions taken internationally.

For the year ended 31 January 2020, COVID-19 did not have a material impact on financial performance or the financial position of the Group. At balance date, the restrictions put in place to contain the virus have not materially impacted the Group's supply chain, customers or employees.

Since the end of the year, with the restrictive measures escalating, there is a risk that COVID-19 may have a negative and/or positive impact on the Group's operations, and as a result, its financial performance and financial position. The positive impact stems from the Group's operations in community pharmacy and health related services, industries that have observed higher demand since the outbreak commenced.

As a result of the evolving nature of the COVID-19 outbreak and the rapidly evolving government policies of restrictive measures put in place to contain it, as at the date of these financial statements, the directors are not in a position to reasonably estimate the financial effects of the COVID-19 outbreak on the future financial performance and financial position of the Group.

Long-term Debt Structuring

On 18 March 2020 the Company has announced that it has commenced a process to review a sale and leaseback of its Distribution Centre (DC) network to release unrecognised value in land and buildings. At the date of signing this report this process is in its early stages and no transaction has been agreed to.

Pharmacy Alliance (PAL) Supply Agreement

Since the end the year the Company has signed a new agreement with the Pharmacy Alliance (PAL) Group for the supply of all pharmaceutical and over the counter (OTC) products. PAL is Sigma's largest independent wholesale customer group with a national network of over 700 independent and co-branded member pharmacies. The five-year agreement, with a five-year option to extend, is expected to continue to contribute over $500 million per annum of ongoing sales revenue.

Fund Investment (Allfin)

Since the end the year the Company has committed to an investment of $10 million in Allfin, a managed investment scheme. Allfin is an industry leading finance broker in the healthcare sector, with extensive experience providing finance to retail pharmacies over many years. The investment is aligned to Sigma's customer strategy of working with our customers and brands to create business growth and to secure trading volume to our wholesale platform.

Dividend

Since the end of the year the Directors have resolved to not pay a final dividend.

Other than the matters discussed above, there has not been any other matter or circumstances that have arisen since 31 January 2020 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 25 March 2020.

Mr Brian Jamieson
Chairman

Mr Mark Hooper
CEO and Managing Director

Melbourne
25 March 2020

Operating and Financial Review

For the year ended 31 January 2020

Overview of Operations

The Group is in the business of health, with operations focused on connecting health solutions for our customers, through the following activities:

- Wholesale and distribution of pharmaceutical and over the counter (OTC) products to community pharmacy and hospital pharmacy
- The provision of retail support services to our branded network of pharmacy members – Amcal, Guardian, Discount Drug Stores, Pharmasave, Chemist King, and Whole Life, and to independent pharmacies
- Hospital pharmacy services, including data and programs supporting specialty medication services
- The provision of dose administration aid services to the aged care sector, community pharmacy sector, and in the home
- Supply of medical consumables and devices to aged care, hospitals and clinics
- The provision of technology solutions and data analytics to support our customers
- Product development and support for a range of Private and Exclusive label products.

The Group, through its network infrastructure, also offers third party and fourth party logistics services to pharmaceutical manufacturers and other supplier partners.

Key Events and Changes in State of Affairs

Although the general nature of the Group's operations has not changed for the period, performance for the year ended 31 January 2020 has been significantly impacted by a number of events that need consideration when comparing to the prior period, these include:

My Chemist/Chemist Warehouse (MC/CW) Group Exit

The Group's contract with the MC/CW Group, contributing $1.7 billion in annualised sales, ceased on 30 June 2019 with the transition out of supply and therefore sales revenue completed during October 2019. The impact is reflected in the decrease in sales and gross profit for the year, as well as a decrease in warehousing and delivery expenses plus a significant return in working capital that is evident in operating cash flow and on the balance sheet and decrease in trade receivables, trade payables and inventory.

Exiting this volume from the Group's network resulted in employee redundancies and other restructuring costs from the closure of regional distribution centres and the consolidation of network operations in Western Australia. These costs are predominantly recorded in warehousing and delivery expenses and are considered non-operating and excluded from the underlying result.

Business Transformation Program – Project Pivot

This MC/CW Group exit was a catalyst for the implementation of a major business transformation program (Project Pivot) which included work to ensure the efficient and effective wind down of costs associated with the exit of the MC/CW Group. The program of work, including the exit of MC/CW Group, will generate operating efficiencies of over $100 million. The MC/CW Group exit was successfully completed during the period and the remaining program of work is in progress with most of the benefits to be realised over the next two financial years.

Expenses to execute the transformation program, including external consultant costs, have been incurred during the period and are recorded across administration, sales and marketing and warehousing and delivery expenses. These expenses are considered non-operating and excluded from the underlying result.

MC/CW Group FMCG Supply Arrangement

On 25 November 2019 the Group announced a new arrangement with the MC/CW Group to supply FMCG products from 1 December 2019 through to 30 June 2024. This supply will contribute more than $750 million in the first full year of supply which had previously transitioned out of the business.

The return of the MC/CW Group FMCG business has resulted in an increase in inventory toward the end of the year to facilitate the sales volume returning, offsetting part of the working capital return of the previous exit. In respect of performance, the volumes that returned through the last two months of the year did not materially contribute to sales and gross profit, although there was an increase in warehousing and delivery expenses to handle the increase in inventory.

Distribution Centre Optimisation Program

Investment in the Group's distribution network continued during the year. Operations commenced at new distribution centres in Canning Vale (Western Australia) and Pooraka (South Australia) and subsequent to year end, in the new site at Kemps Creek (NSW).

With these new sites, total capital expenditure on the network surpassed $220 million over the past three years, reflected in our property plant and equipment and net debt position. The other impact on our balance sheet at 31 January 2020 has been the increase in inventory holdings in NSW whilst we operate from two sites as Kemps Creek increases operations to full volume.

In commencing operations at these new sites, the group has incurred significant expenditure, both in redundancy and other closure costs at sites being closed and replaced, and dual operating costs as each new site increased its volume to full capacity. These costs are recorded in warehousing and delivery expenses and are considered non-operating and excluded from the underlying result.

COVID-19 (Coronavirus)

The COVID-19 outbreak that started in late January 2020, and has since escalated, has the potential to impact our operations over the coming months. To date, we have been addressing the impact of the pandemic, and the restrictive measures put in place to contain the spread of the virus, in the following ways:

- Review and implementation of business continuity and response plans
- Risk assessment and action planning across the business through a dedicated COVID-19 working group
- Proactive engagement with key supply chain stakeholders, including the Department of Health
- Supporting our team members with regular information and guidance and amending our business processes, procedures and practices to best protect them.

As an supplier of essential medicine to the public, we have been working with our customers, the government and suppliers to respond to the unprecedented increase in demand for products from community pharmacies, which has included implementing some ordering restrictions to ensure supply reaches those that need it.

We will continue to respond to the evolving issue which continues to escalate, both through the spread of the virus, and the restrictive measures put in place to contain it.

Financial Performance

The Group reported net profit after tax (NPAT) attributable to owners of the company for the year ended 31 January 2020 of $12,330,000 loss which was down 133.8% from the prior period ($36,520,000 profit). Reported earnings before interest, tax, depreciation and amortisation (EBITDA) of $24,200,000 was down 68.4% on the prior period ($76,550,000).

The result in both periods was impacted by non-operating items. For the current year these include:

- expenses of $39,662,000 before tax ($27,763,000 after tax) were incurred from the Group's restructuring, transformation and dual operating activities from managing the MC/CW Group exit, the distribution centre optimisation program and business transformation activities (2019: $13,115,000 before tax)
- A net benefit of $4,261,000 in relation to due diligence activities, offset by the receipt of a confidential legal settlement relating to an historical matter (2019: $863,000 expense before tax)
- The impact of the implementation of AASB 16 *Leases* which had the impact of increasing EBITDA by $11,517,000, increasing EBIT by $1,904,000 and decreasing NPAT by $157,000 (2019: nil)

Removing the impact of these adjustments, underlying NPAT attributable to owners of the company was down 72.8% to $12,607,000 ($46,304,000 in the prior period). Underlying EBITDA of $48,084,000 was down 46.9% from $90,528,000 reported in the prior period as reported in the below reconciliation.

	31 January 2020 $'000	31 January 2019 $'000
Reported NPAT attributable to owners of the company	**(12,330)**	36,520
Add back:		
Restructuring, transformation and dual operating costs after tax	**27,763**	9,180
Litigation and due diligence (benefits)/costs after tax [1]	**(2,983)**	604
Impact of adoption of AASB 16 *Leases* after tax	**157**	-
Underlying NPAT attributable to owners of the company	**12,607**	46,304
Reported EBIT	**(3,058)**	63,028
Add: Reported depreciation and amortisation	**27,258**	13,522
Reported EBITDA	**24,200**	76,550
Add back:		
Restructuring, transformation and dual operating costs before tax	**39,662**	13,115
Litigation and due diligence (benefits)/costs before tax	**(4,261)**	863
Impact of adoption of AASB 16 *Leases* before tax	**(11,517)**	-
Underlying EBITDA	**48,084**	90,528
Less: Reported depreciation and amortisation	**(27,258)**	(13,522)
Add: Depreciation of right-of-use assets (impact of adoption of AASB 16 *Leases*)	**9,613**	-
Underlying EBIT	**30,439**	77,006
Less: Non-controlling interests before interest and tax	**(1,372)**	(855)
Underlying EBIT attributable to owners of the company	**29,067**	76,151

1. This balance includes the receipt of a confidential legal settlement relating to an historical matter with a third party.

Operating and Financial Review continued

For the year ended 31 January 2020

Financial Performance continued

Sales revenue was $3,244,264,000, down 18.4% on the prior period of $3,976,774,000. Sales revenue was influenced by the reduction in demand for high cost, low margin, Hepatitis C medications. When this impact is excluded, sales revenue was down 21.8%. This result was impacted by a range of contributing factors including:

- a net decrease in revenue earned from the MC/CW Group
- reduced prices from ongoing Pharmaceutical Benefits Scheme (PBS) price reform.
- an offsetting increase in hospitals revenue of 11.3% (excluding Hepatitis C sales) resulting from growth in sales across Victorian, Western Australian and New South Wales hospitals.
- an offsetting increase in retail pharmacy wholesale volumes (excluding MC/CW Group and Hepatitis C) of 8.5% from new and existing customers,
- an offsetting increase in bulk and export sales and the expansion of the Department of Defence contract.

Gross profit for the period decreased by 21.3% to $215,020,000, compared to $273,194,000 in the prior period, with total gross margin of 6.6% decreasing from 6.9%, excluding the influence of Hepatitis C sales, underlying gross margin decreased from 7.3% in the prior period to 6.8%. The decrease year on year has been caused by a proportional increase in lower margin sales contributed from the hospitals business, ongoing PBS reform and an increase in customer discounts and rebate expense due to market competition

Other revenue of $98,106,000 was down 1.4% from $99,454,000 in the prior period. The result was impacted by the write off of assets as part of the closure of regional distribution centres and reduced discount revenue and rebates received from suppliers in line with reduced sales volume, offset by an increase medical packaging income. Other revenue also includes pharmacy brand member fees, other rebates, promotional and marketing income and data analytics services.

Warehouse and delivery expenses were $150,982,000, down 10.0% from the prior period ($167,696,000). There were several contributing factors to the net movement in this expense, including:

- a net decrease in volume from the full exit of MC/CW Group and subsequent return of FMCG volumes
- the impact of adoption the new accounting standard AASB 16 *Leases* which decreased operating lease expense
- an offsetting increase in redundancy, restructuring and dual operating cost associated with the phasing out of the MC/CW Group and the opening of three new distribution centres as part of the distribution centre optimisation program
- an offsetting increase in costs associated with the new aged care packaging business in Victoria
- an offsetting increase in payroll costs in accordance with EBA requirements.

Sales and Marketing expenses of $69,965,000 for the period were up 8.0% from $64,799,000 in the prior period. The increase is attributable to redundancy and transformation costs associated with the execution of Project Pivot as well an additional investment to expand the size of the branded network, implement additional programs for our banners and retain existing customers.

Administration costs for the year were up 6.9% to $67,979,000 ($63,603,000 in the prior period). This reflects the investment made during period in the Group's transformation activities under Project Pivot, partially offset by the recognition of a legal settlement received from a third party as noted above.

Depreciation and amortisation expenses of $27,258,000 were 101.6% higher than $13,522,000 in the prior period. $9.6 million of this increase is attributable to the adoption of the new leasing standard AASB 16 *Leases*. The remaining increase has been caused by depreciation associated with new distribution centres at Canning Vale (WA), Kemp Creek (NSW) and Pooraka (SA).

Net interest expense of $12,702,000 was up 14.7% from $11,070,000 in the prior period. $2.1 million of this increase is attributable to the adoption of the new leasing standard AASB 16 *Leases*. This was partially offset by the decrease in interest rates over the period.

Income tax benefit of $4,293,000 (effective tax rate of 27.2%) was down compared to $14,917,000 expense (effective tax rate of 28.7%) in the prior period, in line with a decrease in reported profit before tax.

Financial Position

The Group's net assets at 31 January 2020 have decreased by $37,540,000 or 7.3% from $514,280,000 to $476,740,000. The decrease reflects the payments of dividends during the year, the reported profit result and the implementation of the new lease accounting standard AASB 16.

Working capital has decreased by $172,396,000 over the year to $233,804,000. The Cash Conversion Cycle (CCC), being the net of Days Sales Outstanding (DSO), Days Inventory on Hand (DIO) and Days Payable Outstanding (DPO), has decreased 10 days to 26 days. Adjusting for Hepatitis C, the CCC decreased by 12 days to 28 days. The decrease reflects the reduction in working capital associated with MC/CW Group exit, however, the full impact has been offset by both the return of the MC/CW Group FMCG volume and increase in inventory associated with opening the new NSW warehouse in January 2020.

Underlying return on invested capital ("ROIC")1[1] for the current period was 7.1% compared to 12.2% for the prior period. The decrease reflects lower underlying EBITDA and higher depreciation, partially offset by reduced invested capital employed during the period, given the reduction in the net debt position.,

The Group's net debt position has decreased to $145,978,000 at the year end (2019: $243,181,000). This has been driven by the return of working capital from the net decrease in volumes from the MC/CW Group, offset by our continuing capital works program, acquisitions and payment of dividends during the period.

At 31 January 2020, $250 million of the Group's total debt facility of $385 million with Westpac Banking Corporation expires within 12 months. The drawn down amount of $115 million from this part of the facility is classified as current borrowings on the balance sheet.

Since the end of the year, the Group has reached agreement with Westpac to extend the maturity date of all borrowings beyond 12 months from the date of signing this report. The amendment has not changed the security arrangements, or the total limit, and the amended debt arrangement is subject to terms and conditions and to interest cover, gearing and minimum shareholder funds covenants.

Since the end of the year the Company has announced that it has commenced a process to review a sale and leaseback of its Distribution Centre (DC) network to release unrecognised value in land and buildings. At the date of signing this report this process is in its early stages and no transaction has been agreed to.

The on-market share buy-back program continued only modestly during the period, an investment of $50,000 to acquire and cancel 84,657 shares was made. Since the commencement of the on-market share buy-back program in October 2012, $99,561,000 has been invested to acquire and cancel 132,019,580 of the Company's shares, at an average price of $0.75 per share. This represents 11.1% of issued capital since its commencement. The continuation of the program will be periodically reviewed by the Board in the context of our ongoing business objectives.

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 RMAC
- 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.

1. Underlying pre-tax ROIC is based on the last 12 months of underlying earnings (underlying EBIT), and net assets adjusted for capital work in progress on the construction of new distribution centres not yet being utilised.

Operating and Financial Review continued

For the year ended 31 January 2020

Material Risks continued

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 PBS, 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 • Future business development to diversify revenue streams away from PBS dependency • Ongoing investment in systems and processes to ensure compliance with regulatory requirements.
Delivery of strategic initiatives (projects/acquisitions) and our business transformation program There is a risk of Sigma not achieving its strategic priorities if we fail to deliver our key strategic projects, including our business transformation program (Project Pivot), new enterprise resource system (ERP) and integrate our acquisitions/ subsidiaries successfully.	• Detailed project planning with resource support from external experts • 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 • Executive sponsorship and responsibility of all key strategic projects/subsidiaries with Board oversight.

Risk	Mitigation
Financial risk The Group is exposed to various financial and economic sustainability risks 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. Some 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/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 ratio, 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).
Operations risk The Group is exposed to a number of risks that have the potential to materially impact operations or result in business interruption. This includes industrial action, workplace health and safety and loss/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 • Distribution centre optimisation program • Robust health and safety management system and dedicated health and safety resources.

Risk	Mitigation
IT infrastructure and systems IT infrastructure and systems do not adequately support the current and future needs of the business and do not protect against cyber risk.	• The implementation of a new enterprise resource system (ERP) has commenced. • IT governance structure in place to manage the existing IT environment, including an Architecture Review Council that administers IT change management • Standardisation of Managed Operating Environment (MOE) and Standard Operating Environment (SOE) underway • Enterprise Service Bus implemented providing Sigma with a Tier 1 platform for future enterprise integration.
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 an Environment Management and Sustainability policy • Identifying and managing and mitigating environmental risks from our operations, particularly our distribution centre network; • Active community engagement in various charity organisations and other targeted programs • Staff support and training initiatives to improve culture, change management and build strong leaders across the business • Supply chain review, changes to the procurement process and amendment of standard contracts in response to Modern Slavery legislation.

Risk	Mitigation
Climate change risk (emerging risk) Climate change presents an evolving risk for Sigma. This include 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.	• 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) • Climate related risks and potential financial impacts assessed in line with the Risk Management Framework • Business continuity plans in place to respond to disruption to operations • Establishment of processes to measure, track and report energy use and greenhouse gas (GHG) emissions in 2020.

Remuneration Report
For the year ended 31 January 2020

Abbreviation	Item
AGM	Annual General Meeting
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 2020 (financial year).

Before I begin with the key events and remuneration outcomes for the financial year, I would like to acknowledge the comments raised by some stakeholders at the Company's last Annual General Meeting (AGM). The Board has considered their feedback and sought to address these by clearly articulating the rationale for our one-off incentive arrangements and assuring our stakeholders that the overall remuneration outcomes are aligned with stakeholder interests.

One-off Awards

The 2018/19 year was an extraordinary year. In July 2018, we announced that we had made the decision to not renew the MyChemist/Chemist Warehouse (MC/CW) supply agreement for commercial reasons when it expired in June 2019. This exit saw our earnings and share price severely impacted.

It also became clear that strategic changes were required to reset the operating cost base to make Sigma more efficient and free up funds for future growth. The Company has set about a significant program of change (Project Pivot) that will generate over $100 million in efficiency gains across the business over a period of 18-24 months. The one-off incentive program to recognise the delivery of these efficiencies is important in ensuring that Project Pivot is a success, and not at the expense of delivering the high levels of service our customers expect.

In December 2018, API announced it had made a non-binding offer to acquire 100% of shares in Sigma via a Scheme of Arrangement. Having considered possible scenarios and implications, and in the interest of customers and stakeholders, the Company decided to implement a one-off retention arrangement to ensure that people were retained in essential roles to provide business continuity in a time of uncertainty.

In both instances the Board took prudent measures in protecting the interest of stakeholders and are confident that the return on investment of these one-off incentive measures are paying off, one example of which is evident in the return of the MC/CW FMCG supply agreement and the smooth transition to operationalise this. These initiatives enabled the deliverables which are explained below.

Company Performance

The financial year has been a year of transition for Sigma with a clearly defined strategy in place to deliver efficiencies across the business. While the operating environment continued to be challenging, led by the CEO/Managing Director, and supported by his executive team and a committed workforce, the Company has delivered on a number of critical business imperatives to position Sigma for future growth. They include:

- The recommencement of MC/CW FMCG supply agreement and securement of a second line supply arrangement with MC/CW for PBS products with expected annual sales in excess of $800 million;
- Solid progression on the Network Optimisation program, with the Kemps Creek distribution centre (DC) in New South Wales and Pooraka in South Australia operational under time and under budget; and
- The closures of three regional DCs with minimal to no interruptions to customers.

The business has also executed strongly on its Project Pivot Business Transformation strategy and is now well positioned as a leaner, more efficient business moving forward. We are pleased with the progress that has delivered over $60 million of annualised realisable benefit so far and are on track to delivering over $100 million efficiency gains articulated in this strategy. This work will continue into 2020/21.

Remuneration Outcomes in 2019/20

STI Outcomes

In determining the STI outcome for the CEO/Managing Director, the Board assessed the actual financial performance and individual KPI outcomes against set targets in the key focus areas of Strategy, Customer, Operations, People and Safety. The Board approved an STI payment of $859,880, to be paid in cash and equity in equal proportion.

LTI Outcomes

The long-term incentive (LTI) plan granted in 2017 did not meet the required Return on Invested Capital (ROIC) and Total Shareholder Return (TSR) targets. As a result, 100% of the loan funded shares granted to the CEO/Managing Director and other key executives were forfeited. The 2019 LTI plan was adjusted because of the unique organisational circumstances, with the issue of Performance Rights in place of the Loan Funded Share issue. The LTI will revert to a Loan Funded Share issue for the 2020 LTI plan.

We look forward with confidence to the continued successful transformation agenda, increased operating efficiencies, strong focus on customers and service to the communities that we support. The commitment and focus on the program of work will provide Sigma with a solid foundation for sustainable growth.

David Bayes
Chairman – People and Remuneration Committee

Remuneration Report continued
For the year ended 31 January 2020

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 2020 (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.

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

Executives	
Mr M Hooper	CEO/Managing Director
Ms I MacPherson	Chief Financial Officer (until 8 January 2020)
Mr J Sells	Executive General Manager, Retail Pharmacy (Acting Chief Financial Officer from 9 January 2020 to 31 January 2020)

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

Executive Remuneration Snapshot

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.

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

- Cash payment

Performance measures

NPAT hurdle

- Minimum performance level must be achieved to trigger any STI payments except safety related payments
- Reflecting the importance of workplace safety, payments for meeting safety KPIs are excluded from the profit hurdle

Financial measures

- 30% of STI split evenly across NPAT and ROIC
- Budgeted hurdle must be achieved for minimum payment and above budget stretch targets must be achieved for full payment

Non-financial measures

- 70% of STI is aligned to the achievement of non-financial goals that drive the strategic objectives of the Company

Strategic objectives

- NPAT hurdle 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
- Outcomes are subject to an external audit to maintain integrity of the reward

At-risk Remuneration Long Term Incentive (LTI) =

Delivery mechanism

- Rights 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 rights 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 rights aligned to ROIC will occur when an average ROIC of 11% or higher is achieved 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

Remuneration Report continued
For the year ended 31 January 2020

One-off Awards

As foreshadowed in Sigma's 2018/19 annual report, the Company made two one-off awards in the 2019/20 financial year due to the unique business circumstances. The Retention Award supported the retention of key executives in response to the takeover announcement from Australian Pharmaceutical Industries (API) and the exit of MyChemist/Chemist Warehouse (MC/CW). The Project Pivot Business Transformation Award was introduced to incentivise the delivery of an enterprise-wide business transformation program that is tasked with delivering in excess of $100 million per annum in efficiency gains for Sigma.

Retention Award

The Retention Award was considered a critical and successful response in the wake of the API takeover bid in a number of ways:

- The Company was able to retain the senior leadership team, creating stability and continuity for the Company and stakeholders
- Essential personnel and knowledge were retained enabling us to maintain high level of services to our customers and the community during a period of uncertainty and disruption.
- Unforeseen at the time, the Retention Award also played a crucial role in the smooth commencement of the MC/CW FMCG supply agreement, as the essential personnel and knowledge were available to be deployed on short notice.

The Retention Award is a cash award subject to service condition. 50% of the award became payable at the end of the 2019/2020 financial year, with the remaining 50% due at the end of the 2020/2021 financial year.

Project Pivot Business Transformation Award

In 2019, the Company implemented a significant change program aimed at delivering over $100 million in efficiency gains. The Project Pivot Business Transformation Award was designed to focus executives on the successful execution and delivery of this business-critical project, over and above their "Business as Usual" responsibilities and deliverables. Project Pivot will reshape the Company and build a solid foundation for future growth.

The first phase of the project concluded at the end of January 2020 with the efficient exit of the MC/CW business. This was a significant achievement taking into account the scale of the impact, where 500 team members and agency staff exited the business, along with the closure of 3 distribution centres. All of this was achieved with no industrial actions and nil stock write downs, in addition to delivering on other business activities and requirements.

Project Pivot Business Transformation Award is an equity award subject to meeting specific Project Pivot related measures. 50% of the award vested at the end of the 2019/2020 financial year having met the required measures. The remaining 50% of the Award is due at the end of the 2020/2021 financial year, subject to meeting specific Project Pivot related measures for year two of the project.

Over $60 million of annualised ongoing benefit has been achieve through Project Pivot and we are on track towards the $100 million efficiency gains set out by the Company.

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.

	Financial Year				
12 months ended 31 January	**2019/20**	**2018/19**	**2017/18**	**2016/17**	**2015/16**
Share price ($) [1]	**0.586**	0.577	0.904	1.246	0.819
Dividends paid in the financial year (cps)	**3.0**	4.0	5.5	5.5	5.0
TSR [2]	**9.1%**	-29.9%	-21.2%	61.7%	16.4%
Pre-tax ROIC [3]	**7.1%[6]**	12.2%[6]	16.3%[8]	17.7%[6]	14.8%[4]
EBIT ($m)	**29.1[10]**	76.2[10]	83.7[9]	92.0[7]	89.1[5]
NPAT ($m)	**13.5[10]**	45.8[10]	55.0[9]	60.8[7]	59.2[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 on new distribution centre, acquisition earn out costs and share of equity accounted investees.
5. Adjusted for acquisition earn out costs and share of equity accounted investees
6. Adjusted for capital investment in ongoing construction of new distribution centres, business acquisitions and acquisition costs
7. Adjusted for the impact of the litigation settlement expense and profit of non-controlling interests
8. Adjusted for capital investment on new distribution centres and business acquisitions
9. Adjusted for profit from business acquisitions, acquisition costs and profit of non-controlling interests
10. Adjusted for litigation and due diligence costs, expenses from restructuring and profit of non-controlling interests

STI Outcomes

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

The NPAT result exceeded the hurdle requirement for STI payment for the 2019/20 financial year. The table below shows the STI payments to each Executive for the current and preceding financial years, as approved by the Board:

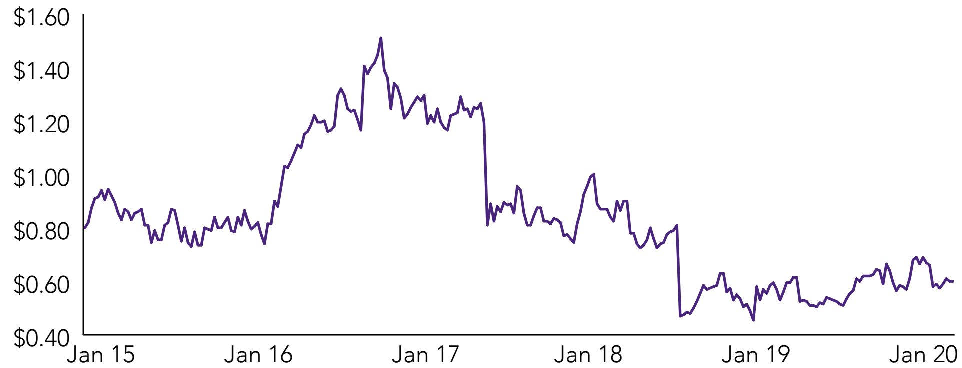
Executives	Maximum STI Opportunity as % of Fixed Remuneration	2019/20 % STI Forfeited	2019/20 % STI Paid	2019/20 STI Payment $	2018/19 % STI Forfeited	2018/19 % STI Paid	2018/19 STI Payment $
Mr M Hooper	100.0%	**35.0%**	**65.0%**	**859,880**[3]	97.5%	2.5%	32,265[1]
Ms I MacPherson[2]	50.0%	**n/a**	**n/a**	**n/a**	50.0%	0.0%	-
Mr J Sells[4]	50.0%	**40.0%**	**60.0%**	**11,411**	n/a	n/a	n/a
TOTAL				**871,291**			32,265

1. Payment relating to meeting safety KPIs
2. Ms I MacPherson resigned and ceased to be KMP on 8 January 2020
3. Of the STI payment made to Mr Hooper, $429,940 was paid in cash, with the remaining payment made by way of a share issue. The number of shares will be calculated based on a 5 day volume weighted average price of Sigma shares up to and including the date of payment.
4. The payment relates to the period that Mr J Sells was a KMP.

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 share price movement over the past five financial years. The Company has maintained a strong dividend payout ratio over this time.



2017 Long Term Incentive Plan

Under the 2017 LTI loan funded share plan, the Company is required to achieve an average pre-tax ROIC of 15% or a minimum absolute TSR of 30% during the three-year performance period for a vesting to occur. The Board retains discretion to adjust the basis for determining LTI outcomes based on achievements which are consistent with the Group's strategic priorities and, in the opinion of the Board, enhance shareholder value. The table below sets out the ROIC vesting outcome as approved by the Board:

Performance Period	Performance Measure	Vesting Condition	Actual Achievement	% of LTI Vested	% of LTI Forfeited
1 February 2017 to 31 January 2020	Average pre-tax ROIC	15% or higher	11.9%	0.0%	50.0%
	Absolute TSR	<30%, 0% vests ≥30%, 12.5% vests ≥40%, 25% vests ≥50%, 50% vests	-38.4%	0.0%	50.0%

The absolute TSR and ROIC performance outcomes did not achieve the minimum levels required for vesting. Accordingly, all unvested loan funded shares under the Plan were forfeited to the Sigma Employee Share Administration Pty Ltd (SESA). The outstanding loan balance associated with the unvested shares was fully discharged from a participant point of view.

Remuneration Report continued
For the year ended 31 January 2020

Executives	Lapsed/ Forfeited	Vested and Exercisable	Exercise Date	Exercise Price $	Expiry Date
Mr M Hooper	4,315,153	0	1 February 2020	1.200	31 January 2022
Ms I MacPherson[1]	n/a	n/a	1 February 2020	1.200	31 January 2022
Mr J Sells	1,324,240	0	1 February 2020	1.200	31 January 2022

1. 100% of the 2017 loan funded shares were forfeited following Ms I MacPherson's resignation on 8 January 2020.

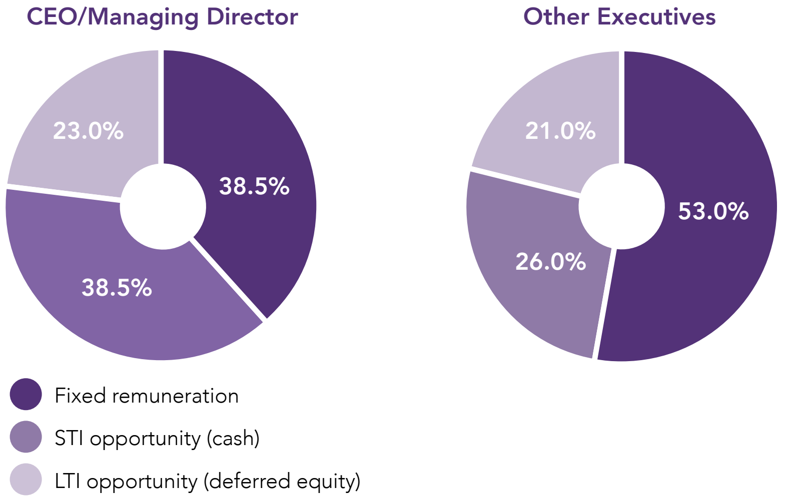
Table 3a on page 49 sets out the details of the 2017 LTI plan forfeited by the Executives.

One-off Award Outcomes
At the conclusion of the 2019/20 financial year, the Board was satisfied with the effectiveness of the Retention Award and approved a cash payment of $661,446 to the CEO/Managing Director. The Executive General Manager Retail Pharmacy also received a cash payment of which $14,264 relates to the period that he was a KMP.

The Board also assessed the Project Pivot outcomes against the specific measures relating to the efficient exit of MC/CW business and determined that the performance conditions relating to tranche 1 of the Project Pivot Business Transformation Award were fully achieved, resulting in 100% of the rights allocated in tranche 1 to fully vest on 31 January 2020. Upon vesting, the vested rights will continue to be subject to forfeiture conditions as described on page 43. Executives may elect to exercise the vested rights to Sigma shares on a one for one basis within the prescribed exercise period at no cost.

Table 3b on page 50 sets out the details of the Rights vested to the Executives under the Project Pivot Business Transformation Plan.

Executive Remuneration Framework
An appropriate reward mix structure is determined for each management level, with the portion of at-risk remuneration increasing with the level of responsibility, influence and criticality of the role. The maximum potential reward mix excluding the one-off Retention Award and Pivot Business Transformation Award for Executives is as follows:



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.

During the year, the Board approved a fixed remuneration increase of 2.5% for the CEO/ Managing Director effective on 1 May 2019, in line with the pay increase applied to the broader workforce. The Board noted that the CEO/Managing Director is a very experienced CEO with an intimate industry and company knowledge, which will be invaluable in navigating Sigma through a significant period of change.

Short Term Incentive
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 one-off retention reward and the Pivot Business Transformation reward granted during the financial year are also detailed below.

Component	Commentary
Maximum STI Reward Value	100% of fixed remuneration for the CEO/Managing Director. 50% of fixed remuneration for other Executives.
Hurdle Requirement	An NPAT hurdle must be achieved to trigger any STI payment opportunity. The NPAT hurdle is determined by the Board prior to the commencement of the financial year, taking into account the NPAT result for the concluding financial year and the budgeted NPAT target for the new financial year. The hurdle excludes any significant uncontrollable or one-off events and the initial impacts from business development initiatives, as approved by the Board. NPAT was selected as an appropriate hurdle as it is the best overall measure of Company performance, is reflective of the generation of shareholder value, and is a measure readily recognised by and reported to shareholders. In recognition of the importance of workplace safety, KPIs relating to safety are excluded from this hurdle requirement, are separately established and are payable upon achievement.
Performance Measures **Financial**	30% of maximum STI reward relate to Group financial measures equally weighted against ROIC and NPAT. A budgeted ROIC and NPAT must be achieved for partial payment, and above budget stretch targets must be achieved for full payment under these financial KPIs. ROIC was selected as an appropriate performance measure as it captures both profitability and effectiveness of capital management, which are both important measures for shareholders. 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**	70% of maximum STI reward relate to non-financial measures, specifically: CEO/Managing Director – customer satisfaction, business operations, growth strategy development and execution, people and safety, including reduction in major lost time injuries and improvement in health and safety compliance, culture and employee engagement. Other Executives – operational performance/efficiency, customer satisfaction, continuous improvement, people and delivery of integration project. Each non-financial measure is selected based on its alignment with key strategic priorities that lead to improved and sustainable shareholder value.
Governance	All performance measures under the STI are clearly defined and measurable. The Board, on recommendation from the People and Remuneration Committee, approves the targets and assesses the performance outcome of the CEO/Managing Director. The CEO/Managing Director sets the targets and assesses the performance of other Executives. The Board, on recommendation from the People and Remuneration Committee, approves STI payments for the CEO/Managing Director and other Executives. 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	100% of awarded STI is paid in cash upon Board approval of the audited year-end accounts. The Board is confident that paying the STI in cash is an appropriate recognition of the short term decisions and action of Executives within the year. This is supported by the LTI equity that rewards Executives for longer term decisions and actions that are aligned to long term shareholder value.
Financial Year Outcome	The NPAT result exceeded the hurdle requirement for STI payment for the 2019/20 financial year. Refer to page 38 for further details.

Remuneration Report continued
For the year ended 31 January 2020

Long Term Incentive

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. Having considered the unique organisational circumstances at the time of grant, the Board approved the use of a rights plan for the 2019 grant with the same TSR and ROIC performance conditions as previous years. For the 2020 LTI grant, the Board believes a return to the loan funded share plan is the most appropriate delivery vehicle in driving share price growth and shareholder value. Providing the LTI under a loan plan ensures that executives are only rewarded for any increase in share price above the market value on the grant date. This is key for Sigma as it has undergone a significant business restructure over the past 12 months but is seeking to increase stability in its business operations over future years, under its new business structure.

Component	Commentary
Maximum LTI Reward Value	60% of fixed remuneration for the CEO/Managing Director. 40% of fixed remuneration for other Executives.
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.
Delivery Mechanism	Adopting a "face value" approach, the number of rights granted to the Executives are derived by dividing the Executive's LTI value by a 5-day Volume Weighted Average Price (VWAP) of Sigma shares up to and including the date of grant. Subject to vesting conditions being met, the Executives can exercise vested rights to Sigma shares on a one for one basis at no cost. Any unvested rights lapse. Executives holding rights do not receive dividends or cash compensation for the loss of dividends. The Board agreed that the 2020 LTI will revert to a loan funded share plan to support the growth ambition for the future.

Component	Commentary
Vesting Conditions	Up to 50% of rights will vest in accordance with the absolute TSR vesting schedule set out in the table below: % Absolute TSR achieved — % of rights 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. 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. In addition, the use of absolute TSR is not limited by the challenges associated with selecting a fair and appropriate comparator group given the size of the industry in which the Company operates. The use of absolute TSR also avoids scenarios of windfall gains or losses to the Executives that can occur under certain circumstances within a comparator group. The Company is confident in its ability to set an absolute TSR vesting schedule at a level that benefits both the Executives and shareholders. For the 2019 grant, the remaining 50% of rights will vest if the average pre-tax ROIC is 11% or higher during the performance period (Average ROIC of 12% for the 2018 plan) Pre-tax ROIC = EBIT/(Total Shareholder Funds + Net Debt) 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. ROIC was selected as an appropriate vesting condition as it measures capital management effectiveness, including outcomes of multi-year investment decisions.
Re-testing	No re-testing applies- rights that do not vest after testing lapse.
Exercise Price	Nil
Disposal Restrictions	Dealing, transferring or disposing of rights is prohibited until the end of the vesting period.

Component	Commentary
Forfeiture Conditions	In the event of resignation, unvested rights are typically forfeited (subject to Board discretion) and vested rights are retained and can be exercised. In the event of summary dismissal, unvested rights are forfeited as are any vested and unexcised rights. 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 People and Remuneration Committee, approves the targets and assesses the performance outcome of each LTI plan. The Board, on recommendation from the People and Remuneration Committee, approves LTI vesting for each plan. Confirmation of vesting only occurs once the audited year-end accounts have been approved by the Board. 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 outcomes did not achieve the minimum levels required for vesting of the 2017 plan. As a result, 100% of the unvested loan funded shares were forfeited. Refer to page 39 for further details.

Table 3b on page 50 sets out the movements of rights during the financial year.

One-off Awards

Component	Commentary
Rationale – Retention Award (one-off grant)	The retention award was designed to retain key executives in a time of uncertainty, allowing them to remain focused on delivering high level service to customers. The Company was also cognisant of shareholder expectations of continued financial performance despite the Company's uncertainty amidst the API takeover offer and the decision not to renew the MC/CW agreement. As such, the Board was unanimous in approving the retention arrangement as part of our proactive risk mitigation strategy to aid retention which would subsequently reduce recruitment risk during a period of uncertainty. By securing critical executives for the short to medium term, the Company significantly reduced risk through increased stability for its employees, brand members, customers and suppliers critical to our on-going operations. Cash payment was selected for its simplicity and effectiveness as the retention instrument.
Conditions	Payment is subject to continued employment. The award will be forfeited if this employment condition is not met for any reason including redundancy.
Reward Value	100% of fixed remuneration for the CEO/Managing Director. 75% of fixed remuneration for other Executives.
Governance	The Board, on recommendation from the People and Remuneration Committee, approves retention payments for the CEO/Managing Director and other Executives.
Reward Mechanism	50% of the award is payable at the end of the 2019/2020 financial year. The remaining 50% of award is payable at the end of the 2020/2021 financial year.
Financial Year Outcome	The employment condition was fully met therefore 50% of the award became payable following the conclusion of the 2019/2020 financial year. Refer to page 39 for further details.

Remuneration Report continued
For the year ended 31 January 2020

Component	Commentary
Rationale – Pivot Business Transformation Award (one-off grant)	The Pivot Business Transformation award was designed to drive successful business transformation outcomes for a period of 12 to 24 months, following an extensive review of our operations post the decision not to renew the MC/CW agreement. Executives are incentivised for achieving stretch targets during challenging business circumstances. The demand to deliver this large and ambitious transformation program without disruptions is critical to the future success of the Company and for the creation of shareholder value. Equity was selected to deliver the award to align the transformation outcomes with shareholder benefit.
Performance Measures	50% of the reward relates to the efficient exit of MC/CW business. The remaining 50% of the reward relates to the successful execution of the Project Pivot workstreams that deliver the targeted savings and cost control measures as approved by the Board.
Maximum Value	60% of fixed remuneration for the CEO/Managing Director. 40% of fixed remuneration for other Executives.
Reward Mechanism	The award is delivered in a form of a rights plan with 50% of the rights vesting at the end of the 2019/2020 financial year and the remaining 50% vesting at the end of the 2020/2021 financial year, subject to meeting performance conditions as approved by the Board. Each tranche of rights have a three-year and two-year exercise period respectively.
Forfeiture Conditions	In the event of resignation, unvested rights are typically forfeited (subject to Board discretion) and vested rights are retained and can be exercised. In the event of summary dismissal, unvested rights are forfeited as are any vested and unexcised rights. In the event of death or redundancy, the Board has discretion to determine an appropriate outcome.
Governance	The Board, on recommendation from the People and Remuneration Committee, approves the performance targets and performance outcomes. Confirmation of vesting only occurs once the audited year-end accounts have been approved by the Board. The Board has discretion to adjust performance outcomes based on the achievements which are consistent with the Company's strategic priorities and, in the opinion of the Board, enhance shareholder value.
Financial Year Outcome	Performance conditions were fully achieved, resulting in 100% of the rights allocated in tranche 1 to fully vest on 31 January 2020. Upon vesting, the vested rights will continue to be subject to forfeiture conditions as described above. Executives may elect to exercise the vested rights to Sigma shares on a one for one basis within the prescribed exercise period at no cost. Refer to page 50 for further details.

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.

There was no increase to Non-Executive Director fees during the financial year. Total fees and superannuation actually paid to the Non-Executive Directors for the financial year was $1,286,451, as set out in Table 1 on page 47. 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 51.

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*
Chairman	$321,032
Non-Executive Director	$127,228
Risk Management and Audit Committee – Chair	$54,371
People and Remuneration Committee – Chair	$43,497
Risk Management and Audit Committee – Member	$27,186
People and Remuneration Committee – Member	$21,748

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

Remuneration Governance, Strategy and Principles

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

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

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

In accordance with section 206K of the *Corporations Act 2001*, the Committee has a process for engaging remuneration consultants. The Committee, on behalf of the Board, commissions and receives information, advice and recommendations directly from remuneration consultants, ensuring remuneration recommendations are free of undue influence by management. No remuneration recommendations as defined by the *Corporations Act* were received during the financial 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:

Remuneration Report continued

For the year ended 31 January 2020

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.

Employee Share Plan

To align their interests with those of shareholders, employees of the Sigma Group at all levels of the organisation are encouraged to hold shares in the Company. As a result of the Employee Share Plan, Sigma is pleased to report that approximately 62% of all employees are also shareholders of the Company.

During the financial year the Company offered all eligible employees the opportunity to acquire shares in the Company on a ten-year interest-free limited recourse loan. The value of any dividend paid and employee contributions are applied to repay the outstanding loan, which can be extinguished prior to its expiration, subject to a three-year disposal restriction period. The amount to be repaid is the lower of the outstanding loan less any repayments and the market value of the shares. A total of 3,140,000 previously forfeited shares were used to satisfy the share allocation under the 2019 employee share plan.

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 2020 was $6,262,258 (2019 $6,454,923). The amounts receivable at balance date from Mr David Manuel and his Director-related entities included within trade debtors in Note 8 was $1,486,260 (2019 $1,117,161). Amounts receivable from Directors or Director-related entities are subject to the Group's normal trading terms and conditions.

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

Service Agreements

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

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

Executives	Notice Period by Company	Notice Period by Employee
Mr M Hooper	12 months	6 months
Ms I MacPherson	6 months	6 months
Mr J Sells	12 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.

TABLE 1: Statutory Remuneration Disclosure for Key Management Personnel of the Company and Group: Financial Year 2019/20

	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[9] $	Non-Monetary Benefits[3] $	Superannuation Benefits $	Other Long 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[6] %
NON-EXECUTIVE DIRECTORS													
Mr B Jamieson	330,925	-	n/a	n/a	4,436	20,806	n/a	-	356,167	n/a	n/a	356,167	-
Mr D Bayes	127,228	70,683	n/a	n/a	4,436	18,802	n/a	-	221,149	n/a	n/a	221,149	-
Mr R Gunston	127,228	76,120	n/a	n/a	4,436	19,318	n/a	-	227,102	n/a	n/a	227,102	-
Mr D Manuel	127,228	21,748	n/a	n/a	4,436	14,153	n/a	-	167,565	n/a	n/a	167,565	-
Ms K Spargo	127,228	27,186	n/a	n/a	4,436	14,669	n/a	-	173,519	n/a	n/a	173,519	-
Ms C Bartlett	127,228	21,748	n/a	n/a	4,436	14,153	n/a	-	167,565	n/a	n/a	167,565	-
Subtotal for Non-Executive Directors	**967,065**	**217,485**	**n/a**	**n/a**	**26,616**	**101,901**	**n/a**	**-**	**1,313,067**	**n/a**	**n/a**	**1,313,067**	**-**
EXECUTIVES													
Mr M Hooper	1,388,552	n/a	429,940	661,446	434,376[8]	20,806	29,877	-	2,964,997	682,789	263,618	3,911,404	35
Ms I MacPherson[7]	483,082	n/a	n/a	n/a	4,436	19,460	-	266,009	772,987	-	-	772,987	0
Mr J Sells	21,519	n/a	11,411	14,264	280	1,299	942	-	49,715	13,152	5,098	67,965	27
Subtotal for Executives	**1,893,153**	**n/a**	**441,351**	**675,710**	**439,092**	**41,565**	**30,819**	**266,009**	**3,787,699**	**695,941**	**268,716**	**4,752,356**	**20**
TOTAL	**2,860,218**	**217,485**	**441,351**	**675,710**	**465,708**	**143,466**	**30,819**	**266,009**	**5,100,766**	**695,941**	**268,716**	**6,065,423**	**16**

1. For Non-Executive Directors, includes base fees paid in cash and shares as per the Non-Executive Directors Share Plan detailed on pages 49 and 50. For the Executives, includes base salary and amounts in respect to annual leave expense movement.
2. Represents cash payments in respect to the 2019/20 STI plan.
3. Includes amounts paid for Directors' and Officers' insurance.
4. Includes amounts in respect to long service leave expense movement.
5. The value of the rights and loan funded shares determined using the Black-Scholes option pricing model is allocated evenly over the vesting period, therefore the amount disclosed above for the current year includes loan funded shares allocated in prior years.
6. Includes amounts expensed in relation to rights and loan funded shares. Excludes share purchases under the Non-Executive Directors Share Plan.
7. Amounts disclosed reflect statutory remuneration from 1 February 2019 to 8 January 2020 when Ms MacPherson ceased to be a KMP.
8. Amount disclosed includes $429,940 paid to Mr Hooper by way of a share issue in lieu of a STI payment for the 2019/20 financial year. This amount has been included in the calculation of the Shared Based Payments as Proportion of Remuneration. The number of shares will be calculated based on a 5 day volume weighted average price of Sigma shares up to and including the date of payment.
9. Represents cash payment in respect to the 2019/20 Retention Award.
10. The balances relate to the period that Mr J Sells was a KMP.

Remuneration Report continued

For the year ended 31 January 2020

TABLE 2: Statutory Remuneration Disclosure for Key Management Personnel of the Company and Group: Financial Year 2018/19

	Short Term Benefits				Post-employment Benefits				Value in Share-based Plans			
	Salary and Base Fees[1] $	Committee Fees $	Cash Short-term Incentive[2] $	Non-Monetary Benefits[3] $	Superannuation Benefits $	Other Long Term Benefits[4] $	Termination Payments $	Total Remuneration excluding Value in Share-Based Plans $	Performance Rights $	Loan Funded Shares[5] $	Total Remuneration including Value in Share-based Plans $	Share-based Payments as Proportion of Remuneration[6] %
NON-EXECUTIVE DIRECTORS												
Mr B Jamieson	328,921	-	n/a	3,787	20,330	n/a	-	353,038	n/a	n/a	353,038	-
Mr D Bayes	126,302	70,168	n/a	3,787	18,665	n/a	-	218,922	n/a	n/a	218,922	-
Mr R Gunston	126,302	75,565	n/a	3,787	19,177	n/a	-	224,831	n/a	n/a	224,831	-
Mr D Manuel	126,302	21,590	n/a	3,787	14,050	n/a	-	165,729	n/a	n/a	165,729	-
Ms K Spargo	126,302	26,988	n/a	3,787	14,563	n/a	-	171,640	n/a	n/a	171,640	-
Ms C Bartlett	126,302	21,590	n/a	3,787	14,050	n/a	-	165,729	n/a	n/a	165,729	-
Subtotal for Non-Executive Directors	**960,431**	**215,901**	**n/a**	**22,722**	**100,835**	**n/a**	**-**	**1,299,889**	**n/a**	**n/a**	**1,299,889**	**-**
EXECUTIVES												
Mr M Hooper	1,241,328	n/a	32,265	3,787	20,330	29,418	-	1,327,128	-	917,343	2,244,471	41
Ms I MacPherson	493,673	n/a	-	3,787	20,330	2,367	-	520,157	-	151,810	671,967	23
Mr J Sells[7]	75,339	n/a	-	499	2,641	1,712	-	80,191	-	23,667	103,858	23
Subtotal for Executives	**1,810,340**	**n/a**	**32,265**	**8,073**	**43,301**	**33,497**	**-**	**1,927,476**	**-**	**1,092,820**	**3,020,296**	**36**
TOTAL	**2,770,771**	**215,901**	**32,265**	**30,795**	**144,136**	**33,497**	**-**	**3,227,365**	**-**	**1,092,820**	**4,320,185**	**25**

1. For Non-Executive Directors, includes base fees paid in cash and shares as per the Non-Executive Directors Share Plan detailed on pages 49 and 50. For the Executives, includes base salary and amounts in respect to annual leave expense movement.
2. Represents cash payments in respect to the 2018/19 STI plan.
3. Includes amounts paid for Directors' and Officers' insurance.
4. Includes amounts in respect to long service leave expense movement.
5. The value of the loan funded shares determined using the Black-Scholes option pricing model is allocated evenly over the vesting period, therefore the amount disclosed above for the current year includes loan funded shares allocated in prior years.
6. Includes amounts expensed in relation to LTI Loan Funded Shares. Excludes share purchases under the Non-Executive Directors Share Plan.
7. Amounts disclosed reflect statutory remuneration from 1 February 2018 to 18 March 2018 when Mr J Sells ceased to be KMP on 19 March 2018.

TABLE 3a: LTI Loan Funded Shares: Details of Movement During the Financial Year 2019/20

						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 01/02/19[4]	Granted During the Year	Vested During the Year	Forfeited During the Year	Exercised During the Year	Balance at 31/01/20	Loan Value at Grant Date $	Loan Balance at 01/02/19 $	Loan Repayments During the Year[5] $	Loan Balance at 31/01/20 $
Mr M Hooper	01/02/2014	0.5950	0.1091	0.5950	01/02/2017	6,848,292	-	-	-	6,848,292[6]	-	4,074,734	2,959,440	2,959,440	-
	01/02/2015	0.8000	0.1471	0.8000	01/02/2018	6,348,906	-	-	6,348,906	-	0	5,182,781	4,142,208	4,142,208	-
	01/02/2016	0.8350	0.2050	0.8350	01/02/2019	2,362,653	-	-	-	-	2,362,653	3,945,631	1,710,223	53,666	1,656,557
	01/02/2017	1.2000	0.3000	1.2000	01/02/2020	4,315,153	-	-	4,315,153	-	0	5,178,184	4,871,500	4,871,500	-
	01/02/2018	0.9050	0.1600	0.9050	01/02/2021	5,648,964	-	-	-	-	5,648,964	5,112,312	4,941,230	128,312	4,812,918
Ms I MacPherson[9]	01/02/2017	1.2000	0.3000	1.2000	01/02/2020	1,102,003	-	-	1,102,003	-	0	1,322,404	1,244,083	1,244,083	-
	01/02/2018	0.9050	0.1600	0.9050	01/02/2021	1,442,631	-	-	1,442,631	-	0	1,305,581	1,261,890	1,261,890	-
Mr J Sells[10]	01/02/2013	0.6700	0.1160	0.6700	01/02/2016	1,928,982	-	-	-	1,928,982	0	1,292,418	875,482	875,482	0
	01/02/2014	0.5950	0.1091	0.5950	01/02/2017	2,010,042	-	-	-	2,010,042	0	1,195,975	822,969	822,969	0
	01/02/2015	0.8000	0.1471	0.8000	01/02/2018	1,863,467	-	-	1,863,467	-	0	1,490,774	1,173,452	1,173,452	0
	01/02/2016	0.8350	0.2050	0.8350	01/02/2019	725,054	-	-	-	-	725,054	605,420	508,366	0	508,366
	01/02/2017	1.2000	0.3000	1.2000	01/02/2020	1,324,240	-	-	1,324,240	-	0	1,589,088	1,464,893	1,464,893	0
	01/02/2018	0.9050	0.1600	0.9050	01/02/2021	1,733,562	-	-	-	-	1,733,562	1,568,874	1,476,995	0	1,476,995

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. Share allocation under the 2016 grant, 2017 and 2018 grant were satisfied through an on-market share acquisition.
5. The loan repayments represent the value of post-tax dividends paid during the 2019/20 financial year that was applied to the outstanding loan balances, as well as any loan repayments made by the Executive or through forfeited shares.
6. Given the proposed acquisition by API, the Board consider it appropriate to mitigate the immediate need for KMP to enter into transactions of any kind in relation to Sigma equity by extending the exercise period of the 2014 LTI plan by a further 12 months to 31 January 2020.
7. For accounting purposes, the fair value of the rights was calculated using the Black-Scholes option pricing model with Monte Carlo simulations.
8. Rights will only vest after satisfying the specific vesting conditions and are subject to forfeiture conditions.
9. 100% of loan funded shares and rights were forfeited following Ms I MacPherson's resignation on 8 January 2020.
10. The number of rights, shares at 1 February 2019 and loan balance at Grant Date represent the balance at the date on which Mr J Sells became a KMP.

Remuneration Report continued

For the year ended 31 January 2020

TABLE 3b: Rights: Details of Movement During the Financial Year 2019/20

Executive	Grant Date	Fair Value Per Right at Grant[7] $	Exercise Price $	Exercise Date[8]	Number of Rights: Granted During the Year	Vested During the Year	Forfeited During the Year	Exercised During the Year	Balance at 31/01/20	Vesting Date	Exercise Date	Expiry Date
Mr M Hooper	01/02/2019	0.5000	-	01/02/2020	738,204	738,204	-	-	738,204	31/01/2020	01/02/2020	31/01/2023
	01/02/2019	0.4700	-	01/02/2021	738,204	-	-	-	738,204	31/01/2021	01/02/2021	31/01/2023
	01/02/2019	0.3000	-	01/02/2022	1,402,094	-	-	-	1,402,094	31/01/2022	01/02/2022	31/01/2024
Ms I MacPherson[9]	01/02/2019	0.5000	-	01/02/2020	202,097	-	202,097	-	-	31/01/2020	01/02/2020	31/01/2023
	01/02/2019	0.4700	-	01/02/2021	202,097	-	202,097	-	-	31/01/2021	01/02/2021	31/01/2023
	01/02/2019	0.3000	-	01/02/2022	383,849	-	383,849	-	-	31/01/2022	01/02/2022	31/01/2024
Mr J Sells[10]	01/02/2019	0.5000	-	01/02/2020	225,663	225,663	-	-	225,663	31/01/2020	01/02/2020	31/01/2023
	01/02/2019	0.4700	-	01/02/2021	225,662	-	-	-	225,662	31/01/2021	01/02/2021	31/01/2023
	01/02/2019	0.3000	-	01/02/2022	428,608	-	-	-	428,608	31/01/2022	01/02/2022	31/01/2024

TABLE 4a: Shareholdings of Key Management Personnel

2020	Number of Shares at 01/02/2019	Number of Shares Acquired through Share Plans During the Year	Number of Shares Purchased During the Year	Number of Shares Sold During the Year	Number of Shares at 31/01/2020
NON-EXECUTIVE DIRECTORS					
Mr B Jamieson	865,583	75,108	49,604	-	990,295
Mr D Bayes	364,104	46,303	-	-	410,407
Mr R Gunston	451,093	47,575	-	-	498,668
Mr D Manuel	239,790	34,854	-	-	274,644
Ms K Spargo	186,805	36,127	-	-	222,932
Ms C Bartlett	68,860	34,854	-	-	103,714
Subtotal for Non-Executive Directors	2,176,235	274,821	49,604	-	2,500,660
EXECUTIVES					
Mr M Hooper	10,371,702	6,848,292	-	4,543,034	12,676,960
Ms I MacPherson [1]	57,000	-	-	-	57,000
Mr J Sells [2]	2,541,144	3,939,024	-	2,877,727	3,602,441
Subtotal for Executives	12,969,846	10,787,316	-	7,420,761	16,336,401
TOTAL	15,146,081	11,062,137	49,604	7,420,761	18,837,061

2019	Number of Shares at 01/02/2018	Number of Shares Acquired through Share Plans During the Year	Number of Shares Purchased During the Year	Number of Shares Sold During the Year	Number of Shares at 31/01/2019
NON-EXECUTIVE DIRECTORS					
Mr B Jamieson	753,956	61,627	50,000	-	865,583
Mr D Bayes	326,112	37,992	-	-	364,104
Mr R Gunston	212,058	39,035	200,000	-	451,093
Mr D Manuel	211,192	28,598	-	-	239,790
Ms K Spargo	117,163	29,642	40,000	-	186,805
Ms C Bartlett	30,262	28,598	10,000	-	68,860
Subtotal for Non-Executive Directors	**1,650,743**	**225,492**	**300,000**	**-**	**2,176,235**
EXECUTIVES					
Mr M Hooper	8,348,250	6,623,452	1,000,000	5,600,000	10,371,702
Ms I MacPherson	36,000	-	21,000	-	57,000
Mr J Sells [3]	2,191,144	-	-	-	2,191,144
Subtotal for Executives	**10,575,394**	**6,623,452**	**1,021,000**	**5,600,000**	**12,619,846**
TOTAL	**12,226,137**	**6,848,944**	**1,321,000**	**5,600,000**	**14,796,081**

1. Ceased to be a KMP on 8 January 2020. The number of shares at 31 January 2020 represents the balance at the date on which Ms I MacPherson ceased to be a KMP.
2. The number of shares at 1 February 2019 represents the balance at the date on which Mr J Sells became a KMP.
3. Ceased to be a KMP on 18 March 2018. The number of shares at 31 January 2019 represents the balance at the date on which Mr J Sells ceased to be a KMP.

Remuneration Report continued

For the year ended 31 January 2020

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

2020	Number of Rights/Options at 01/02/2019	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 31/01/2020
NON-EXECUTIVE DIRECTORS					
Mr B Jamieson	n/a	n/a	n/a	n/a	n/a
Mr D Bayes	n/a	n/a	n/a	n/a	n/a
Mr R Gunston	n/a	n/a	n/a	n/a	n/a
Mr D Manuel	n/a	n/a	n/a	n/a	n/a
Ms K Spargo	n/a	n/a	n/a	n/a	n/a
Ms C Bartlett	n/a	n/a	n/a	n/a	n/a
Subtotal for Non-Executive Directors	n/a	n/a	n/a	n/a	n/a
EXECUTIVES					
Mr M Hooper	25,580,080	2,886,002	6,848,292	10,664,059	10,953,731
Ms I MacPherson[1]	2,567,134	795,543		3,332,677	30,000
Mr J Sells[2]	10,528,892	-	3,939,024	3,187,707	3,402,161
Subtotal for Executives	38,676,106	3,681,545	10,787,316	17,184,443	14,385,892
TOTAL	38,676,106	3,681,545	10,787,316	17,184,443	14,385,892

2019	Number of Rights/Options at 01/02/2018	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 31/01/2019
NON-EXECUTIVE DIRECTORS					
Mr B Jamieson	n/a	n/a	n/a	n/a	n/a
Mr D Bayes	n/a	n/a	n/a	n/a	n/a
Mr R Gunston	n/a	n/a	n/a	n/a	n/a
Mr D Manuel	n/a	n/a	n/a	n/a	n/a
Ms K Spargo	n/a	n/a	n/a	n/a	n/a
Ms C Bartlett	n/a	n/a	n/a	n/a	n/a
Subtotal for Non-Executive Directors	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
EXECUTIVES					
Mr M Hooper	28,902,221	5,663,964	6,623,452	2,362,653	25,580,080
Ms I MacPherson	1,109,503	1,457,631	-	-	2,567,134
Mr J Sells[3]	8,617,951	1,733,562	-	-	10,351,513
Subtotal for Executives	**38,629,675**	**8,855,157**	**6,623,452**	**2,362,653**	**38,498,727**
TOTAL	**38,629,675**	**8,855,157**	**6,623,452**	**2,362,653**	**38,498,727**

1. Ceased to be a KMP on 8 January 2020. The number of shares at 31 January 2020 represents the balance at the date on which Ms I MacPherson ceased to be a KMP.
2. The number of rights at 1 February 2019 represents the balance at the date on which Mr J Sells became a KMP.
3. Ceased to be a KMP on 18 March 2018. The number of shares at 31 January 2019 represents the balance at the date on which Mr J Sells ceased to be a KMP.

Auditor's Independence Declaration

Deloitte.

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

25 March 2020

Dear Board Members

Sigma Healthcare Limited

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

As lead audit partner for the audit of the financial statements of Sigma Healthcare Limited for the year ended 31 January 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants

Consolidated Statement of Comprehensive Income

For the year ended 31 January 2020

	Note	2020 $'000	2019 $'000
Sales revenue	2	**3,244,264**	3,976,774
Cost of goods sold		**(3,029,244)**	(3,703,580)
Gross profit		**215,020**	273,194
Other revenue	2	**98,106**	99,454
Warehousing and delivery expenses		**(150,982)**	(167,696)
Sales and marketing expenses		**(69,965)**	(64,799)
Administration expenses		**(67,979)**	(63,603)
Depreciation and amortisation	3	**(27,258)**	(13,522)
(Loss)/Profit before financing costs and tax expense (EBIT)		**(3,058)**	63,028
Finance income		**741**	776
Finance costs		**(13,443)**	(11,846)
Net finance costs		**(12,702)**	(11,070)
(Loss)/Profit before income tax		**(15,760)**	51,958
Income tax benefit/(expense)	4	**4,293**	(14,917)
(Loss)/Profit for the year		**(11,467)**	37,041
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of financial asset		**3,060**	(750)
Exchange differences on translation of foreign operations		**7**	83
Income tax relating to components of other comprehensive income		**(920)**	200
Other comprehensive income/(loss) for the year (net of tax)		**2,147**	(467)
Total comprehensive (loss)/income for the year		**(9,320)**	36,574
(Loss)/Profit attributable to:			
Owners of the Company		**(12,330)**	36,520
Non-controlling interest	19	**863**	521
(Loss)/Profit for the year		**(11,467)**	37,041
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(10,183)**	36,053
Non-controlling interest	19	**863**	521
Total comprehensive (loss)/income for the year		**(9,320)**	36,574
(Loss)/Earnings per share (cents) attributable to owners of the Company			
Basic (loss)/earnings per share	5	**(1.3)**	3.8
Diluted (loss)/earnings per share	5	**(1.2)**	3.6

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

Consolidated Balance Sheet

As at 31 January 2020

	Note	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	29	**104,232**	72,610
Trade and other receivables	8	**296,046**	577,367
Inventories	9	**315,493**	343,272
Income tax receivable		**5,485**	3,034
Prepayments		**9,708**	7,926
Assets classified as held for sale	11	**4,981**	-
Total current assets		**735,945**	1,004,209
Non-current assets			
Trade and other receivables	8	**2,183**	6,306
Property, plant and equipment	11	**255,924**	224,141
Goodwill and other intangible assets	12	**135,367**	125,514
Right-of-use assets	30	**43,431**	-
Other financial assets	17	**14,221**	4,567
Net deferred tax assets	4	**24,996**	19,117
Total non-current assets		**476,122**	379,645
Total assets		**1,212,067**	1,383,854
Current liabilities			
Trade and other payables	10	**415,731**	528,252
Borrowings	16	**135,022**	115,003
Lease liabilities	30	**7,945**	-
Provisions	13	**15,829**	17,573
Deferred income		**1,424**	2,487
Total current liabilities		**575,951**	663,315
Non-current liabilities			
Other payables	10	**-**	183
Borrowings	16	**115,188**	200,787
Lease liabilities	30	**42,052**	-
Provisions	13	**2,136**	4,468
Deferred income		**-**	821
Total non-current liabilities		**159,376**	206,259
Total liabilities		**735,327**	869,574
Net assets		**476,740**	514,280
Equity			
Contributed equity	14	**1,216,556**	1,207,794
Reserves	15	**13,201**	13,832
Accumulated losses		**(753,803)**	(708,372)
Non-controlling interest	19	**786**	1,026
Total equity		**476,740**	514,280

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

Consolidated Statement of Changes in Equity

For the year ended 31 January 2020

		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	Accumulated Losses $'000	Non-controlling Interest $'000	Total Equity $'000
Balance at 31 January 2018		1,287,137	(86,382)	554	213	5,827	7,678	(701,919)	2,151	515,259
Adjustment on adoption of AASB 9	30(b)	-	-	-	-	-	-	(4,003)	-	(4,003)
Adjustment on adoption of AASB 15	30(b)	-	-	-	-	-	-	687	-	687
Balance at 1 February 2018		1,287,137	(86,382)	554	213	5,827	7,678	(705,235)	2,151	511,943
Profit for the year		-	-	-	-	-	-	36,520	521	37,041
Other comprehensive income		-	-	(525)	58	-	-	-	-	(467)
Total comprehensive income for the year		-	-	(525)	58	-	-	36,520	521	36,574
Transactions with owners in their capacity as owners:										
Employee shares exercised	14(b)	-	11,208	-	-	-	-	-	-	11,208
Share-based remuneration plans	28	-	-	-	-	2,278	-	-	-	2,278
Share buy-back	14	(893)	(3,251)	-	-	-	-	-	-	(4,144)
Dividends paid	6	-	-	-	-	-	2,951	(42,286)	(1,646)	(40,981)
Dividends applied to equity compensation plan		-	-	-	-	-	(2,598)	-	-	(2,598)
Reclassification of settled and expired share-based transactions		-	(25)	-	-	(2,680)	(697)	3,402	-	-
Income tax relating to transactions with owners		-	-	-	-	-	773	(773)	-	-
		(893)	7,932	-	-	(402)	429	(39,657)	(1,646)	(34,237)
Balance at 31 January 2019		**1,286,244**	**(78,450)**	**29**	**271**	**5,425**	**8,107**	**(708,372)**	**1,026**	**514,280**
Adjustment on adoption of AASB 16[1]	30(b)	**-**	**-**	**-**	**-**	**-**	**-**	**(4,424)**	**-**	**(4,424)**
Balance at 1 February 2019		**1,286,244**	**(78,450)**	**29**	**271**	**5,425**	**8,107**	**(712,796)**	**1,026**	**509,856**
(Loss)/Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**(12,330)**	**863**	**(11,467)**
Other comprehensive income		**-**	**-**	**2,142**	**5**	**-**	**-**	**-**	**-**	**2,147**
Total comprehensive income for the year		**-**	**-**	**2,142**	**5**	**-**	**-**	**(12,330)**	**863**	**(9,320)**
Transactions with owners in their capacity as owners:										
Employee shares exercised	14(b)	**-**	**7,774**	**-**	**-**	**-**	**-**	**-**	**-**	**7,774**
Share-based remuneration plans	28	**-**	**-**	**-**	**-**	**1,691**	**-**	**-**	**-**	**1,691**
Share buy-back	14	**(50)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(50)**
Dividends paid	6	**-**	**-**	**-**	**-**	**-**	**1,815**	**(31,425)**	**(1,103)**	**(30,713)**
Dividends applied to equity compensation plan		**-**	**-**	**-**	**-**	**-**	**(2,498)**	**-**	**-**	**(2,498)**
Reclassification of settled and expired share-based transactions		**-**	**1,038**	**-**	**-**	**(2,384)**	**(1,402)**	**2,748**	**-**	**-**
		(50)	**8,812**	**-**	**-**	**(693)**	**(2,085)**	**(28,677)**	**(1,103)**	**(23,796)**
Balance at 31 January 2020		**1,286,194**	**(69,638)**	**2,171**	**276**	**4,732**	**6,022**	**(753,803)**	**786**	**476,740**

All items in the consolidated statement of changes in equity are net of tax. The above consolidated statement of changes in equity is to be read in conjunction with the accompanying notes to the financial statements.

1. Refer to Note 30 for disclosure on the adoption of the new accounting standard AASB 116 *Leases*.

Consolidated Statement of Cash Flows
For the year ended 31 January 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		**3,983,379**	4,506,712
Payments to suppliers and employees		**(3,767,083)**	(4,474,646)
Interest received		**741**	776
Interest paid		**(13,630)**	(11,099)
Income taxes paid		**(2,782)**	(13,273)
Net cash inflow from operating activities	29	**200,625**	8,470
Cash flows from investing activities			
Payments for property, plant and equipment, software and intangibles		**(57,144)**	(108,163)
Acquisition of subsidiaries, net of cash acquired		**(8,921)**	(683)
Payments to acquire financial assets		**(7,145)**	(3,025)
Proceeds from sale of property, plant and equipment		**4,770**	10,265
Net cash outflow from investing activities		**(68,440)**	(101,606)
Cash flows from financing activities			
Net (repayments of)/proceeds from borrowings		**(65,300)**	119,988
Repayments of leases		**(9,780)**	-
Payments for shares bought back	14(a)	**(50)**	(893)
Purchase of Sigma shares for employees	14(b)	**-**	(3,251)
Proceeds from employee shares exercised	14(b)	**5,277**	8,609
Dividends paid	6	**(30,713)**	(40,981)
Net cash (outflow)/inflow from financing activities		**(100,566)**	83,472
Net increase/(decrease) in cash and cash equivalents		**31,619**	(9,664)
Cash and cash equivalents held at the beginning of the financial period		**72,610**	82,249
Effects of exchange rate changes on cash and cash equivalents		**3**	25
Cash and cash equivalents at the end of the financial period	29	**104,232**	72,610

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

Notes to the Consolidated Financial Statements

For the year ended 31 January 2020

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 25 March 2020.

Basis of Preparation

The financial statements are general purpose financial statements that:

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

Significant Accounting Policies

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

Principles of Consolidation

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

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

Foreign Currency

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

Goods and Services Tax ("GST")

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

Finance Costs

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

Significant Changes in the Current Reporting Period

The adoption of a new accounting standard, AASB 16 *Leases*, for the year ended 31 January 2020 impacted the measurement and disclosure in these financial statements. Refer to Note 30 and the consolidated statement of changes in equity for the impacts of adopting this standard on the Group.

Refer Note 30 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
Impairment of goodwill	12

Financial Performance

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

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

1. Segment Information

Description of Segments

Management has determined the operating segments based on the reports reviewed and used by the Group's chief operating decision makers (CODM) to make strategic and operating decisions. The CODM consists of the executive key management personnel as disclosed in the Remuneration Report on pages 34 to 52. For the year ended 31 January 2020, it was concluded that the Group continues to operate only in the Healthcare segment. The Healthcare segment represents the traditional full line pharmacy wholesale business, retail and private label product ranges.

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

Segment Information Provided to the CODM

The CODM primarily uses a measure of adjusted earnings before interest, tax, depreciation and amortisation adjusted for the effects of significant non-operating items ("Underlying EBITDA") to assess the operating performance of the business. The Group deems Underlying EBITDA to be the most relevant measure of operating performance in the short to medium term, as the significant capital expenditure program currently in progress will result in an increase in depreciation and amortisation expense in the medium term as construction of distribution centres complete and operations commence.

Underlying EBITDA reconciles to profit before tax for the Group as follows:

	2020 $'000	2019 $'000
Underlying EBITDA attributable to owners of the company	**46,710**	89,673
Add: Non-controlling interests before interest and tax	**1,372**	855
Add: Impact of adoption of AASB 16 *Leases* before tax	**11,517**	-
Add/Less: Litigation and due diligence (benefits)/costs before tax [1]	**4,261**	(863)
Less: Restructuring, transformation and dual operating costs before tax [2]	**(39,662)**	(13,115)
Less: Net finance costs	**(12,702)**	(11,070)
Less: Depreciation and amortisation	**(27,258)**	(13,522)
(Loss)/Profit before income tax	**(15,760)**	51,958

1. This balance includes the receipt of a confidential legal settlement relating to an historical matter with a third party.
2. Restructuring, transformation and dual operating costs relate to those costs incurred as part of the exit of the MC/CW Group, the subsequent return of the MC/CW Group FMCG volume, business transformation activities and distribution centre optimisation program. These activities are described in the operating and financial review in the Directors' Report, refer to the "key events and changes in state of affairs" section on pages 28 to 29.

Geographical Segments

The Group operates predominantly within Australia.

Information on Major Customers

One customer group contributed revenues which forms 27% of the Group revenues (2019: 43%). This customer has a service contract which is in place until June 2024. Sales revenue for the period to 31 January 2020 was $876.4 million (2019: $1,699.5 million).

Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2020

2. Sales and Other Revenue

	2020 $'000	2019 $'000
Sales revenue	**3,244,264**	3,976,774
Other revenue		
Commissions and fees	**40,094**	39,499
Membership revenue	**14,486**	12,854
Marketing services and promotional revenue	**34,810**	37,057
Sundry revenue	**9,859**	8,972
(Loss)/Profit on sale of property, plant and equipment	**(1,143)**	1,072
Total other revenue	**98,106**	99,454

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 revenue and other income is consistent with the revenue information that is disclosed for segment reporting (refer to Note 1) as the Group has one reportable segment.

For each revenue stream, the Group has assessed the recognition, including the timing, of revenue 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 and a provision for returns.	Delivery of good 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.	Completion of services to be provided	Point in time
Packaging services fees	Income received for the provision of dose administration services.	Provision of dose administration service to customer	Point in time
Membership revenue	Fees received to provide access to use of 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.

3. Expenses

	Note	2020 $'000	2019 $'000
Profit before tax includes the following specific expenses:			
Employee benefits expense		**158,872**	153,837
Defined contribution plans		**8,815**	9,815
Employee share-based payments expense	28	**1,691**	2,278
Total employee benefits expense		**169,378**	165,930
Amortisation – brand names	12	**489**	485
Amortisation – software	12	**4,779**	4,522
Depreciation – buildings	11	**2,363**	866
Depreciation – plant and equipment	11	**10,014**	7,649
Depreciation – leased assets	30	**9,613**	-
Total depreciation and amortisation		**27,258**	13,522
Write down of inventories to net realisable value		**5,473**	8,862
Net impairment loss on trade debtors		**431**	992
Rental expenses on leases		**2,412**	13,147

Employee Benefits Expense

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

Write Down of Inventories

Included in cost of goods sold in the consolidated statement of comprehensive income. Refer to Note 9 for details.

Impairment of Trade Debtors

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

Rental Expenses on Leases

The expenses incurred 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 unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

These leases are not included in right-of-use assets or corresponding lease liabilities in accordance with AASB 16 *Leases*, refer to Note 30 for details.

4. Taxation

	2020 $'000	2019 $'000
(a) Income Tax Expense		
Current tax	**(3,273)**	15,217
Deferred tax	**(681)**	650
Adjustments for current income tax of prior periods	**(339)**	(950)
Total income tax expense	**(4,293)**	14,917
(b) Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable:		
(Loss)/Profit before income tax	**(15,760)**	51,958
Tax at the Australian company tax rate of 30% (2019: 30%)	**(4,728)**	15,587
Tax effect of differential corporate tax rates	**-**	14
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Other items	**214**	(1,354)
Amounts under/(over) provided in prior periods	**221**	670
Total income tax expense	**(4,293)**	14,917
(c) Amounts Recognised Directly in Equity		
Net change in fair value of financial asset	**918**	(225)
Exchange differences on translation of foreign operations	**2**	25
Total amounts recognised directly in equity	**920**	(200)
(d) Deferred Tax		
Trade and other receivables	**5,123**	5,710
Inventories	**2,645**	3,062
Trade and other payables and accruals	**4,755**	2,581
Provisions for employee benefits	**5,588**	6,613
Intangible assets	**(316)**	(365)
Property, plant and equipment	**(399)**	(646)
Tax losses	**5,993**	1,782
Right-of-use assets and lease liability	**1,970**	-
Other	**(363)**	380
Net deferred tax assets	**24,996**	19,117
Deferred tax assets	**42,358**	20,173
Deferred tax liabilities	**(17,362)**	(1,056)
Net deferred tax assets	**24,996**	19,117

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For the year ended 31 January 2020

4. Taxation continued

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. Included in net deferred tax assets in the current period is $280,000 recognised on the acquisition of the assets and liabilities of a Victorian aged care packaging business (MPS-P), refer to Note 18. Included in net deferred tax assets in the current period is the impact from the adoption of AASB 16 *Leases* in the amount of $1,896,000, refer to Note 30.

Unrecognised Deferred Tax Losses

Deferred tax assets have not been recognised in respect of capital losses of $217,054,772 tax effected (2019: $217,080,945) 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 sale of the Group's pharmaceutical division in 2011.

Income Tax – Recognition and Measurement

Current Tax

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

Australian Tax Consolidation

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

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

Nature of Tax Funding Arrangements and Tax Sharing Arrangements

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

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

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

5. Earnings Per Share

	2020	2019
(a) Basic and Diluted (Loss)/Earnings Per Share		
Basic (cents per share)	(1.3)	3.8
Diluted (cents per share)	(1.2)	3.6
(b) Reconciliation of Earnings Used in Calculating Basic and Diluted (Loss)/Earnings Per Share		
(Loss)/profit attributable to owners of the Company ($000's)	(12,330)	36,520
(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 (No. '000's)	974,769	965,331
Adjustments for calculation of diluted earnings per share:		
Performance rights/options (No. '000's)	16,385	36,096
Effect of shares held under Sigma Employee Share Plan (No. '000's)	4,622	9,449
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share (No. '000's)	995,776	1,010,876

Performance Rights and Options

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

6. Dividends

	2020		2019	
	Cents Per Share	$'000	Cents Per Share	$'000
Recognised amounts				
Final dividend – prior year	2.0	21,189	2.5	26,516
Interim dividend – current year	1.0	10,594	1.5	15,893
Dividends recognised by the parent entity		31,783		42,409
Less: dividends paid on the shares held by Sigma Employee Share Plan		(358)		(123)
Less: dividends paid on the shares under the Sigma Employee Share Plan		(1,815)		(2,951)
Dividends recognised by non-controlling interests		1,103		1,646
Dividends paid by the Group		30,713		40,981

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

	2020 $'000	2019 $'000
Dividend franking account		
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2019: 30%)	2,487	16,030

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2020

7. Subsequent Events

Subsequent to 31 January 2020, the following events and transactions have occurred:

Amendment to Debt Facilities

Since the end of the year, the Group has reached agreement with Westpac to amend its Receivables Purchase Facility and Sigma Rewards Facility, extending the maturity of all debt beyond 12 months from the date of this report. Details of the amendment are in Note 16 Borrowings in the notes to the consolidated financial statements.

COVID-19 (Coronavirus)

The outbreak of novel coronavirus (COVID-19), now considered a global pandemic, has spread globally since first identified in mainland China on 30 December 2019. Australia recorded its first confirmed case of COVID-19 on 25 January 2020 and as at 25 March 2020 this number has grown to over 1,800.

In an effort to contain the spread of the virus, quarantine restrictions, travel restrictions, limitations of social gatherings, the closure of businesses and schools and other restrictive measures have been increasingly introduced in Australia, with these measures escalating on 22 March 2020 with some states closing their borders, and shutting down non-essential services. These measures are not dissimilar to actions taken internationally.

For the year ended 31 January 2020, COVID-19 did not have a material impact on financial performance or the financial position of the Group. At balance date, the restrictions put in place to contain the virus have not materially impacted the Group's supply chain, customers or employees.

Since the end of the year, with the restrictive measures escalating, there is a risk that COVID-19 may have a negative and/or positive impact on the Group's operations, and as a result, its financial performance and financial position. The positive impact stems from the Group's operations in community pharmacy and health related services, industries that have observed higher demand since the outbreak commenced.

As a result of the evolving nature of the COVID-19 outbreak and the rapidly evolving government policies of restrictive measures put in place to contain it, as at the date of these financial statements, the directors are not in a position to reasonably estimate the financial effects of the COVID-19 outbreak on the future financial performance and financial position of the Group.

Long-term Debt Structuring

On 18 March 2020 the Company has announced that it has commenced a process to review a sale and leaseback of its Distribution Centre (DC) network to release unrecognised value in land and buildings. At the date of signing this report this process is in its early stages and no transaction has been agreed to.

Pharmacy Alliance (PAL) Supply Agreement

Since the end the year the Company has signed a new agreement with the Pharmacy Alliance (PAL) Group for the supply of all pharmaceutical and over the counter (OTC) products. PAL is Sigma's largest independent wholesale customer group with a national network of over 700 independent and co-branded member pharmacies. The five-year agreement, with a five-year option to extend, is expected to continue to contribute over $500 million per annum of ongoing sales revenue.

Fund Investment (Allfin)

Since the end the year the Company has committed to an investment of $10 million in Allfin, a managed investment scheme. Allfin is an industry leading finance broker in the healthcare sector, with extensive experience providing finance to retail pharmacies over many years. The investment is aligned to Sigma's customer strategy of working with our customers and brands to create business growth and to secure trading volume to our wholesale platform.

Dividend

Since the end of the year the Directors have resolved to not pay a final dividend.

Other than the matters discussed above, there has not been any other matter or circumstances that have arisen since 31 January 2020 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

	2020 $'000	2019 $'000
Current		
Trade receivables	294,706	567,389
Provision of expected credit loss	(16,995)	(17,962)
Other receivables	18,335	27,940
Total current receivables	296,046	577,367
Non-current		
Trade receivables	586	5,219
Other loans receivable	1,597	1,087
Total non-current receivables	2,183	6,306
Movements in the provision for impairment of trade receivables:		
Carrying value at the beginning of the year	17,962	16,796
Impact of adoption of AASB 9	-	5,718
Provision raised during the year	928	3,166
Receivables written off during the year as uncollectible	(1,895)	(7,718)
Carrying value at the end of the year	16,995	17,962

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 terms 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 information on the Group's credit risk management refer to Note 17.

	Not Due $'000	0–30 Days $'000	31–60 Days $'000	60+ Days $'000	Total $'000
2020					
Trade receivables – total	261,186	14,110	2,610	17,386	295,292
Provision for expected credit losses – total	6,710	1,886	559	7,840	16,995
2019					
Trade receivables – total	541,536	10,240	3,780	17,052	572,608
Provision for expected credit losses – total	6,991	250	869	9,852	17,962

Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2020

9. Inventories

	2020 $'000	2019 $'000
At Cost		
Finished goods	324,309	352,980
Provision for obsolescence	(8,816)	(9,708)
Net inventories	315,493	343,272

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

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

10. Trade and Other Payables

	2020 $'000	2019 $'000
Current		
Trade payables	359,988	492,804
Other payables and accruals	55,743	35,448
Total current payables	415,731	528,252
Non-current		
Other payables and accruals	-	183
Total non-current payables	-	183

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

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

11. Property, Plant and Equipment

	Note	Land and Buildings $'000	Plant and Equipment $'000	Total $'000
At 1 February 2018				
Cost		70,726	107,167	177,893
Accumulated depreciation		(2,594)	(46,784)	(49,378)
Net book amount		68,132	60,383	128,515
Year ended 31 January 2019				
Opening net book amount		68,132	60,383	128,515
Additions		59,166	44,978	104,144
Disposals		-	(3)	(3)
Depreciation	3	(866)	(7,649)	(8,515)
Closing net book amount		126,432	97,709	224,141
At 31 January 2019				
Cost		129,891	151,679	281,570
Accumulated depreciation		(3,459)	(53,970)	(57,429)
Net book amount		126,432	97,709	224,141
Year ended 31 January 2020				
Opening net book amount		126,432	97,709	224,141
Acquisition of subsidiaries	18	-	556	556
Additions		18,293	36,478	54,771
Transfer to assets held for sale		(4,802)	(179)	(4,981)
Disposals		(3,205)	(2,981)	(6,186)
Depreciation	3	(2,363)	(10,014)	(12,377)
Closing net book amount		134,355	121,569	255,924
At 31 January 2020				
Cost		137,988	180,087	318,075
Accumulated depreciation		(3,633)	(58,518)	(62,151)
Net book amount		134,355	121,569	255,924

Capital Work in Progress

Included in property, plant and equipment at 31 January 2020 is $15,740,000 (2019: $64,606,000) of capital work in progress ($1,153,000 (2019: $32,987,000) in land and buildings and $14,587,000 (2019: $31,619,000) in plant and equipment).

Recognition and Measurement

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

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

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

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

Assets Classified as Held for Sale

The Group is committed to selling the sites of its Belmont and Newcastle distribution centres. At 31 January 2020, the assets of the Belmont and Newcastle sites are classified as held for sale and are measured at their carrying amount, as the fair value less costs of disposal to be derived from them exceed this amount.

	2020 $'000	2019 $'000
Property, plant and equipment	4,981	-

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

12. Goodwill and Other Intangible Assets

			Intangibles			
	Note	Goodwill $'000	Brand Names $'000	Software $'000	Other intan-gibles[1] $'000	Total $'000
At 1 February 2018						
Cost		93,084	25,533	29,369	940	148,926
Accumulated amortisation		-	(12,110)	(10,505)	(940)	(23,555)
Net book amount		93,084	13,423	18,864	-	125,371
Year ended 31 January 2019						
Opening net book amount		93,084	13,423	18,864	-	125,371
Additions		-	-	5,096	-	5,096
Foreign currency movements		-	54	-	-	54
Amortisation	3	-	(485)	(4,522)	-	(5,007)
Closing net book amount		93,084	12,992	19,438	-	125,514
At 31 January 2019						
Cost		93,084	25,797	34,465	940	154,286
Accumulated amortisation		-	(12,805)	(15,027)	(940)	(28,772)
Net book amount		**93,084**	**12,992**	**19,438**	**-**	**125,514**
Year ended 31 January 2020						
Opening net book amount		**93,084**	**12,992**	**19,438**	**-**	**125,514**
Acquisition of subsidiary		**9,876**	**-**	**-**	**-**	**9,876**
Additions		**-**	**-**	**5,230**	**-**	**5,230**
Foreign currency movements		**-**	**15**	**-**	**-**	**15**
Amortisation	3	**-**	**(489)**	**(4,779)**	**-**	**(5,268)**
Closing net book amount		**102,960**	**12,518**	**19,889**	**-**	**135,367**
At 31 January 2020						
Cost		**102,960**	**25,892**	**39,695**	**940**	**169,487**
Accumulated amortisation		**-**	**(13,374)**	**(19,806)**	**(940)**	**(34,120)**
Net book amount		**102,960**	**12,518**	**19,889**	**-**	**135,367**

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2020

12. Goodwill and Other Intangible Assets continued

Recognition and Measurement

Intangibles are carried at cost less accumulated amortisation and impairment losses where applicable. Intangible assets acquired separately are capitalised at cost or, if arising from a business combination, at fair value as at the date of acquisition.

Goodwill

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

Brand Names

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

Software

Software assets acquired by the Group are initially recognised at cost, and subsequently measured at cost less accumulated amortisation and any impairment losses. Internally developed systems are capitalised once the project is assessed to be feasible. The costs capitalised include consulting, licensing and direct labour costs. Costs incurred in determining project feasibility are expensed as incurred. Software assets are amortised on a straight-line basis over their useful lives. The estimated useful lives are generally 3 to 7 years. The estimated useful lives and amortisation method are reviewed annually at the end of the reporting period.

Impairment of Assets

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

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

Allocation of Goodwill to Cash Generating Units

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

Changes in Cash Generating Units – Year End 31 January 2020

During the period, amendments to the Group's structure resulted in the integration of operations, changes to management responsibilities and reporting lines and led to the Group consolidating the previous Sigma, CHS and DPRG CGUs into a single Sigma CGU.

Refer to Note 18 for a summary of business acquisitions for the year and the allocation of goodwill to the CGUs.

The Group's goodwill is allocated to the Group's updated CGUs as follows:

	Note	2020 $'000	2019 $'000
Goodwill allocation to cash generating units			
Sigma		**77,519**	28,834
Central Healthcare Group (CHS) (ceased as a CGU at 31 January 2020)		**-**	18,434
Discount Pharmacy Retail Group (DPRG) (ceased as a CGU at 31 January 2020)		**-**	27,364
NostraData		**6,157**	6,157
Medical Packaging Systems (MPS)		**10,759**	3,770
Medical Industries Australia (MIA)		**8,525**	8,525
Total Goodwill	18	**102,960**	93,084

Impairment Testing of Goodwill

MIA and NostraData CGU

The recoverable amount of the MIA and NostraData CGUs has been determined based on value in use (ViU) calculations which use cash flow projections covering a five-year period, with cash flows beyond this period extrapolated using a long-term growth rate.

The cash flows for the five-year period are based on budgets approved by management and the long-term growth rate used is 2.5% (2019: 2.5%). These cash flows have been discounted using a pre-tax risk adjusted discount rate of 10.4% – 10.5%% (2019: 11.0% – 12.0%).

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

Sigma CGU and MPS CGU

The Group has tested the Sigma and MPS CGU's for impairment at 31 January 2020, applying the Fair Value Less Costs of Disposal (FVLCD) basis using a discounted cash flow valuation model for Sigma CGU and a ViU model for MPS CGU. For the Sigma CGU this is consistent with the half year 31 July 2019 and prior year.

Sigma CGU

Impairment testing was undertaken on the Sigma CGU by comparing its recoverable amount to its carrying amount. The recoverable value is 111% of the carrying value of the CGU. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of the Sigma CGU goodwill and other non-cash assets.

- **Cash flow forecasts:** covering a period of five years – the cash flows across the first 3 years are based on budget with the remaining two years extrapolated using a growth rate of 2.5%. The cash flows in the forecast include the Group's plans for cost rationalisation, procurement and other savings initiatives as part of the Project Pivot transformation program of work. Costs associated with executing the program have been included as part of the forecast.
- **Terminal value:** is calculated using a long-term growth rate based on the cash flow forecast for year five. The long-term growth rate applied is 2.5% (2019: 2.5%), which is based on management expectations of the CGU's long-term performance after considering current conditions and available external market data.
- **Discount rates:** Cash flow forecasts have been discounted using a pre-tax risk adjusted discount rate of 11.9% (2019: 12.7%).

Management have assessed that the Sigma CGU is sensitive to reasonable changes in the following key assumptions:

- The cash flow forecast assumptions, specifically, if the cost savings and restructuring initiatives are not achieved effectively and efficiently. If the cash inflows from these initiatives included in the CGU are 9% less than forecast, then the carrying value of the CGU would equal its recoverable amount.
- Pre-tax discount rate (11.9%) – if this pre-tax discount rate was 12.7% the carrying value of the CGU would equal its recoverable amount.
- Long-term growth rate (2.5%) – if this growth rate was 1.7% the carrying value of the CGU would equal its recoverable amount.

MPS CGU

Impairment testing was undertaken on the MPS CGU by comparing its recoverable amount to its carrying amount. The recoverable value is 108% of the carrying value of the CGU. The following describes each key assumption included in the ViU model used to undertake impairment testing of the MPS CGU goodwill and other non-cash assets.

- **Cash flow forecasts**: covering a period of five years – the first year is based on the current financial forecast approved by the Board, with the remaining four years being extrapolated using a growth rate of 6.5% representing management's expectation of growth in the short to medium term.
- **Terminal value:** The terminal value is calculated using a long-term growth rate based on the cash flow forecast for year five. The long-term growth rate applied is 2.5%, which is based on management expectations of the CGU's long-term performance after considering current conditions and available external market data.
- **Discount rates:** Cash flow forecasts have been discounted using a pre-tax risk adjusted discount rate of 11.0%.

Management have assessed that the MPS CGU is sensitive to reasonable changes in the following key assumptions.

- Cash flow forecast period growth rate (6.5%) – if this growth was 4.7% the carrying value of the CGU would equal its recoverable amount.
- Pre-tax discount rate (11.0%) – if this discount rate was 11.6% the carrying value of the CGU would equal its recoverable amount.
- Long-term growth rate (2.5%) – if this growth rate was 1.9% the carrying value of the CGU would equal its recoverable amount.

Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2020

13. Provisions and Contingencies

Provisions

	2020 $'000	2019 $'000
Current		
Employee benefits	13,327	16,033
Lease make good	2,502	568
Other provisions	-	972
Total current provisions	15,829	17,573
Non-current		
Employee benefits	1,282	1,596
Lease make good	854	2,872
Total non-current provisions	2,136	4,468

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, its carrying amount is the present value of those cash flows.

Lease Make Good

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

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 workers 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.

Other Claims

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

Capital Structure and Financing

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

14. Contributed Equity

	2020 $'000	2019 $'000
Issued capital:		
Ordinary shares fully paid	**1,286,194**	1,286,244
Issued capital held by equity compensation plan:		
Treasury shares	**(69,638)**	(78,450)
Total contributed capital	**1,216,556**	1,207,794

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 2018	1,060,654,321	1,287,137
Shares bought on market	(1,213,248)	(893)
Balance at 31 January 2019	**1,059,441,073**	**1,286,244**
Shares bought on market	**(84,657)**	**(50)**
Balance at 31 January 2020	**1,059,356,416**	**1,286,194**

(b) Movements in treasury share capital

	No. of Shares	$'000
Balance at 1 February 2018	(98,309,264)	(86,382)
Shares bought on market	(4,260,414)	(3,251)
Employee shares exercised	15,215,007	11,208
Reclassification of settled and expired share-based transactions	-	(25)
Balance at 31 January 2019	**(87,354,671)**	**(78,450)**
Shares bought on market	**-**	**-**
Employee shares exercised	**12,389,876**	**7,774**
Reclassification of settled and expired share-based transactions	**-**	**1,038**
Balance at 31 January 2020	**(74,964,795)**	**(69,638)**

Capital Management

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

Share Buy-back

In October 2012, the Company announced that as part of its ongoing capital management strategy it would undertake an on-market share buy-back of up to 10% of its issued ordinary shares. The share buy-back commenced on 2 October 2012. During March 2018, the buyback was refreshed to provide capacity to buy-back a further 10% of issued ordinary shares.

A total of 84,657 (2019: 1,213,248) shares were bought back during the year at a total cost of $50,000 (2019: $893,000). The average price paid was $0.59 (2019: $0.74). Of the 84,657 shares bought back during the year, the Group has cancelled all shares in the current period.

Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2020

15. Reserves

	2020 $'000	2019 $'000
Reserves:		
Fair value reserve	**2,171**	29
Foreign currency translation reserve	**276**	271
Options/performance rights reserve	**4,732**	5,425
Employee share reserve	**6,022**	8,107
Total	**13,201**	13,832

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 28. The reserve will reverse against share capital held by the equity compensation plan when the shares vest.

16. Borrowings

	2020 $'000	2019 $'000
Current		
Secured bank overdraft	**-**	-
Secured cash advance facilities	**135,000**	115,000
Other secured loans	**22**	3
Total current borrowings	**135,022**	115,003
Non-current		
Secured cash advance facilities	**115,000**	200,000
Other secured loans	**48**	37
Unsecured loans	**140**	750
Total non-current borrowings	**115,188**	200,787

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:

	2020		2019	
	Total Facility $'000	Unused $'000	Total Facility $'000	Unused $'000
Credit standby facilities				
Secured bank overdraft facility	**135,000**	**135,000**	135,000	135,000
Secured cash advance facilities	**250,000**	**-**	365,000	50,000
Corporate credit card	**3,441**	**3,216**	3,431	3,262

Westpac Debt Facility (Receivables Purchase Facility)

In January 2020, the Group made amendments to its existing debt facility with Westpac Banking Corporation (Westpac). The amendments did not change the total existing facility limit. The updated debt facility at 31 January 2020 includes:

- **Tranche A** – an overdraft facility of $135 million (no change). This expires 31 May 2020. Tranche A is unused at balance date.
- **Tranche B** – a cash advance facility of $115 million (previously $250 million). This expires 30 November 2021. Tranche B is fully drawn at balance date. This amount is classified as non-current borrowings in "Secured cash advance facilities".
- **Tranche C** – a cash advance facility of $135 million (previously $115 million which expired on 30 November 2019). This cash advance facility expires on 31 May 2020. Tranche C is fully drawn at balance date and is classified as 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.

The total debt facility is also secured using a general security arrangement (GSA) over the assets of Sigma Healthcare Limited and its subsidiaries.

The total facility is subject to interest cover, gearing and minimum shareholder funds covenants. The Group monitors compliance with its financial covenants on a monthly basis and reports compliance on half-yearly basis in line with testing dates. The Group has complied with all such requirements in the current and previous financial year.

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 30 June 2020.

Amendments to Debt Facilities – Subsequent to Year End 31 January 2020

At balance date, Tranche A ($135m overdraft) and Tranche C ($115m cash advance facility) are scheduled for repayment within 12 months and are classified as a current liability. The maturity of the debtor securitisation programme is also less than 12 months.

Since the end of the year, the Group has reached agreement with Westpac to amend its debt facilities, as follows:

Tranche C (Cash Advance Facility)

Since the end of the year, on 25 March 2020, the Group has executed an amendment to its Tranche C debt facility under the Receivables Purchase Facility with Westpac. The amendment is as follows:

- The maturity of Tranche C ($135 million cash advance facility) has been extended to 31 March 2021.
- A repayment schedule has been included for Tranche C that decreases the facility over its term, specifically:
  - $10 million on 29 February 2020 (repaid as at the date of signing)
  - $10 million on 31 March 2020
  - $10 million on 30 April 2020
  - $30 million on 31 July 2020
  - $10 million on 31 October 2020
  - $65 million on maturity at 31 March 2021

Tranche A (Overdraft), Tranche B (Cash Advance Facility) and Sigma Rewards Facility

Since the end of the year, the Group has reached agreement with Westpac to amend its Tranche A and Tranche B debt facilities under the Receivables Purchase Facility and the Sigma Rewards Facility. The amendments are as follows:

- The maturity of Tranche A ($135 million overdraft facility) has been extended to 31 March 2021
- The maturity of Tranche B ($115 million overdraft facility) has been amended to 31 March 2021
- The maturity of the Sigma Rewards Facility has been extended to 31 March 2021

The amendments are subject to final pricing approval and the execution of the final amendment deeds which are expected to be completed by 3 April 2020.

Other Information

The security arrangements across the debt facilities have not been amended.

The amended Receivables Purchase Facility is subject to terms and conditions and to interest cover, gearing and minimum shareholder funds covenants.

The amendments have been disclosed as a subsequent event, refer to Note 7.

Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2020

16. Borrowings continued

Borrowing Costs Capitalised

The amount of borrowing costs capitalised for the year ended 31 January 2020 relating to the borrowings was $48,000 (2019: $1,189,000). The interest rate applicable to the facility is variable and Sigma does not hedge the interest rate. The costs associated with this program are recorded in "finance costs" in the consolidated statement of comprehensive income.

Financial Guarantee Contracts

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

17. Financial Risk Management

The Group's activities expose it to a variety of financial risks, including market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's Treasury function is responsible for managing the liquidity requirements of the Group and mitigating these financial risks through continuous monitoring and evaluation. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group holds the following financial instruments:

	2020 $'000	2019 $'000
Financial assets		
Cash and cash equivalents	**104,232**	72,610
Trade and other receivables	**298,229**	583,673
Other financial assets	**14,221**	4,567
Total financial assets	**416,682**	660,850
Financial liabilities		
Trade and other payables	**416,161**	528,435
Borrowings	**250,210**	315,790
Total financial liabilities	**666,371**	844,225

Fair Value

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

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

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

Other Financial Assets (Fair Value)

At 31 January 2020, the only financial assets recorded at fair value by the Group are recorded in "Other financial assets". These assets include 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.

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

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.

Equity instruments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

	Level 1 $'000	Level 3 $'000	Total $'000
Balance at 1 February 2019	**1,542**	**3,025**	**4,567**
Purchases	**6,394**	**550**	**6,944**
Disposals/transfers	**-**	**(350)**	**(350)**
Movements in fair value – gain/(loss)	**3,060**	**-**	**3,060**
Balance at 31 January 2020	**10,996**	**3,225**	**14,221**

(a) Market Risk

(i) Foreign Exchange Risk

The Group operates within Australia and maintains a subsidiary operation within New Zealand. The Group trades predominantly with entities in Australian dollars, accordingly, exposure of the Group to foreign exchange risks arising from currency movements is minimal. The Group did not enter into forward exchange contracts during the year ended 31 January 2020 to purchase any foreign currency (2019: nil).

(ii) Cash Flow and Fair Value Interest Rate Risk

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

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 2020 (2019: nil).

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

	31 January 2020				31 January 2019			
	Balance $'000	Weighted Avg. Rate	-1% Profit $'000	+1% Profit $'000	Balance $'000	Weighted Avg. Rate	-1% Profit $'000	+1% Profit $'000
Financial assets								
Cash and cash equivalents	**104,232**	**0.06%**	**(1,042)**	**1,042**	72,610	0.40%	(726)	726
Financial liabilities								
Borrowings – secured	**(250,070)**	**3.50%**	**2,501**	**(2,501)**	(315,040)	3.60%	3,150	(3,150)
Total (decrease)/ increase			**1,459**	**(1,459)**			2,424	(2,424)

(iii) Equity Price Risk

Price risk is the risk that the fair value of a financial asset 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 Level 1 and Level 3 equity 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 2020			31 January 2019		
	Balance $'000	-10% Profit $'000	+10% Profit $'000	Balance $'000	-10% Profit $'000	+10% Profit $'000
Other financial assets						
Investments – Level 1	**10,996**	**(1,100)**	**1,100**	1,542	(154)	154
Investments – Level 3	**3,225**	**(323)**	**323**	3,025	(303)	303

Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2020

17. Financial Risk Management continued

(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, and by monitoring forecast and actual cash flows.

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

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

Group Structure

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

18. Business Acquisitions

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.

MPS Packaging Acquisition (MPS-P)

On 28 June 2019, subsidiary MPS Hold Co Pty Ltd (MPS) acquired the assets and liabilities of a Victorian based aged care medical packaging business (MPS-P). The acquisition was made to broaden the Group's offering in aged care and dose administration services. The goodwill recorded on MPS-P has been allocated to the MPS CGU.

MPS-P has contributed $6,984,000 of revenue and $238,000 to profit before tax from continuing operations of the Group since acquisition.

Wholelife Pharmacy Pty Ltd (Wholelife)

On 8 February 2019, the Group obtained control over the assets and business of Wholelife through the acquisition of 51% of the shares in the newly incorporated entity which manages the Wholelife Pharmacy and Wholefoods brand. The new business complements the existing services provided by the Group. The goodwill recorded on Wholelife has been allocated to the Sigma CGU.

From the date of acquisition, the contribution from Wholelife to the overall result of the Group is not material, nor would it have been if the combination had taken place at the beginning of the financial year.

Goodwill Arising on Acquisitions

	Note	MPS-P $'000	Wholelife $'000	Other[1] $'000	Total $'000
2019					
Total goodwill at 1 February 2018		-	-	93,084	93,084
Goodwill on current period acquisitions		-	-	-	-
Total goodwill at 31 January 2019	12	-	-	93,084	93,084
2020					
Cash consideration paid or payable		**8,520**	**750**	**-**	**9,270**
Contingent consideration		**-**	**-**	**-**	**-**
Add: Fair value of identified net liabilities		**606**	**-**	**-**	**606**
Total goodwill at 31 January 2020	**12**	**9,126**	**750**	**93,084**	**102,960**

1. "Other" refers to goodwill associated with previous acquisitions

Fair Value of Identifiable Net Assets Acquired

2020	Note	MPS-P $'000	Wholelife $'000	Total $'000
Property, plant and equipment	11	**556**	**-**	**556**
Net deferred tax assets		**280**	**-**	**280**
Trade and other payables		**(368)**	**-**	**(368)**
Accrued expenses		**(140)**	**-**	**(140)**
Provisions		**(934)**	**-**	**(934)**
Net identifiable assets acquired		**(606)**	**-**	**(606)**

Fair Values Measured on a Provisional Basis

In relation to the above acquisitions we note that the assessment of fair value of the following assets and liabilities are not yet complete as at 31 January 2020 and they have been measured and reported on a provisional basis:

- The assessment of the fair value of intangible assets and potential identifiable intangible assets have not been completed as at 31 January 2020 for MPS-P

If new information is obtained within one year from the acquisition date about the facts and circumstances that existed at the acquisition date, and this identifies adjustments to the above amounts, the acquisition accounting will be revised.

Acquisition-related Costs

The Group incurred acquisition related costs of $183,000 (2019: nil) on external legal fees, stamp duty and due diligence costs. This included $157,000 in costs relating to the MPS-P acquisition and $26,000 relating to the Wholelife acquisition. These costs are included in "Administration expenses" in the condensed consolidated statement of comprehensive income.

19. Non-controlling Interest

	2020 $'000	2019 $'000
Non-controlling interest		
Balance at beginning of the year	**1,026**	2,151
Share of profit for the year	**863**	521
Dividends paid	**(1,103)**	(1,646)
Total	**786**	1,026

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.

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20. Details of Controlled Entities

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

	Country of Incorporation	Ownership Interest 2020 %	Ownership Interest 2019 %
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
Member Benefits Australia Pty Ltd	Australia	51	51
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
Wholelife Pharmacy Pty Ltd	Australia	51	-

a. These wholly owned companies are subject to a deed of cross guarantee (see Note 23).

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.

21. Related Party Disclosures

The Company

Sigma Healthcare Limited is the parent entity of the Group.

Controlled Entities

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

Key Management Personnel

Disclosures relating to key management personnel are set out in Note 27 and in the Remuneration Report.

Other Transactions with Directors

Mr D Manuel and his Director-related entities purchased pharmacy products from the Group in the ordinary course of business and on normal commercial terms and conditions. The amount of these purchases during the year ended 31 January 2020 was $6,262,258 (2019: $6,454,923). The amounts receivable at balance date from Directors or Director-related entities included within trade debtors in Note 8 was $1,486,260 (2019: $1,117,161). Amounts receivable from Directors or Director-related entities are subject to the Group's normal trading terms and conditions.

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

22. Parent Company Financial Information

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

	2020 $'000	2019 $'000
Balance sheet		
Current assets	**123,884**	124,718
Non-current assets	**367,921**	363,810
Total assets	**491,805**	488,528
Current liabilities	**200,747**	195,397
Non-current liabilities	**-**	-
Total liabilities	**200,747**	195,397
Net assets	**291,058**	293,131
Equity		
Issued capital	**281,561**	281,611
Reserves	**2,176**	1,995
Accumulated profit	**7,321**	9,525
Total equity	**291,058**	293,131
Financial performance		
Profit for the year	**28,610**	39,644
Total comprehensive income for the year	**28,610**	39,644

(a) Guarantees Entered Into by Parent Entity

The parent entity has provided financial guarantees in respect of the total debt facility (Note 16). As at 31 January 2020, the balance drawn from the total facility is $250,000,000 (2019: $315,000,000). The facility is secured by way of deed over eligible trade receivables and a general security arrangement over the assets of Sigma Healthcare Limited and its subsidiaries.

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

(b) Parent Company Investment in Subsidiary Companies

Investments in subsidiaries are carried at cost in the individual financial statements of Sigma Healthcare Limited. An impairment loss is recognised whenever the carrying amount of the investment exceeds its recoverable amount. Recoverable amount is the higher of value in use and fair value less costs of disposal. The carrying value of the parent's investment in subsidiaries as at 31 January 2020 was $363,511,000 (2019: $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 (2019: nil). The parent loan receivable is not overdue and eliminates on consolidation.

(d) Contingent Liabilities of the Parent Entity

Refer to Note 13 for further information on contingent liabilities. The parent entity did not have any other contingent liabilities as at 31 January 2020 or 31 January 2019. For information about guarantees given by the parent entity, see above.

(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 2020 or 31 January 2019.

23. Deed of Cross Guarantee

Pursuant to *ASIC Corporations (Wholly-Owned Companies) Instrument 2016/785* the wholly owned Australian controlled entities listed in Note 20 footnote (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 2020, are set out below:

Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2020

23. Deed of Cross Guarantee continued

(a) Statement of Comprehensive Income

	2020 $'000	2019 $'000
Sales revenue	**3,244,264**	3,976,774
Cost of goods sold	**(3,029,244)**	(3,703,580)
Gross profit	**215,020**	273,194
Other revenue	**87,020**	91,490
Warehousing and delivery expenses	**(149,835)**	(167,696)
Sales and marketing expenses	**(62,465)**	(59,344)
Administration expenses	**(67,967)**	(62,362)
Depreciation and amortisation	**(26,780)**	(12,894)
(Loss)/Profit before financing costs and tax expense (EBIT)	**(5,007)**	62,388
Finance income	**716**	744
Finance costs	**(13,408)**	(11,820)
Net finance costs	**(12,692)**	(11,076)
(Loss)/Profit before income tax	**(17,699)**	51,312
Income tax expense	**5,638**	(14,239)
(Loss)/Profit for the year	**(12,061)**	37,073
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Net change in fair value of financial asset	**3,060**	(750)
Exchange differences on translation of foreign operations	**7**	83
Income tax relating to components of other comprehensive income	**(920)**	200
Other comprehensive income/(loss) for the year (net of tax)	**2,147**	(467)
Total comprehensive (loss)/income for the year	**(9,914)**	36,606
Summary of movements in consolidated accumulated losses		
Accumulated losses at the beginning of the financial period	**(705,170)**	(699,147)
Impact on adoption of new standards	**(4,424)**	(3,316)
Profit for the year	**(12,061)**	37,073
Reclassification of settled and expired share-based transactions	**2,748**	3,402
Transfer from retained earnings to reserves	**-**	(773)
Dividends paid	**(31,783)**	(42,409)
Accumulated losses at the end of the financial period	**(750,690)**	(705,170)

(b) Balance Sheet

	2020 $'000	2019 $'000
Current assets		
Cash and cash equivalents	**101,252**	69,113
Trade and other receivables	**293,668**	574,813
Inventories	**315,493**	343,272
Income tax receivable	**6,073**	3,219
Prepayments	**9,598**	7,805
Assets classified as held for sale	**4,981**	-
Total current assets	**731,065**	998,222
Non-current assets		
Trade and other receivables	**2,183**	6,306
Property, plant and equipment	**255,690**	223,944
Goodwill and other intangible assets	**135,480**	125,316
Right-of-use assets	**43,431**	-
Other financial assets	**14,221**	4,567
Net deferred tax assets	**23,433**	17,585
Total non-current assets	**474,438**	377,718
Total assets	**1,205,503**	1,375,940
Current liabilities		
Trade and other payables	**391,081**	514,564
Borrowings	**135,022**	115,003
Lease liability	**7,945**	-
Provisions	**15,638**	17,285
Deferred income	**1,264**	2,343
Total current liabilities	**550,950**	649,195
Non-current liabilities		
Other payables	**-**	183
Borrowings	**114,978**	199,995
Lease liability	**42,052**	-
Provisions	**2,136**	4,468
Deferred income	**-**	821
Total non-current liabilities	**159,166**	205,467
Total liabilities	**710,116**	854,662
Net assets	**495,387**	521,278
Equity		
Contributed equity	**1,233,149**	1,212,885
Reserves	**12,928**	13,563
Accumulated losses	**(750,690)**	(705,170)
Total equity	**495,387**	521,278

Other Disclosures

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

24. Expenditure Commitments

	2020 $'000	2019 $'000
Expenditure commitments existed at the end of year in respect of:		
Capital expenditure contracted but not provided for in the financial report and payable	**140,519**	118,837
Total expenditure commitments	**140,519**	118,837

25. Auditors' Remuneration

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

	2020 $	2019 $
Auditors of the parent entity – Deloitte Touche Tohmatsu		
Audit and review of financial reports of the entity or any controlled entity	**387,200**	380,000
Other advisory services	**25,283**	136,000
Total remuneration	**412,483**	516,000

The directors are satisfied that the provision of these non-audit services ("Other advisory services") during the year 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.

26. Guarantees

	2020 $'000	2019 $'000
Guarantees existed at the end of year in respect of:		
Bank guarantees	**5,404**	5,828
Total guarantees	**5,404**	5,828

27. Key Management Personnel Compensation

	2020 $	2019 $
Short-term employee benefits	**4,230,532**	3,049,732
Post-employment benefits	**143,466**	144,136
Long-term benefits	**30,819**	33,497
Termination payments	**266,009**	-
Share based payments	**1,394,597**	1,092,820
Total	**6,065,423**	4,320,185

Key management personnel ("KMP") and remuneration disclosures are provided in the Remuneration Report on pages 34 to 52. The decrease in total compensation is consistent with the change in the key management personnel as reported in the Remuneration Report.

Disclosures relating to related party transactions with Directors or key management personnel are set out in Note 21.

Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2020

28. Employee Share Plans and Share-based Payments

Expenses Arising from Share-based Payment Transactions

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

	2020 $'000	2019 $'000
Share-based payment expense:		
Shares (loan funded) issued under the employee share plan and executive long-term incentive plan	**(379)**	2,278
Shares issued under the short-term employee benefits	**430**	-
Rights issued under the executive long-term incentive plan	**342**	-
Rights issued under the short-term incentive plan	**1,298**	-
Total	**1,691**	2,278

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

The Group's Employee Share Plan periodically offers ordinary shares to all full or part time employees of the Group. The ordinary shares issued under the plan rank equally with all other fully paid ordinary shares on issue. Interest free loans are offered to acquire the shares. The price at which shares are issued is determined by the weighted average price of ordinary shares over the five trading days prior to and including the date of issue of shares. The Employee Share Plan is administered by Sigma Employee Share Administration Pty Ltd (SESA), a controlled entity. At balance date 18,908,045 shares are on issue (2019: 21,763,572).

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.

Share-based Remuneration Schemes

The Group has the following share-based remuneration schemes:

Executive Loan Funded Share Plan (Long-term Incentive Plan):

Commencing the year ending 31 January 2012, the Company implemented a loan funded share plan for executives and senior employees. Participants are provided an interest free limited recourse loan to purchase shares in the Company if pre-defined vesting conditions are met three years from grant date. There were no executive loan funded shares granted under long term incentive plans during the year ended 31 January 2020.

Executive Long-term Incentive Plan – Rights Issue (Zero Exercise Price):

Commencing the year ending 31 January 2020, the Company implemented a rights issue for the executive long-term incentive plan. Participants are issued rights with a three-year performance period subject to service and forfeiture conditions.

Executive Short-term Incentive Plan (Pivot Business Transformation Award) – Rights Issue (Zero Exercise Price):

During the year ending 31 January 2020, the Company implemented a rights issue as part of an executive short-term incentive plan designed to drive successful business transformation outcomes.

In accordance with the provisions of these 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 39 to 44 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
2020					
Number of outstanding loan funded shares	**60,182,838**	**-**	**(10,863,849)**	**(11,231,029)**	**38,087,960**
Weighted average exercise price	**$0.88**	**-**	**$0.61**	**$0.93**	**$0.94**
2019					
Number of outstanding loan funded shares	62,867,487	18,253,998	(13,668,650)	(7,269,997)	60,182,838
Weighted average exercise price	$0.85	$0.91	$0.73	$0.99	$0.88

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
2020					
Number of outstanding performance rights	**-**	**4,249,344**	**-**	**(901,829)**	**3,347,515**
Total	**-**	**4,249,344**	**-**	**(901,829)**	**3,347,515**

Executive Short-term Incentive (STI) 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
2020					
Number of outstanding performance rights – Tranche 1	**-**	**2,182,461**	**-**	**(415,711)**	**1,766,750**
Number of outstanding performance rights – Tranche 2	**-**	**2,182,451**	**-**	**(415,709)**	**1,766,742**
Total	**-**	**4,364,912**	**-**	**(831,420)**	**3,533,492**

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	Executive STI Plan – Rights Issue Tranche 1	Executive STI Plan – Rights Issue Tranche 2
Grant date	1 February 2019	1 February 2019	1 February 2019	1 February 2019
Fair value	$0.440	$0.160	$0.500	$0.470
Inputs into the model:				
Grant date share price	$0.530	$0.530	$0.530	$0.530
Exercise price	-	-	-	-
Expected volatility	30%	30%	30%	30%
Vesting life	3 Years	3 Years	1 Year	2 Years
Option life	5 Years	5 Years	4 Years	4 Years
Expected dividend yield	4.8%	4.8%	4.8%	4.8%
Risk free interest rate	1.7%	1.7%	1.7%	1.7%

Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2020

29. Notes to the Statement of Cash Flows

Reconciliation of Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and highly liquid investments and notes with maturity of three months or less when purchased. Cash as shown in the statement of cash flows is reconciled to the related items in the consolidated balance sheet as follows:

	2020 $'000	2019 $'000
Cash and cash equivalents:		
Cash and bank balances	104,232	72,610
Total	104,232	72,610

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

	2020 $'000	2019 $'000
(Loss)/Profit for the year	(11,467)	37,041
Depreciation expense	21,990	8,515
Amortisation expense	5,268	5,007
Share-based payments expense	1,691	2,278
Impairment of goodwill and other assets	500	-
Loss/(Profit) on sale of property, plant and equipment	1,143	(1,072)
Change in assets and liabilities:		
Change in inventories	27,779	7,197
Change in net taxes receivable	(7,075)	1,644
Change in prepayments	(1,782)	(1,550)
Change in trade and other receivables	285,745	(11,796)
Change in trade payables	(132,816)	(33,707)
Change in provisions	(4,642)	(266)
Change in other payables and deferred income	14,291	(4,821)
Net cash flows from operating activities	200,625	8,470

Reconciliation of Liabilities Arising from Financing Activities

	Secured Loans $'000	Unsecured Loans $'000	Total $'000
2019			
Total liability 1 February 2018	195,052	750	195,802
Cash flow	119,988	-	119,988
Non-cash flow	-	-	-
Total liability 31 January 2019	315,040	750	315,790
2020			
Cash flow	(64,970)	(610)	(65,580)
Non-cash flow	-	-	-
Total liability 31 January 2020	250,070	140	250,210

30. New Accounting Standards

(a) 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 the current annual reporting period.

New and revised standards and amendments thereof and interpretations effective for the current annual reporting period that are relevant to the Group include:

- AASB 16 *Leases*
- *AASB 2017-4: Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*
- *AASB 2017-6: Amendments to Australian Accounting Standards – Prepayment Features of Negative Compensation*
- *AASB 2017-7: Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*
- *AASB 2018-1: Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle*
- *AASB 2018-2: Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement*

Other than the adoption of AASB 16 (refer below), the adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised and the disclosures presented in the financial statements of the Group.

(b) Impact of New Accounting Standards

(i) Adoption of AASB 16 *Leases* from 1 February 2019

The Group has adopted AASB 16 *Leases* with a date of initial application of 1 February 2019. AASB 16 replaces AASB 117 *Leases* and sets out the principles for the recognition, measurement, presentation and disclosure of leases. It requires lessees to account for all leases under a single on-balance sheet model, similar to accounting for finance leases under AASB 117. The adoption of AASB 16 results in the Group recognising a right-of-use (ROU) asset and corresponding lease liability for all leases with a term of more than 12-months, excluding low-value assets. Operating lease expense is replaced by depreciation expense on the ROU assets and interest expense on the lease liability as they amortise.

The Group has applied the "Modified Retrospective Approach" when transitioning to the new standard. Under this approach, the Group has not restated comparative reporting periods and has recognised the cumulative effect of applying the new standard as an adjustment to the opening balance of accumulated losses.

The adoption of AASB 16 affected the following Balance Sheet items on 1 February 2019:

	As reported 31 January 2019 $'000	AASB 16 Impact $'000	Opening Balance 1 February 2019 $'000
Right-of-use asset	-	**30,301**	**30,301**
Net deferred tax assets	19,117	**1,896**	**21,013**
Total assets impact		**32,197**	
Trade and other payables	528,252	**(368)**	**527,884**
Current lease liabilities	-	**10,531**	**10,531**
Non-current lease liabilities	-	**26,458**	**26,458**
Total liabilities impact		**36,621**	
Accumulated losses	(708,372)	**(4,424)**	**(712,796)**
Total equity impact		**(4,424)**	

Lease liabilities recognised in the Balance Sheet on 1 February 2019 reconcile back to operating lease commitments as disclosed at 31 January 2019 as follows:

	2019 $'000
Operating lease commitments disclosed at 31 January 2019	63,436
Discounted using lessee's incremental borrowing rate at date of initial application	(10,052)
Less lease commitments not giving rise to a lease liability at 1 February 2019	(16,395)
Lease liability at 1 February 2019	**36,989**
Current lease liabilities	10,531
Non-current lease liabilities	26,458

(c) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease based on the definition of a lease. Under AASB 16, 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 lease liability at the lease commencement date.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets, including office equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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 10 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.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Such options are only included in the lease term if the lease is reasonably certain to be extended. 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 January 2020

30. New Accounting Standards continued

(i) Lease Liabilities

On adoption of AASB 16, the Group has recognised lease liabilities for leases previously classified as operating leases under the principles of the previous standard AASB 117. These leases were measured at the present value of remaining lease payments discounted using the lessee's incremental borrowing rate as at 1 February 2019. Individual incremental borrowing rates have been applied to each lease with these ranging from 3.8% to 5.21%. The following practical expedients have been applied, as permitted by AASB 16:

- Reliance on previous assessments on whether leases are onerous;
- Treatment of operating leases with a remaining lease term of less than 12 months at 1 February 2019 as short-term leases, and;
- Application of hindsight in determining lease terms where the contract contains options to extend or terminate the lease.

The movement in lease liabilities from adoption on 1 February 2019 to the year end 31 January 2020 is presented below:

	2020 $'000
Lease liability at 1 February 2019	36,989
Additions	22,844
Interest incurred	2,128
Payments on lease liabilities	(11,964)
Lease liability at 31 January 2020	49,997
Current lease liabilities	7,945
Non-current lease liabilities	42,052

Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate or 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 in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

(ii) Right-of-use Assets

The associated ROU asset has been measured at the initial lease liability amount, adjusted for initial direct costs incurred when entering into the lease, less any incentives received on commencement date as if the standard had been applied from the commencement date of the leases. The following practical expedients have been applied, as permitted by AASB 16:

- Treatment of operating leases with a remaining lease term of less than 12 months at 1 February 2019 as short-term leases;
- Exclusion of initial direct costs for the measurement of the ROU asset at date of initial application, and;
- Application of hindsight in determining lease terms where the contract contains options to extend or terminate the lease.

The recognised ROU assets relate to the following assets:

	Land and Buildings $'000	Plant and Equipment $'000	Total $'000
Opening right-of-use assets (1 February 2019)	26,157	4,144	30,301
Additions	22,466	277	22,743
Depreciation	(8,488)	(1,125)	(9,613)
Total right-of-use assets (31 January 2020)	40,135	3,296	43,431

The right-of-use-asset is subsequently 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. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

(iii) Impact on Earnings

Adoption of the new standard has increased EBITDA, due to the Group no longer incurring operating lease expense under AASB 16, with a corresponding increase in interest and depreciation expense. The following segments were affected by the change in policy during the financial year.

	Healthcare $'000
Adjustment to EBITDA	11,517
Depreciation and amortisation	(9,613)
Finance costs	(2,128)
Income tax expense	67
Net profit after tax	(157)

	2020 $'000
Lease expense – short-term leases	2,412

(d) Standards Issued But Not Yet Effective

A number of new standards, amendment of standards and interpretations have recently been issued but are not yet effective and have not been adopted by the Group as at the financial reporting date. The Group has reviewed these standards and interpretations and has determined that none of the new or amended standards will significantly affect the Group's accounting policies, financial position or performance.

Directors' Declaration

For the year ended 31 January 2020

In the opinion of the Directors of Sigma Healthcare Limited:

(a) the financial statements and notes, set out on pages 54 to 87, 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 2020 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards, the *Corporate Regulations 2001*, and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Within the "About this report" section in the notes to the 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 2020 pursuant to Section 295A of the *Corporations Act 2001*.

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

For and on behalf of the Board.

Mr Brian Jamieson
Chairman

Mr Mark Hooper
CEO and Managing Director

Melbourne
25 March 2020

Independent Auditor's Report

Deloitte.

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Sigma Healthcare Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated balance sheet as at 31 January 2020, 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 2020 and of its financial performance for the year then ended; and

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

Basis for Opinion

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

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

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

Key Audit Matters

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

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

Assessment of the recoverability of goodwill
Refer to note 12
 	
As at 31 January 2020, the Group had goodwill totalling $102,960 million. The recovery of goodwill is subject to a 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 except for the Sigma and Central Healthcare Services ("CHS") CGUs where a 'fair value less cost of disposal' approach was adopted.
 	
Under both approaches, a discounted cash flow model was prepared, which included significant assumptions relating to:
 	
• Future cash flows for each CGU;
• 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 CHS CGUs are more sensitive to these changes due to lower headroom than the other CGUs.
	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;
	• Testing key controls within management's impairment assessment process, including the preparation, review and board approval of cash flow forecasts supporting this process;
	• In conjunction with our valuation specialists we evaluated the key assumptions used in management's recoverable amount analysis for the Sigma and CHS CGUs including:
	  ○ Assessing the basis for management's forecast revenue, EBITDA, cash flows and terminal value growth assumptions including consideration of historical growth trends, business case analysis and support for future forecast revenue growth and cost savings and external information available via IBIS market research reports;
	  ○ Assessing management's historical forecasting accuracy of the Group's operating results,
	  ○ Recalculating an expected discount rate and comparing this to the rate calculated by management; and
	  ○ Performing sensitivity analysis on the impairment model using varied discount rates and growth projections to simulate alternative market conditions and outcomes.
	
	We also assessed the appropriateness of the disclosures included in the notes to the financial statements.

Valuation of trade receivables
Refer to note 8
 	
The Group has total trade receivables of $295,292 million as at 31 January 2020, made up of a significant number of individual pharmacies and groups of pharmacies under common ownership. The Group has recognised a trade receivables provision of $16,995 million as at 31 January 2020.
 	
Significant judgement is involved in relation to credit risk exposures of these individual pharmacies and pharmacy groups and losses recognised in prior periods in relation to pharmacy groups.
	Our procedures included, but were not limited to:
	
	• Obtaining an understanding of the process undertaken by management to identify individual trade receivable balances that are potentially unrecoverable;
	• Reviewing the Group's Credit Committee meeting minutes and monthly reports, to identify potential individual doubtful or 'at risk' balances;
	• Challenging management's view of credit risk and recoverability for pharmacy groups by:
	  ○ Assessing the completeness of management's identified overdue and 'at risk' debtors by considering historical payments, outstanding balances, receipt of payment subsequent to year end and key assumptions regarding debtors financial position,
	  ○ Assessing the adequacy of the provision against the identified population of overdue and 'at risk' trade debtors, and
	  ○ Assessing the historic accuracy of the provision for doubtful debtors against subsequent trade debtor write-offs.
	
	We also assessed the appropriateness of the disclosures of the quantitative and qualitative considerations in relation to credit risk included in the notes to the financial statements.

Independent Auditor's Report continued

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Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 34 to 52 of the Directors' Report for the year ended 31 January 2020.

In our opinion, the Remuneration Report of Sigma Healthcare Limited, for the year ended 31 January 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Reid
Partner
Chartered Accountants
Melbourne, 25 March 2020

Shareholder Information

Equity Security Holders

As at 17 March 2020, the Company has 1,059,356,416 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 17 March 2020 (as named on the register of shareholders):

	Ordinary Shares	
Name	**Number Held**	**% of Issued Shares**
HSBC Custody Nominees (Australia) Limited	250,553,913	23.65%
J P Morgan Nominees Australia Limited	144,047,730	13.60%
Citicorp Nominees Pty Limited	139,760,998	13.19%
National Nominees Limited	33,970,557	3.21%
HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C>	24,508,760	2.31%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	23,816,501	2.25%
Mr Mark Robert Hooper	11,231,333	1.06%
BNP Paribas Noms Pty Ltd <DRP>	10,389,942	0.98%
Mr Jeffrey Sells	3,602,441	0.34%
Etiam Pty Limited	2,415,594	0.23%
Netwealth Investments Limited <Wrap Services A/C>	2,056,586	0.19%
Plymin Super Pty Ltd <Plymin Super Fund A/C>	1,668,000	0.16%
JVNH Group Pty Ltd <AFF Services A/C>	1,603,872	0.15%
Nabru Nominees Pty Limited <Nabru Nominees P/L S/F A/C>	1,587,000	0.15%
BNP Paribas Nominees Pty Ltd <Ib Au Noms Retailclient DRP>	1,478,442	0.14%
National Nominees Limited <DB A/C>	1,449,548	0.14%
Mr Peter Urban	1,438,262	0.14%
Brian Charles Cannon & Rosalie Cannon	1,330,500	0.13%
Mrs Pamela Ann Royle	1,126,606	0.11%
Leithner & Company Pty Ltd	1,075,000	0.10%
Total top 20 holders	659,111,585	62.22%
Total other holders	400,244,831	37.78%
Grand total	1,059,356,416	100.00%

Note: Excludes shares that are subject to trading restrictions

Substantial Shareholders

The following table shows the substantial holders as notified to the Company in substantial holding notices as at 17 March 2020:

Name	Noted Date of Change	Number of Equity Securities	Voting Power
Allan Gray Australia Pty Ltd	12 February 2020	110,006,571	10.38%
Paradice Investment Management Pty Ltd	16 December 2019	96,323,928	9.09%

Holdings Distribution

Range	Number of holders
100,001 and Over	553
10,001 to 100,000	5,812
5,001 to 10,000	3,322
1,001 to 5,000	7,012
1 to 1,000	1,692
Total	**18,391**
Unmarketable Parcels	1,128

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 2020.

- The maximum number of ordinary shares which may be issued if the performance conditions are achieved is 6,881,007.
- Participants do not have voting rights.

Five Year Summary

	2020 $'m	2019 $'m	2018 $'m	2017 $'m	2016 $'m
Operating results					
Sales revenue	**3,244.3**	3,976.8	4,094.4	4,366.2	3,461.1
EBITDA	**24.2**	76.5	92.8	89.2	90.3
EBIT	**(3.1)**	63.0	83.7	81.0	80.4
Profit/(loss) before tax	**(15.8)**	52.0	78.7	76.7	76.8
Profit/(loss) after tax	**(11.5)**	37.0	55.4	53.5	50.5
Financial position					
Working capital	**233.8**	406.2	378.8	387.1	490.4
Fixed assets (including intangibles) [5]	**434.7**	349.6	253.9	180.6	160.1
Other assets/(liabilities)	**(46.1)**	1.7	(3.8)	(20.4)	(40.2)
Capital employed [1]	**622.4**	757.5	628.9	547.3	610.3
Net debt/(net cash)	**146.0**	243.2	113.6	8.7	56.6
Net assets	**476.4**	514.3	515.3	538.6	553.7
Shareholder related					
Dividend					
– ordinary per share	**3.0c**	4.0c	5.5c	5.5c	5.0c
– total dividends ($'m)	**31.8**	42.4	58.8	59.2	54.0
Earnings/(loss) per share	**(1.3c)**	3.8c	5.6c	5.4c	5.0c
Dividend payout ratio	**277%**	116%	106%	111%	107%
Net tangible asset backing per share	**32c**	37c	37c	41c	42c
Market capitalisation (balance date)($'m)	**636**	572	949	1,302	885
Ratio and returns					
EBIT margin [2]	**-0.1%**	1.5%	2.0%	1.9%	2.3%
Gearing [3]	**23.5%**	32.1%	18.1%	1.6%	9.3%
Interest cover [4]	**1.9x**	6.9x	18.5x	20.8x	26.0x

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.

Contacts

Company Details

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Corporate Head Office

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Directors and Senior Management

Refer to pages 30 to 33 of the 2019/20 Annual Review or visit **www.sigmahealthcare.com.au**

Company Secretary

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

Auditors

Deloitte Touche Tohmatsu

Share Registry Details

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Australia

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Oakleigh VIC 3166 Australia

11 Spireton Place
Pendle Hill NSW 2145 Australia

Medical Industries Australia Sites

87 Mars Road
Lane Cove West NSW 2066 Australia
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Fax +61 (0)2 9490 6298

Recent Dividends

Dividend	Date Paid	Cents Per Share
2020 Final	-	-#
2020 Interim	4 October 2019	1.00
2019 Final	29 April 2019	2.00
2019 Interim	29 October 2018	1.50
2018 Final	20 April 2018	2.50
2018 Interim	5 October 2017	2.50
2017 Final	21 April 2017	3.00
2017 Interim	3 October 2016	2.50

Due to insufficient franking credits, no 2020 final dividend was paid.

Shareholder Calendar*

2019/20 AGM	13 May 2020
Half-Year results	10 September 2020
Ex-dividend date	23 September 2020
Record date	24 September 2020
Interim dividend payment	8 October 2020
Full-Year results	23 March 2021
Ex-dividend date	6 April 2021
Record date	7 April 2021
Final dividend payment	21 April 2020
2019/20 AGM	12 May 2021

* Dates may be subject to change.

For investor, media or government enquiries in relation to Sigma

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Corporate Affairs Manager

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