
# Annual Report 2018

BLACKMORES®

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Company Information


## Annual General Meeting

The 56th Annual General Meeting of the Company will be held at 11am on 25 October 2018 at the Blackmores Campus, 20 Jubilee Avenue, Warriewood NSW 2102.

Cover image: Wes Ipsen, Strategic Sourcing Quality Manager, and Anna Bearpark, Senior Product Development Manager, overseeing the harvest of anchovies in Peru for Blackmores Fish Oil.
Inside: Michael Evans, Head of Innovation & Development, Blackmores Australia.


THE 2018 ANNUAL REPORT OF BLACKMORES LIMITED PROVIDES INFORMATION ON THE ORGANISATION AND COMPANY PERFORMANCE FOR THE YEAR 1 JULY 2017 TO 30 JUNE 2018.

## Our Values

Blackmores' values are at the heart of our business. These values, known as PIRLS, are both behavioural and aspirational. They underpin our work practices and decisions and are supported by legal policies and procedures.

Passion for Natural Health
Integrity
Respect
Leadership
Social Responsibility

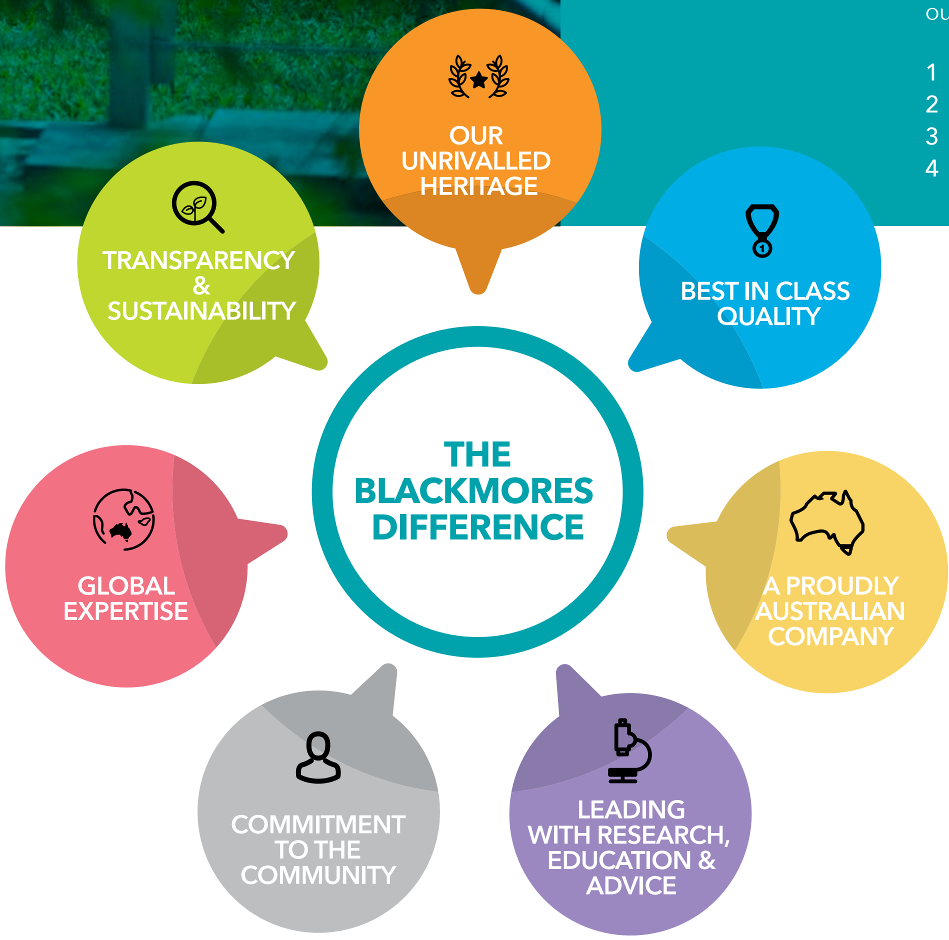
## Our Purpose

Blackmores improves people's lives by delivering the world's best natural health solutions. We achieve this by translating our unrivalled naturopathic heritage and knowledge into innovative, quality branded healthcare solutions that work.

## Four Strategic Priorities

Blackmores is committed to superior business performance. Our strategic direction is focused on delivering growth and continuous improvement to maintain Blackmores' leadership position in the industry and to achieve ongoing success for our company, our people and our shareholders.

1 Consumer Connectedness
2 Innovation & Expertise
3 Global Advantage
4 Operational Fitness



| 19% | 9% | 10 | 4.7m | 1.5m |
|---|---|---|---|---|
| net profit after tax growth. | revenue growth. | consecutive years as Australia's Most Trusted Brand in vitamins and supplements.[1] | social media fans, followers and members of online communities. | education touchpoints across the Group. |
| ↑ | ↑ | | | ↑ |
| **NPAT $70 million** Attributable to Blackmores' shareholders | **Revenue of $601 million** | | | **FY17 1.2m** |

# FY18 Highlights

**Blackmores is the No. 1 vitamin and supplement brand in Australia[2], Thailand, Singapore and Malaysia**

**A1**

Achieved A1 rating in Therapeutic Goods Administration of Australia audit for compliance to Good Manufacturing Practice.

**71%**

of waste diverted from landfill.

↑

**FY17**
**69%**

**158**

new products launched across the Group.

↑

**FY17**
**110**

**82%**

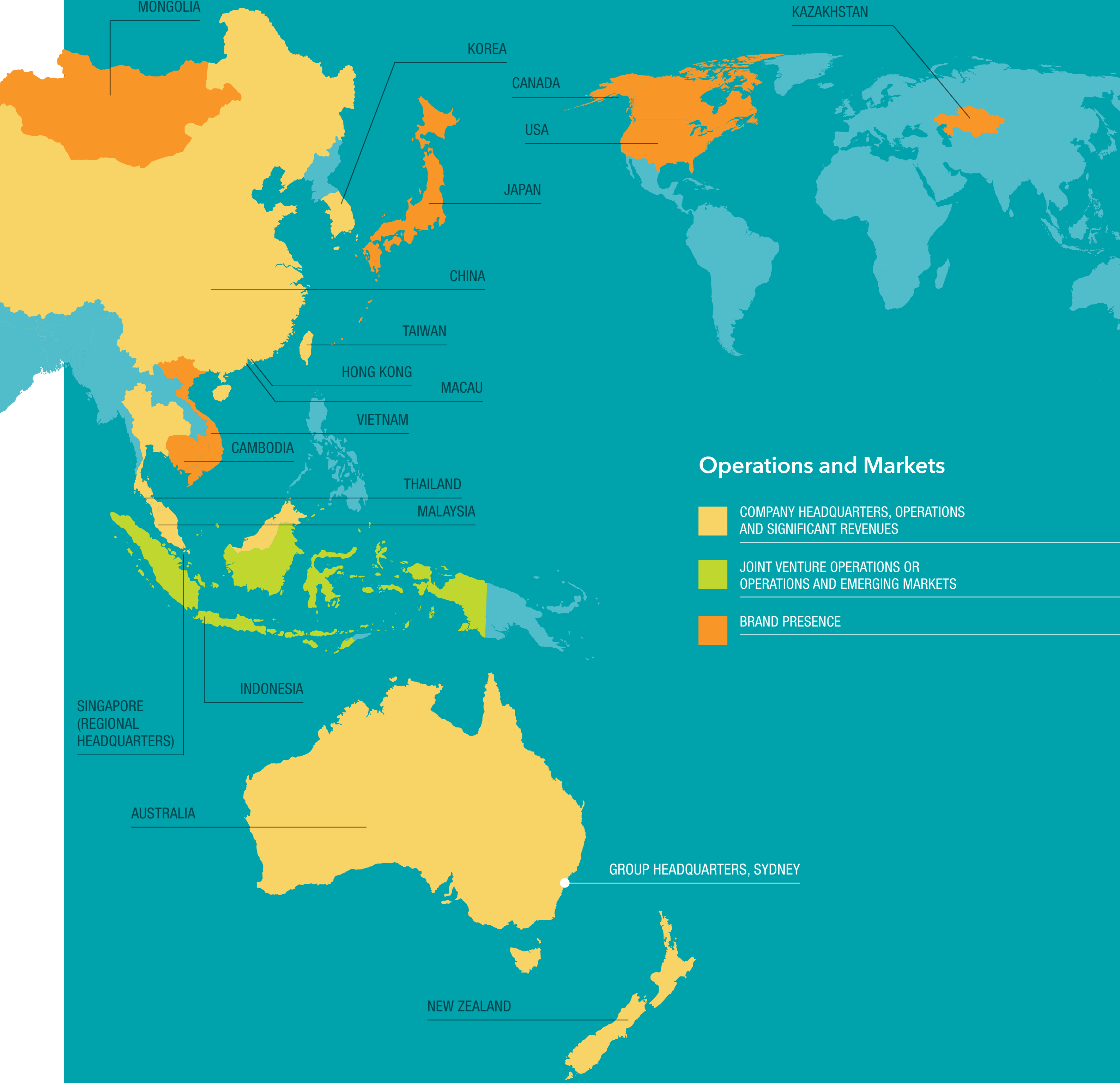
employee engagement, 14 percentage points above the industry benchmark.[3]

**4.5**

billion tablets and capsules servicing more than 40,000 points of distribution.

1. Reader's Digest Most Trusted Brand Surveys 2018. 2. IRI Aztec total VDS market data MAT to 1/7/2018. 3. Independently assured by The Voice Project at Macquarie University.

# Global Footprint




## Operations and Markets

- COMPANY HEADQUARTERS, OPERATIONS AND SIGNIFICANT REVENUES
- JOINT VENTURE OPERATIONS OR OPERATIONS AND EMERGING MARKETS
- BRAND PRESENCE

# About Us

Blackmores is Australia's leading natural health company. Founded by visionary naturopath Maurice Blackmore in 1932, Blackmores combines traditional naturopathic expertise with scientific research to help people achieve optimal health and wellbeing. Committed to developing innovative natural health products and services of the highest quality, Blackmores reaches consumers in 17 markets.

Blackmores' extensive range of vitamins, herbal and mineral supplements, and nutritional foods uses premium ingredients from around the world, with products made to strict Australian manufacturing standards and rigorous quality checks. Blackmores respects the innate link between healthy people and a healthy planet, implementing sustainable packaging and waste-reduction practices and supporting charitable community initiatives.

Industry leaders for more than 80 years, Blackmores established the Blackmores Institute in 2012 to drive an evidence-based approach to natural health through education, research and professional advisory services. For health professionals and consumers alike, Blackmores is a trusted source of natural health advice.

Proud of its strong naturopathic heritage, Blackmores is an ASX 200 publicly-listed company. The Group employs 1,400 people across Asia-Pacific and includes BioCeuticals, Australia's leading practitioner range; Pure Animal Wellbeing, natural health products for pets; and Global Therapeutics, Australia's leading provider of Chinese herbal medicine. The Blackmores Campus head office and production facility is located on Sydney's Northern Beaches.

# Our Brands

01 BLACKMORES

02 BIOCEUTICALS

03 ISOWHEY

04 FUSION HEALTH

05 ORIENTAL BOTANICALS

06 PURE ANIMAL WELLBEING

07 BLACKMORES INSTITUTE

01 BLACKMORES®

02 BioCeuticals

03 ISOWHEY®

04 FUSION® 康 health ancient wisdom modern medicine®

05 Oriental Botanicals® ancient wisdom modern medicine®

06 paw® Pure Animal Wellbeing By BLACKMORES

07 BLACKMORES INSTITUTE

# Marcus Blackmore

## The richness of our past will nourish our future…

My father's early theories on optimising health were always firmly grounded in better nutrition and he spent decades researching and observing the impacts of minerals on improved health outcomes.

Maurice Blackmore was a strong opponent of chemical fertilisers and sprays and he advocated for a clean, wholefoods diet for clients at his naturopathic rest home where patients were treated holistically.

He researched extensively the role and best dosage of minerals for plants, animals and, ultimately, his patients and we have extensive documentation of his theories and observations.

These stories were close to our hearts when we created a wholefoods garden at the Blackmores Campus this year. The garden replaces the therapeutic herbal plantings that were part of the original landscaping and is called the Maurice Blackmore Memorial Garden.

Today's consumers have a strong and growing interest in better nutrition. The movement towards fresh grown ingredients, the rejection of sugar and the understanding of the role of vitamins, minerals and supplementary nutrients is increasing. It's a philosophy that has been part of the DNA of Blackmores throughout our 86-year history and we're excited by the consumer-driven momentum towards natural health.

The garden is a daily reminder of our naturopathic heritage. It's a space for staff to work outdoors or for quiet reflection. The fruits, vegetables and herbs we grow are used in our staff café and are taken home by our team who share my passion for good nutrition.

This strong naturopathic heritage was the driving force behind the Blackmore Foundation (the private philanthropic trust run by my wife Caroline and me), in partnership with BioCeuticals, supporting two new research fellowships within the Australian Research Centre in Complementary and Integrative Medicine at the University of Technology Sydney (UTS:ARCCIM).

Australia is regarded as a world leader in this research, largely due to the work of centres like ARCCIM. I look forward to seeing the results of this ongoing research.

We've long held the belief that knowledge is the key to better health and over the past year the work of the Blackmores Institute has made a significant impact. The expansion of our education program and collaborations with research centres and universities all over the world is building a strong foundation that will underpin the future success of Blackmores, building on the knowledge base in our industry and ultimately leading to better health outcomes for the community.

It's humbling for me to see that so many of Blackmores' opportunities for the future – research, education and sharing the benefits of natural healthcare – are all richly referenced in our 86-year heritage.

Stephen Chapman will retire from the Blackmores Board after 25 years of service. Steve has made a significant contribution over this time with his strong financial acumen, strategic counsel and measured leadership.

He has been a mentor to many of our Board members and to our Executive Team. Importantly, he has shared my passion for our Company purpose and he is a personal advocate for healthy living – he has run the Blackmores Sydney Marathon and camped out with our staff to raise money to support Sydney's homeless. He has been a wonderful colleague and friend and I thank him for his contribution and wish him well.

**The best of health**

**Marcus C Blackmore AM**
**Executive Director**

Blackmores Campus Gardener, Raphael Maufay and Marcus Blackmore

"Executive Director Marcus Blackmore was recognised with two international awards, the first Australian to ever receive these accolades. Admission into the New Hope Hall of Legends and recipients of the Nutrition Business Journal Lifetime Achievement Award are honours reserved for those who have devoted a significant proportion of their lives to developing the natural products industry. We are enormously proud that he continues to serve on our Board and for the role he plays in driving the Blackmores culture and championing the development of the Blackmores Institute."

Stephen Chapman,
Chairman of the Board

# Chairman's Introduction

When the Board appointed Richard Henfrey as Blackmores' Chief Executive Officer a year ago, we had a clear intention to ensure a positive leadership transition, continue our purpose, develop and support our people and build on our growth strategy and business capability.

I'm pleased that tremendous progress has been made during this last year. Managing through leadership transitions always has the potential to disrupt the rhythm of a business and Richard's first year in the CEO role has seen strong profit growth and the delivery of many initiatives.

A critical element to what has been achieved this year has been the contribution of the senior executive team and I congratulate and thank our senior executive team, who have taken on extra responsibilities and supported Richard and the Board this year.

In terms of our results, net profit after tax grew 19% this year to $70 million and a final dividend of 155 cents per share has been declared making the total dividend 305 cents for the 2018 year, up 13% on last year. Importantly, our financial position at June continued to be strong with low net debt of $49 million and solid operating cash flows.

A key focus of the Board is to allocate capital and other resources to prioritise growth and investment opportunities. Two significant items in progress are the further development of our China business and the acquisition of the Catalent manufacturing facility.

The Board travelled to China in June to meet with e-commerce retailers, our talented China team and senior officials at key organisations. The market in China is evolving, especially given positive government initiatives around "Healthy China" and innovation and education. We believe that Blackmores, as an Australian company with its unique naturopathic heritage and focus on research and education, is well positioned to support China's initiatives for the benefit of Chinese consumers. Our refined China strategy reflects the importance of the current opportunity China presents and we support our respective governments creating a positive environment for trade.

The April announcement of Blackmores' agreement to acquire Catalent's high quality manufacturing facility in Braeside, Victoria, is an important milestone in our Company's history. It will give us even greater control of our production and will propel our research and development capabilities. This is important to our core business in Australia and also to our markets across Asia. We are proud to be showing our commitment to Australian manufacturing and Australian jobs and we look forward to welcoming the Catalent Australia team in October 2019.

During the year we conducted an externally-led Board review which reinforced the priority areas for Board focus. This includes working with the Executive Team to further support Blackmores' culture, prioritising our growth opportunities and strengthening the governance framework, particularly as the Company expands its business internationally and integrates the Catalent facility. As a Board we strongly believe that setting the right tone in the boardroom is essential to ensure Blackmores' culture is aligned to both support growth and encourage the right behaviours throughout the business.

In April we strengthened our Board and welcomed Jackie McArthur as a Non-Executive Director. Jackie's strong personal commitment to natural health and her deep experience in supply chain, logistics and operations management, as well as her knowledge of Asia, will be important as the Group diversifies both our operations and our international footprint.

We have made some changes to the way we present our financials in this Annual Report to make it easier to read. We made these changes with an aim to simplify our reporting to tell a more comprehensive story for the readers of the accounts. As always, we welcome your feedback and thank you for your continued support of our business.

This upcoming Annual General Meeting will be my last as Chairman as I will retire after 25 wonderful years on the Blackmores Board. Our new CEO has settled in and we have transitioned to a non-executive Chairman structure for our board. In the coming months, the Board will progress our succession plan to appoint a new Chairman and consider adding an additional Non-Executive Director.

I am filled with confidence in the future direction of this wonderful Company, in Richard Henfrey's leadership and in the capability of the management team and I thank my fellow Board members and shareholders for the honour of serving as Chairman of the Board.

Steve Chapman

**Stephen Chapman**
**Chairman of the Board**

Stephen Chapman, Chairman of the Board

# CEO's Year in Review

## Dear Shareholder

### In my nine years with Blackmores, including one as Chief Executive, I've come to understand how uniquely positioned our Group is within one of the most exciting growth categories globally.

I'd like to share with you some insights on the opportunity for natural healthcare both in Australia and across the Asia-Pacific region to enable you to understand our plans to expand our operations, invest in product development, extend our research and education capabilities and to showcase Australian health innovation on a world stage. Our focus has been on refining our strategic priorities to capture the significant opportunities for our brands and on restoring stability within the business to enable sustainable growth.

Our results for the year reflect this focus.

I'm pleased to report Blackmores' strong sales and profit growth, with $601 million in revenue, up 9% on the prior year, delivering a net profit after tax of $70 million, a 19% increase on the prior year.

Over the last five years, the Group has more than doubled its revenue and almost tripled net profits.

# The natural healthcare opportunity

### OUR MARKETS

The natural health category continues to be supported by some very significant demographic and societal trends. Consumers are increasingly taking responsibility for their own health, and proactively adapting their lifestyles and embracing natural therapies and products to maximise their wellbeing. At the same time, populations across all of our markets are ageing rapidly. In 2015, 7.8% of Asia's population was over 65. By 2040 this will have more than doubled to 16%, and by 2030 Asia will be home to more than 60% of the world's population of over 65-year olds. These demographic changes come with challenges and opportunities. Along with an ageing population comes an increased focus on health expectancy, not just life expectancy. In developed and developing markets consumers are taking steps to optimise their physical and mental wellbeing as they age. However, increasing disposable income in many developing markets is introducing more westernised diets and a new burden of chronic disease. The combination of demographic change and economic development, as well as the increasing cost and complexity of medical interventions, see governments tackling a seemingly endless increase in healthcare costs, often referred to as a "ticking time bomb".

### OUR APPROACH

Blackmores' approach to these issues is grounded in our deep naturopathic heritage. We believe that the body has an enormous capacity to address imbalances and heal itself, given the right conditions. Early, preventative intervention to adjust diet, lifestyle and appropriate supplementation can radically alter the body's ability to withstand the impacts of modern living, and can lead to markedly improved longer-term outcomes. In many of the Asian markets where we operate, these principles are well established and recognised in various forms of traditional medicine. Often these work alongside modern, western medicine in a way that delivers a more comprehensive and responsive healthcare system. We see this in China, where traditional Chinese medicine is often seen as a first line of defence in disease prevention and treatment.

We are building on the foundations of our naturopathic philosophy and extensive experience in natural health by leading with research and education initiatives that will shine an even stronger light on the role that natural health can play in the delivery of improved health outcomes across a range of disease conditions. The investment we have made in the Blackmores Institute over the last six years has provided us with a genuine differentiator in the market that has real value to our retail partners and our consumers. Over time, this investment will also provide insight that will drive our new product development program.

### OUR PRODUCT

At Blackmores, we go to enormous lengths to procure the most evidence-based, highest quality and sustainable ingredients. These ingredient choices underpin the efficacy and quality of our finished products. In the sourcing and manufacturing decisions we take, we never compromise on these principles, which apply to products across all of our brands. Today, our decision to expand the scope of our business into the manufacture of tablets and capsules supports this vision by giving us more direct control over a greater portion of our value chain.

Richard Henfrey,
Chief Executive Officer

Looking ahead, we will develop global growth platforms that will become the focus for innovation, research and education. These platforms will be informed by consumer insights from across our markets, ensuring that we are developing products, propositions and other assets that can be efficiently deployed across the Blackmores world.

## OUR ASIA OPPORTUNITY

The opportunity for us to grow our business in Asia remains significant. Chinese consumers have developed a strong affinity for high quality Australian products and the Blackmores brand in particular. Our business in China is primarily based on sales of Australian vitamin and dietary supplement products to consumers via cross-border e-commerce platforms. It is currently growing at more than 20% per annum, and we see great scope to continue to drive brand awareness and penetration through these channels. In addition, we have built an offline business that sells a small range of food products, including fish oil and infant formula, through bricks and mortar stores in China.

There is a significant potential role for Blackmores to play in the development of new healthcare services and a new healthcare industry in China. In his Healthy China 2030 plan, President Xi Jinping has placed health reform at the front and centre of the Chinese Government's overall policy agenda for the next decade. The planned investment in primary healthcare, and the promotion of healthy lifestyles and physical fitness have the potential to significantly improve health outcomes as the population ages.

We see plenty of growth opportunity in Asia beyond the China phenomenon. Our joint venture in Indonesia, Kalbe Blackmores Nutrition, is almost two years old and is already building a winning position in a market that is expected to be the 4th largest economy globally by 2050 (overtaking Brazil, Russia, Japan and Germany). Indonesia is a young market relatively speaking, with one of the highest birth rates in the region at 20 births annually per thousand population. Our Pregnancy and Breast-Feeding Gold product is the number one pregnancy multivitamin in the market less than a year since being launched.

We have commenced a program to invest in the skills and infrastructure necessary to support a business of our new scale and complexity. Our investment in the new Bungarribee distribution centre will deliver operational leverage as the business grows in the coming years, as well as a near-term efficiency saving from combining the BioCeuticals and Blackmores distribution activities under the same roof. The focus of the coming year will be to develop our internal IT systems to provide a greater degree of automation and sophistication in our financial and supply chain capability.

Australia and China in particular remain highly competitive markets, but Blackmores' leading position and strong brands, coupled with further investment in driving brand awareness and extending our lead in research and education through the Blackmores Institute, gives us confidence in the future growth strategy for the Group.

# CEO's Year in Review

## OUR YEAR IN REVIEW

Revenue was a record for the Group and in the financial year we sold more product than ever in our 86-year history. The strongest growth continues to come from our businesses in Asia, which delivered record sales in June.

Consumer demand across all regions and brands remains strong and as a result we invested more in our brands, which will underpin continued growth.

Gross margins improved by 4.4 percentage points driven by lower rebates, fewer inventory provisions and operational efficiencies.

In Australia, Blackmores secured recognition as the most trusted brand in our category for the tenth consecutive year. The retail environment in Australia remains subdued though we exited the year with improved momentum and a strong sell-in of immunity products.

Across the Group, expenses were tightly controlled to enable investment in growth initiatives. These investments included growing the team in Indonesia, a world-class education platform, the fit-out of Blackmores' distribution centre at Bungarribee in Western Sydney, and increased brand support in China.

Marketing spend increased by almost 40% in the second half of the year compared to the first half, and was focused on core markets.

The investment in a women's health campaign in China in April and May 2018 was viewed 280 million times, resulting in a significant lift on our three biggest e-commerce platforms, increasing Blackmores' market share in China.

Our business in China continues to be predominately e-commerce sales and Blackmores has strong relationships with the major Chinese platforms. The Blackmores Board visited to China in June, coinciding with our signing of a joint business plan with Alibaba. This business plan demonstrates our shared vision to grow our presence on Alibaba's platforms including AliHealth, TMall and Taobao over the coming year.

In China, health is an increasingly high priority for the government, reflecting the desire of the Chinese people to improve their quality of life. Over the course of the year, there has been considerable restructuring of government departments. This streamlining and consolidation of bureaucracy will positively impact Blackmores, making it easier to meet the growing consumer demand for our products.

We welcomed the announcement made by the Chinese Government affirming its commitment to the pilot of cross-border e-commerce, extending the existing regulations by another year and opening additional free trade zones.

Blackmores arranged a visit to Australia by Vice Chairman Mr Zhang Ming and senior officials of the China Association for Quality Inspection (CAQI) in January 2018 for meetings with Blackmores, the Therapeutic Goods Administration, Standards Australia, the NSW Government, Complementary Medicines Australia and Austrade to further advance bilateral efforts in enhancing product quality, traceability and tracking.

Marcus Blackmore and I subsequently met with the Chairman of CAQI in Beijing in June 2018 to further advance this important relationship.

An important driver of long-term growth is our industry-leading education.

Our research and education program, spearheaded by the Blackmores Institute, has made significant progress over the year including a partnership with Tsinghua University, one of the leading academic institutions in China, and the launch of CMed, an accredited education course for pharmacists, in Asia.

These accredited healthcare professional education programs are hosted on a newly-implemented learning management system, B!Academy, a technology platform that will enable further expansion of our education initiatives.

## Blackmores to acquire Catalent Australia's Braeside complementary medicines manufacturing facility

In April 2018, Blackmores announced an agreement to acquire 100% of Catalent's tablet and soft-gel capsule manufacturing facility in Braeside, Victoria for $43.2 million.

The acquisition will support the Group's future growth and product innovation with strong research and development capabilities and will provide greater control over production, strengthening Blackmores' quality credentials.

This will deliver increased agility to respond to changing market conditions. The acquisition enables improved management of Blackmores' current and future portfolio of registered products in Asia. It demonstrates our ongoing commitment to invest in Australian manufacturing.

The transaction will complete in October 2019 and is expected to be fully debt funded with a positive impact on earnings per share from year one.

## AUSTRALIA AND NEW ZEALAND:

Blackmores' sales in Australia and New Zealand, including Pure Animal Wellbeing, were broadly flat, contributing $266 million. Blackmores is the clear number one brand in Australia. The broader consumer market remains subdued and China-influenced sales through Australian retailers continue to move to direct export channels.

Sales were supported by successful new product launches including 99.9% sugar-free gummy vitamins and a probiotics range that does not require refrigeration.

**Revenue**
**$266**
**million**

## CHINA:

Sales to China, comprising key export accounts and in-country sales, were $143 million, up 22% compared to the prior year.

Consumer demand remains strong across all e-commerce platforms, while Blackmores' sales channels in China continue to evolve.

**Revenue**
**$143**
**million**

## OTHER ASIA:

Blackmores' sales in Asia (excluding China) were $82 million, up 20% compared to the prior year. This includes particularly strong performances from Singapore (up 22%) and Korea (up 91%). Thailand and Malaysia delivered continued growth despite being impacted by supply constraints. Blackmores' emerging business in Indonesia delivered 77% growth compared to the prior year. We will continue to invest in this important growth market in response to the encouraging consumer and healthcare professional support for our brand since launching in September 2016.

**Revenue**
**$82**
**million**

## BIOCEUTICALS GROUP:

BioCeuticals, Global Therapeutics and IsoWhey delivered sales of $109 million, up 13% compared to the prior year. BioCeuticals' branded products lifted sales by 20%, with Global Therapeutics sales flat as a result of stock shortages impacting our smaller lines. These constraints eased significantly in the final months of the financial year.

BioCeuticals is the clear market leader in practitioner-only products and delivered a strong pipeline of new products throughout the year including acclaimed education podcasts and events.

**Revenue**
**$109**
**million**


Chris Sadler and Jacqui O'Donnell from PAW by Blackmores

# CEO's Year in Review

## EMERGING MARKETS

Blackmores' growing Indonesian business delivered 77% growth compared to the prior year. Our brand growth in this market is supported by our joint venture with Kalbe Farma, called Kalbe Blackmores Nutrition, in which Blackmores has a 50% holding. Operating for less than two years, the business is delivering strong and steady growth in line with expectations. Blackmores Pregnancy & Breast-Feeding Gold is already the leading pregnancy supplement in Indonesia and more than 2,000 obstetricians and gynaecologists have attended Blackmores Institute symposia on the role of micronutrients in pregnancy.

Blackmores Vietnam has achieved 12 product registrations and commenced selling into pharmacies through our distribution partner, Mesa.

## CHALLENGES

Supply constraints impacted sales across many of Blackmores' brands and regions over the course of the year. These were caused by a number of factors including changes to the Australian contract manufacturing sector and were compounded by the long lead times required to produce natural healthcare products

We have high quality standards that we are not prepared to compromise to address short-term stock requirements. These factors can make it difficult for Blackmores to quickly respond to changes in demand. We've always had a strong reliance on our suppliers to assist us in minimising this lead time, however this continued to challenge us throughout the year.

The number of lines out of stock was minimal at the close of the financial year and Blackmores has implemented several strategies and interventions to mitigate this challenge in the future. These changes include introducing new technology and processes to assist with global sales forecasting and demand planning. The announcement in April of Blackmores' plans to acquire the Catalent Australia manufacturing facility in Victoria will also give us greater control over production volumes.

Blackmores' growing business in China has bolstered our sales and profit significantly since our launch there in 2012, though we have also made substantial provisions for doubtful debts in China. We continue to pursue all appropriate avenues to recover these debts, which have negatively impacted Blackmores' EBIT by $5 million.

## LEADERSHIP STRUCTURE

With a clear strategic direction and a desire to streamline and simplify operations, Blackmores has adapted the organisational structure to best support the strategy and growth ambitions.

The Group is now structured into two clear geographical regions – Australia New Zealand, led by Managing Director David Fenlon, and Asia, led by Peter Osborne. Each geographical region is resourced to optimise responsiveness to its customers and consumers with strong new product development, marketing, customer service and distribution capabilities.

The centralised functions have been strengthened to elevate the growing importance of technology and the need for a global human capital program. Brett Winn is leading our technology upgrade as Chief Information

Officer and I'm pleased to announce Jane Franks will join Blackmores as Chief People Officer. Jeremy Cowan was appointed as Chief Operations Officer in the year.

## FINANCIAL POSITION

Our financial position remains strong with good cash flows and debt maintained at conservative levels and well within all banking covenants.

We are comfortable with the current levels of inventory we are carrying as well as the amount of stock held by retailers.

Read more about Blackmores financial position on page 30 of this report.

## OUTLOOK

Blackmores' strategy is focused on delivering growth across all regions and brands, underpinned by our continued investment in our core business in Australia. We will invest to strengthen our business systems as we progress towards ownership of the Catalent Australia manufacturing facility in October 2019.

China continues to be a significant opportunity for Blackmores and in addition to our Alibaba agreement, last week we signed a strategic co-operation with NetEase Kaola. Our vision for China is not limited to e-commerce sales, and we're actively building an offline business and affirming our credibility as a leading natural health advocate.

We will be showcasing our brand at the China International Import Expo in November, which is expected to be the largest convention ever held anywhere in the world. It is a landmark event hosted by the Chinese Government and a demonstration of China's determination to bring the world's best products to Chinese consumers.

We have an active pipeline of new product development and brand-building campaigns in progress. The Blackmores Institute is an important differentiator for Blackmores in our key Asian markets and we continue to strengthen our collaborations with leading research and academic institutions.

The Board shares my confidence in our ability to continue to deliver sales and profit growth in the coming year.

I'd like to thank our Board for their support of me in my first year as Chief Executive Officer. My sincere gratitude to our Executive Team who have navigated the challenges of the year and defined a clear strategy for the year ahead, and to our staff across the Group for the commitment to our purpose that they bring to work every day.

**Richard Henfrey**
**Chief Executive Officer**

# CEO's Year in Review

## Consumer Connectedness

- Blackmores is the #1 vitamin and supplement brand and Group in Australia
- Most Trusted Brand in Australia (10 years running) and key Asian markets including Singapore and Malaysia (source: Reader's Digest Most Trusted Brand annual surveys)
- Blackmores 85th anniversary was celebrated in Australia, Thailand and China, highlighting our strong naturopathic heritage
- Strengthened our digital footprint, with 4.9 million members across our websites and social media in Asia-Pacific and 15 million online conversations with Australian consumers
- BioCeuticals FX Medicine podcasts downloaded 1.5 million times in 50 countries
- Expanded our retail footprint, with Blackmores the number one vitamin brand in Woolworths and launched on Amazon Australia and in Aldi; and achieved almost 370 new distribution points for Fusion Health and Oriental Botanicals
- Sponsored key sporting events in Australia and Asia, including the Blackmores Sydney Running Festival, Byron Bay Lighthouse Run, Collingwood Netball Clinics, the Run & Move event in Thailand and brand presence at the Australian Open


Delphine Chassagne, National Account Manager, Blackmores Australia


Davina Theodore,
Customer Service
Sales Manager,
BioCeuticals

# 1

# CONSUMER CONNECTEDNESS

# CEO's Year in Review

## Innovation and Expertise

- 158 new products across the Group, including Blackmores' 99.9% sugar-free kids' range and expanded BioCeuticals' best-selling Armaforce immunity offering
- Introduced our flagship Blackmores Pregnancy & Breast-Feeding Gold, Natural Vitamin E Cream and Odourless Fish Oil to new markets in Asia
- Launched BioCeuticals Clinical Services for personalised DNA testing with 700 practitioners trained
- Rolled out Blackmores Academy, an award-winning online natural medicine education service in English, Mandarin, Thai and Indonesian Bahasa
- More than 1.5 million educational touchpoints across the Group, reaching healthcare professionals, pharmacy students, retailers and vets, including our accredited CMed education program in Malaysia with 600 pharmacists
- 74 research projects, clinical trials and scholarly activities, including a study on herbal extracts and osteoarthritis
- Funded two research fellowships at the Australian Research Centre in Complementary and Integrative Medicine (ARCCIM), University of Technology Sydney with a $1.5 million donation from the Blackmores Foundation, BioCeuticals and the Jacka Foundation
- Partnered with China's leading university, Tsinghua, to improve public health through a health journalists' education program
- Advisory teams across the Group responded to 83,325 calls, emails, live chats and web posts

Vladimir Stajic, Head of Research & Technical Affairs, Blackmores Institute


Karen Latter, Healthcare Professional Educator & Trainer, Blackmores Institute

# 2

# INNOVATION + EXPERTISE

# CEO's Year in Review

## Global Advantage

- Leveraged our natural health education expertise across Asia, including keynote sessions at maternal health symposia in Indonesia for 2,000 obstetricians and gynaecologists
- Strengthened our digital platforms and retail partnerships, including a flagship WeChat store and an exclusive NPD partnership with Kaola.com in China, and 19 DFS stores in Korea
- Grew our relationships with key Chinese influencers in Australia through daigou training and events
- First year of operations in Vietnam including registration of 12 products
- Second year of operations in Indonesia through Kalbe Blackmores Nutrition joint venture; sales up 77% on last year
- Significantly expanded our presence with key retail partners Boots and Olive Young in Korea, with Blackmores Natural Vitamin E Cream now one of the highest-selling beauty products in duty free stores in Korea
- In Thailand, we continued our number 1 brand position with growing online engagement, new product launches and community programs
- Launched Blackmores Natural Vitamin E Cream into Thailand, Singapore and Malaysia with strong consumer and retail partner uptake
- Malay consumer targeted campaigns which delivered a significant contribution to our Malaysian sales growth.
- Blackmores' Board visited the Alibaba campus in China and signed a joint business plan with Alibaba that defines our enhanced business partnership

Kelli Yao, Finance Director, Blackmores China


Left: Rosa Li, Marketing Director, Blackmores China

Below: Oliver Liu, Sales Director, Blackmores China

# 3 GLOBAL ADVANTAGE

# CEO's Year in Review

## Operational Fitness

- Produced more than 4.6 billion tablets and capsules and shipped to 40,242 points of distribution globally
- Agreed to the acquisition of the Catalent tablet and soft-gel manufacturing facility in Victoria, Australia, to support future growth and product innovation
- Our Bungarribee Distribution Centre in Western Sydney is fully operational, with 3,500 orders shipped weekly
- Quality checked a record number of products, passing audits by the Therapeutic Goods Administration with an A1 rating and the China CCIC
- Blackmores piloted a program with Alibaba and PwC Australia as the exclusive partner for the VDS category on blockchain initiatives to protect Australian product authenticity
- Partnered with CAQI to develop a seal of authenticity to assure product integrity
- Switched to sustainable e-commerce packaging, resulting in environmental benefits and substantial cost reduction
- Introduced the Australasian Recycling Label on product packaging to help consumers correctly sort and increase recycling rates
- 71% of waste diverted from landfill
- Invested in 4,075 learning and development sessions for employees, including the training of 50 innovation champions

### Blackmores Distribution Centre, Bungarribee

- **3.5K orders shipped weekly**
- **8K pallets (with room for 5K more)**
- **2.5K shippers packed daily**
- **Twice the speed with the same number of people**
- **60 staff**
- **Delivering to 3K customers/25K points of distribution**


Left: Evangeline Manhuyod, Blackmores Production

Below: Elena Irlandez, Blackmores Bungarribee Distribution Centre

# 4

# OPERATIONAL FITNESS


Wes Ipsen, Strategic Sourcing Quality Manager

# Operating + Financial Review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# Operating + Financial Review

**Group Strategy**
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## Blackmores is the leading natural healthcare company across the Asia-Pacific region.

Blackmores' operations include product innovation and formulation, sourcing of the highest quality ingredients, quality programs to ensure compliance with standards of good manufacturing practice, development of education programs and the marketing, sales and distribution of products to retail customers and consumers.

Our operations are structured to service and deliver to multiple channels including pharmacy, mass merchandisers, grocery, health food stores, practitioners and online platforms.

Our animal health range is also sold to vets and wholesalers.

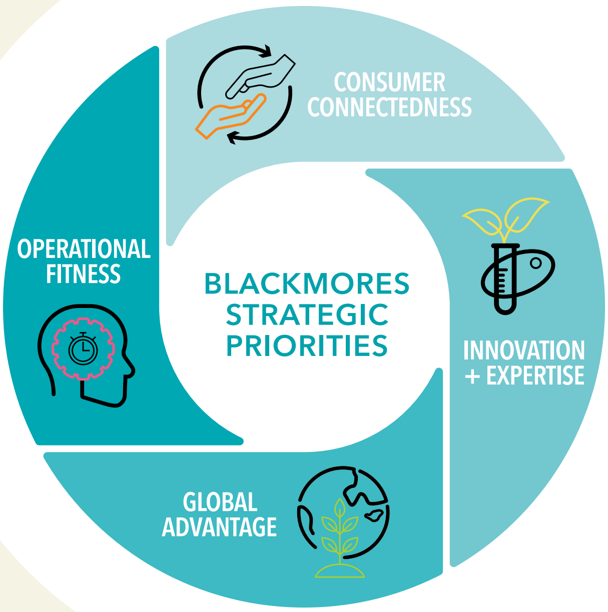
**Activities across the Group for the 2018 financial year were aligned to four key strategic priorities:**

### CONSUMER CONNECTEDNESS
Building deeper connections and leveraging the opportunities that digital technology presents to the category to enhance the consumer experience.

### INNOVATION & EXPERTISE
Growing the research capacity of the Blackmores Institute and BioCeuticals and leveraging Blackmores' expertise to increase the knowledge base of natural healthcare for product innovation and accredited education.

### GLOBAL ADVANTAGE
Nurturing and growing the Australian heartland business to leverage Blackmores' leadership position in other markets. Continuing to grow across Asia and to explore new frontiers.

### OPERATIONAL FITNESS
Streamlining and simplifying operations, building leadership and cross-cultural skills and capabilities.



Dawn Swainston, General Manager, Global Therapeutics

# Operating + Financial Review

Group Strategy
**Group and Divisional Results**
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**Blackmores delivered Group revenue of $601 million (up 9% compared to the prior year) and a net profit after tax attributable to shareholders of Blackmores (NPAT) of $70 million (a 19% increase on the prior year).**

In the 2018 financial year, Blackmores achieved strong year-on-year revenue and profit growth. Following the rebalancing of the 2017 year, it was pleasing that the Group delivered four quarters of consistent sales growth, representing a return to stability.

## 01

### Australia and New Zealand

Blackmores' sales in Australia and New Zealand, including Pure Animal Wellbeing, were broadly flat, contributing $266 million. Blackmores is the clear number one brand in Australia. The broader consumer market remains subdued and China-influenced sales through Australian retailers continue to move to direct export channels.

Sales and market share gains were supported by successful new product launches including 99.9% sugar-free gummy vitamins and a probiotics range that does not require refrigeration.

The earnings before interest and tax (EBIT) result from this segment was also down year-on-year by 2% broadly in line with sales. The result includes increased investment in our brands in the second half of the year.

## 02

### China

Sales to China, comprising key export accounts and in-country sales, were $143 million, up 22% compared to the prior year.

Consumer demand remains strong across all e-commerce platforms while Blackmores' sales channels in China continue to evolve.

EBIT of the China segment grew ahead of sales, increasing by 28% compared to last year. This result included the impact of a significant level of expense for doubtful debts. All appropriate avenues to recover these debts are being progressed. The second half of this year also saw an increase in the level of brand investment for this important growth market.

## 03

### Other Asia

Blackmores' sales in Asia (excluding China) were $82 million, up 20% compared to the prior year. This includes particularly strong performances from Singapore (up 22%), Hong Kong (up 39%) and Korea (up 91%). Thailand and Malaysia delivered continued growth despite being impacted by supply constraints. Blackmores' emerging business in Indonesia delivered 77% growth compared to the prior year. We will continue to invest in this important growth market in response to the encouraging consumer and healthcare professional support for our brand since launching in September 2016.

The strong growth combined with a stabilising Korean business saw EBIT in this segment much improved, up 163% despite continued investment in our Asia Regional Head Office capability in Singapore.

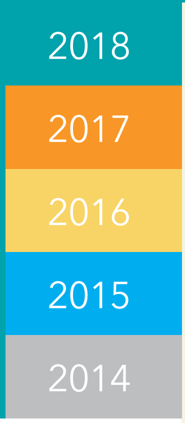
## 04

### BioCeuticals Group

BioCeuticals, Global Therapeutics and IsoWhey delivered sales of $109 million, up 13% compared to prior year. BioCeuticals-branded products lifted sales by 20% with Global Therapeutics sales flat as the result of stock shortages impacting our smaller lines. These constraints eased significantly in the final weeks of the financial year.

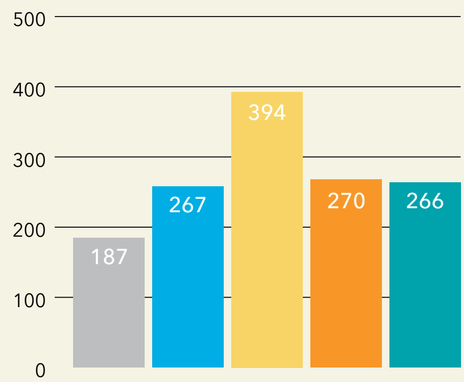
BioCeuticals is the clear market leader in practitioner-only products and delivered a strong pipeline of new products throughout the year including acclaimed educational podcasts and events.

BioCeuticals Group EBIT grew 14%, slightly ahead of sales.

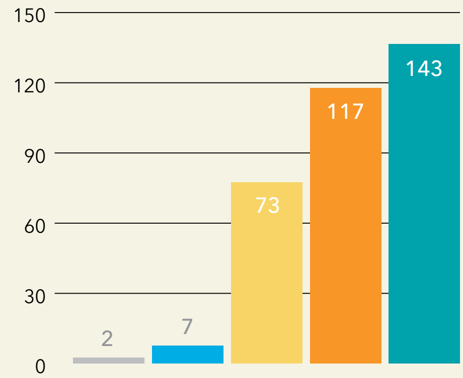



## Revenue $millions

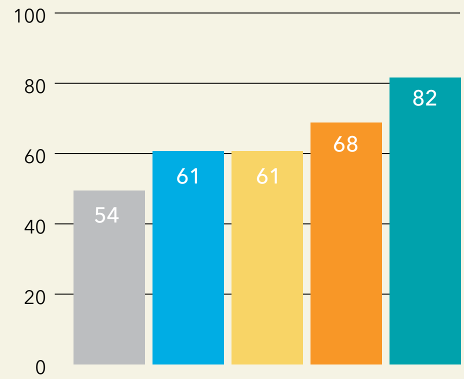
# 01
## Australia & New Zealand



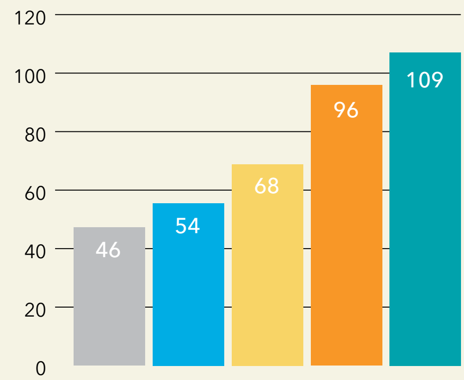

# 02
## China




# 03
## Other Asia




# 04
## BioCeuticals Group



# Operating + Financial Review

Group Strategy
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## Blackmores is a geographically diverse company and our operations extend across 17 markets, supporting seven brands.

(See page 4 to learn more about Blackmores' footprint).

Blackmores manages 41 warehouse locations and 16 office locations, employing 1,400* staff across 252 job roles.

We are accountable to more than 20 regulatory authorities, which influence our product ranges and how we communicate with our consumers.

Blackmores is a multi-channel, multi-market business. The changes in the route-to-market and the influence of resellers in recent years has changed our operating expense profile.

The headquarters for the Group is the Blackmores Campus at Warriewood, a 25,000 square metre purpose-built facility where the majority of Blackmores' products are packaged and quality checked. The Campus officially opened in 2009 and its design delivers on the vision to be the physical embodiment of the brand: the best environment for employees, for sustainability and for operational efficiency. The Campus created a wholefoods garden during the year, highlighting the value of nutrition in the Blackmores' health philosophy.

Our supply chain deals with 1,000 ingredients, 600 product formulations and approximately 1,500 individual product units.

We have a high reliance on natural resources and, accordingly, have a strong sustainability charter.

### ADDRESSING CONTINUITY OF SUPPLY

Supply constraints impacted sales across many Blackmores' brands and regions over the course of the year. These were caused by a number of factors including changes to the Australian contract manufacturing sector and were compounded by the long lead times which are required to produce natural healthcare products.

We have high quality standards that we are not prepared to compromise to address a short-term stock-fill, and, though our ingredients are sourced from all over the world, we have a preference for domestic manufacturing partners.

These factors have always made it difficult for Blackmores to quickly respond to changes in demand.

The number of inventory lines out of stock was greatly reduced at the close of the financial year. Blackmores has initiated a program of changes to mitigate this challenge in the future.

These changes include introducing new technology and processes to assist with global sales forecasting and demand planning which will be embedded over the next two years.

The announcement in April of Blackmores' agreement to acquire the Catalent Australia manufacturing facility in Victoria in October 2019 will also give us greater control over production.

### ACQUISITION OF CATALENT AUSTRALIA'S BRAESIDE MANUFACTURING FACILITY

As we approach the October 2019 acquisition, this high quality tablet and soft-gel capsule manufacturing facility will support greater control over production, strengthening Blackmores' quality credentials and new product development capabilities.

This will deliver increased agility to respond to changing market conditions. The acquisition will enable improved management of Blackmores' current and future portfolio of registered products in Asia.

### BLACKMORES' BUNGARRIBEE WAREHOUSE

In June 2018, Blackmores celebrated the official opening of a 16,000 square metre warehouse that doubled the Group's warehousing footprint and allows room for further growth in the future. Guests at the official opening toured the facility to observe the improved workflows, which are focused on the same day shipping of orders.

This facility is critical to optimise our customer service proposition. We've adopted higher levels of automation in our order picking and packing and the design of workflow gives us the ability to be more agile and responsive. The location was chosen for its access to the ports, the major motorways and to our logistics partners. The site is a custom fit-out developed especially for our business to optimise efficiency.

An average of 3,500 orders are shipped from Blackmores Bungarribee every week, made possible by a team of 60 employees.

*Including 400 staff employed by the joint venture in Indonesia.

William Li, Account Executive,
Blackmores Export

# Operating + Financial Review


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## GROUP FINANCIAL POSITION

The financial health of Blackmores remains in a strong position at the end of the 2018 financial year, providing the Group with the flexibility and capability to continue to support the necessary investments to grow the business into the future.

Total net assets increased by $15 million to $193 million at June 2018, largely driven by increases in current assets and partially offset by a rise in current liabilities, both reflecting increasing working capital requirements to support the growth of the Group.

Current assets increased by $44 million in the year, driven by higher sales and, in particular, a strong last quarter impacting both receivables and inventories. Inventory at $104 million reflects a balance $19 million higher than the prior year due to both the Group's increase in size and the building of increased safety stock levels following a year impacted by supply delays and resulting inventory shortages. Non-current assets increased by $9 million to $162 million at 30 June 2018, reflecting continued investment in the year as we expanded our supply chain and distribution capabilities along with investments in our world-class online learning management system, B!Academy. In addition, the Group acquired a small number of trademarks and brand rights in the year to secure its intellectual property rights for the future.

Current liabilities have increased by $32 million to $174 million, largely due to the timing and arrival of raw materials towards the end of the year, reflecting improvements in inventory supply.

Non-current liabilities at $97 million increased by $6 million from June 2017, driven by increased borrowings to fund higher working capital requirements.

Net debt at $50 million increased by $5 million, marginally lower than the increase in gross borrowings due to a higher cash offset. The net debt position of the Group remains low with a 20% gearing ratio, consistent with the prior year. We continue to maintain a conservative level of headroom against all debt covenants and are well supported by a diverse range of facilities and banking partners.

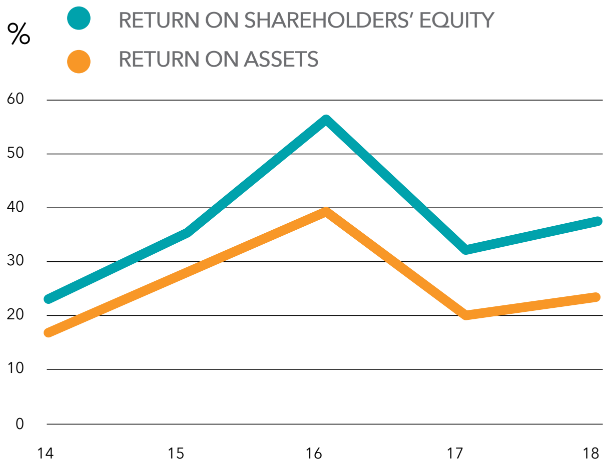
Net interest cover at 25.9 times (2017: 20.6 times) has continued to improve and reflects a conservative approach to servicing the Group's ongoing interest commitments. Cash generated from operations of $90 million represented a $5 million decline on the prior year, largely attributable to higher working capital levels. Net cash flows from operating activities were $58 million, representing 27% growth on 2017 with the prior year impacted by the timing of higher income tax payments relating to the 2016 year.

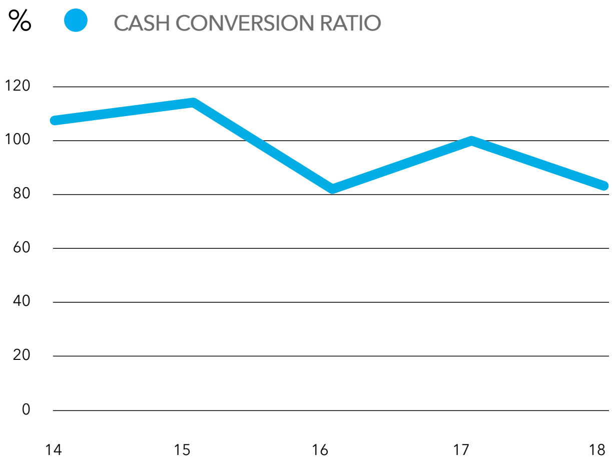
The cash conversion ratio of 82% represents a sustainable level of performance with the Group's strong profit growth and investments made to support future expansion opportunities.

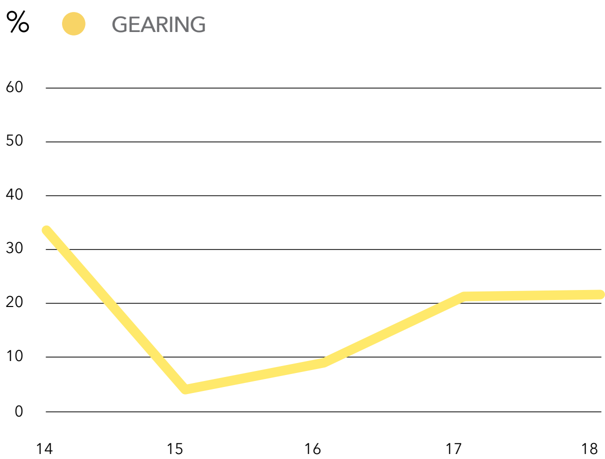
Net profit after tax attributable to Blackmores' shareholders was $70 million (2017: $59 million), a 19% increase on the prior year. Basic earnings per share (EPS) increased to 406.4 cents per share from 342.6 cents per share, an increase of 19%. Dividends per share were 305 cents (2017: 270 cents), reflecting a 75% payout ratio. The business delivered improved and continued strong investment returns on the metrics of return on assets and shareholders' equity at 23% and 36% respectively. Income tax expense was higher, reflecting the growth in profit with a Group effective tax rate of 29.1%. The Group has issued a separate voluntary 2018 Taxation Disclosure report providing further details on the types and amount of taxation paid by the company.

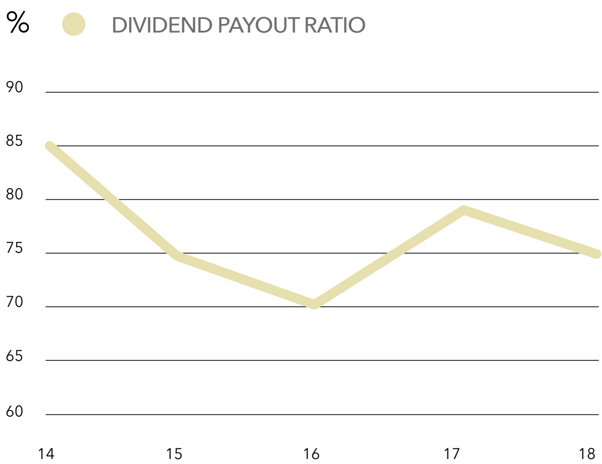
We have made some changes to the way we present our financial results in this 2018 Annual Report to make the information easier to read and interpret. These include changing our headline Revenue figure to reflect sales net of all discounts and promotional and other rebates, in accordance with the latest financial reporting standards. In addition, we have reorganised and streamlined the financial report sections, with the inclusion of accounting policies and related critical judgement areas within the financial notes. Where appropriate, we have simplified language and removed duplication of information. Our aim has been to simplify our reporting to enable the reader to gain a clearer and more comprehensive understanding of the financial performance of the Group.

**Aaron Canning**
**Chief Financial Officer**



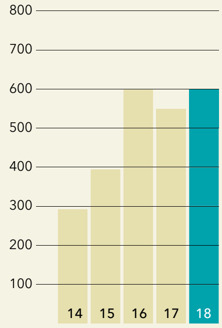




## REVENUE

### $601 million

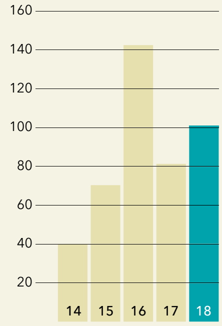
The Group delivered revenue of $601 million across all divisions and brands, a 9% increase on the prior year.




## EBIT

### $102 million

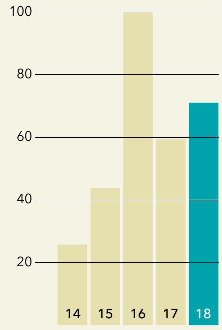
Earnings before interest and taxes of $102 million was up 18% compared to the prior year.




## NPAT

### $70 million

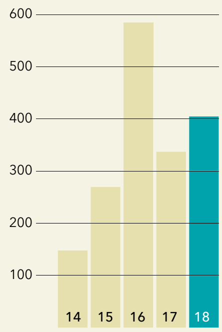
Net profit after tax (NPAT) attributable to shareholders of Blackmores of $70 million, up 19% on the prior year.




## EPS

### 406 cents

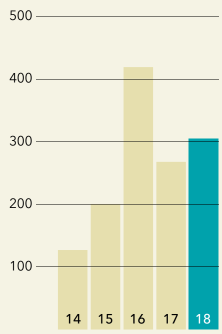
Earnings per share (EPS) of 406 cents, was up 19% on the prior year.




## DIVIDENDS PER SHARE

### 305 cents

Dividends of 305 cents per share were 13% higher compared to the prior year.



# Operating + Financial Review



## Group Risks

The material risks that could affect Blackmores' future financial performance and their potential impacts are summarised in this table.

| RISKS | POTENTIAL IMPACTS | RESPONSE |
|---|---|---|
| **Industry risk** | Quality or claims breaches by competitors or suppliers impact the credibility of the industry domestically and internationally. | • High visibility and transparency of our full supply chain and enforcement of Blackmores' own quality standards including our Supplier Code of Conduct.<br>• Crisis and communication response plans are continually reviewed, updated and tested to ensure appropriate skills and capabilities are ready to be deployed.<br>• Key government and regulatory relationships are actively maintained. |
| **Supply constraints** | Blackmores' high quality and sustainability standards and limited availability of natural ingredients puts pressure on the continuous supply of some key products. | • Acquisition of a manufacturing facility in Victoria to provide greater control over production volumes.<br>• Improved demand planning and forecasting technology and processes.<br>• Strong sustainability charter.<br>• Dedicated internal capability focused on sourcing.<br>• Direct sourcing of key and scarce ingredients.<br>• Strengthened supplier relationships and contracts balancing volume requirements. |
| **Product quality issue** | Financial loss due to:<br>• Delay in restoring supply of product for sale.<br>• Product recall and reformulation costs.<br>• Reduced industry capacity. | • Long-term relationships with suppliers, quality audits and supply chain business reviews.<br>• Product testing and validation procedures in place. Every product has passed more than 30 tests and quality assessments.<br>• Retention of samples from every batch for ongoing testing and quality evaluation to cover the whole shelf-life of all products. |
| **Brand damage** | Brand damage caused by a product or industry related event resulting in loss of share and value. | • High quality controls throughout the supply chain.<br>• Focus on complaint handling.<br>• Crisis training and response plans in place.<br>• Active program to engage stakeholders on Blackmores' business values and ethics practices.<br>• Consumer advisory line to provide product information.<br>• Traceability and technology in the supply chain. |
| **Cyber risk** | Co-ordinated attacks on critical infrastructure resulting in system outage or theft of confidential, personal or financial information. | • Ongoing updating of technology with the incorporation of security services.<br>• Compliance program and employee training to prevent a breach. |
| **Financial and treasury risk** | Financial and credit risks including negative impact to profit, balance sheet and cash flow. Treasury risks including change in exchange rates, ingredient prices, interest rates and funding causes a financial loss. | • Diversification of currencies and working with supply partners to more effectively use these currencies for Group procurement<br>• Active ongoing reviews and assessment of customer risk. |
| **Regulatory changes** | Government policy and regulation may change and restrict or limit the ability to sell existing product or ranges in key markets. | • Employing strong, experienced local teams able to actively engage with local governments.<br>• Blackmores actively engages with key stakeholders to monitor and react to regulatory changes in key markets such as China.<br>• Continue to educate and inform stakeholders of the regulatory rules and routes to market in China through both the Australian and Chinese businesses.<br>• Engagement with industry associations in key markets to encourage informed policy setting and regulation.<br>• Diversification of revenues.<br>• Diversification of routes to market. |
| **Reliance on customers and markets** | • Financial loss due to reduced revenue of a key customer or market.<br>• Greater financial cost to serve customers due to aggressive competitors.<br>• Financial loss due to a large bad debt. | • Focus on Blackmores' brand health to drive brand loyalty and consumption.<br>• Drive category solutions to gain consumer loyalty.<br>• Close monitoring of customer payments and continued transparency across markets.<br>• Diversification of revenues. |

**There are countless opportunities in the global health category as well as some inherent risks. Blackmores takes a proactive approach to managing these with a focus on the following core areas to mitigate risk:**

Maintain a robust risk governance framework, overseen by the Audit and Risk Committee of the Blackmores Board.

Attract and retain strong management teams with local experience in all markets.

Diversify revenues to ensure less reliance on any one brand, channel or market.

Ability to identify risks, and the agility and capability to respond accordingly.

Syed Ali,
Blackmores Bungarribee
Distribution Centre


Anna Isaac, Edouard Picherit and Leah Boonthanom training for the Blackmores Sydney Running Festival

# Sustainability, Community + Our People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# Sustainability

## Healthy People, Healthy Planet

Blackmores has had a long-standing commitment to sustainability and giving back to the communities in which we operate. This started with our founder Maurice Blackmore in the 1930s, whose views on preventive medicine, supporting people, the environment and recycling were ahead of his time.

These values have enabled Blackmores to embed sustainability across the business and progress an agenda that focuses on four key areas:

1. Tread Lightly
2. Source Responsibly
3. Lead the Change
4. Improve Wellbeing

## Material Prioritisation


1. Our People
2. Stakeholder Engagement
3. Corporate Governance
4. Sustainable Supply Chains
5. Materials
6. Climate Change
7. Our Communities
8. Ethical Supply Chains
9. Energy
10. Water
11. Product Quality and Safety
12. Work Health and Safety
13. Effluent and Waste
14. Innovation
15. Customer Privacy and Data Protection
16. Wellness (in the context of society)

Blackmores' first full year of operations at our Bungarribee Distribution Centre in Western Sydney has achieved an energy intensity of 61 kWh/m², which is less than half the energy usage of our other major warehouse at Eastern Creek. Sustainable design features include stormwater reclamation, rooftop photovoltaics and increased roof and wall insulation.

Brajesh Kaushal

# Sustainability

1

## Tread Lightly

Reduce the environmental impact of our facilities and operations through best practice and continual improvement.

2

## Source Responsibly

Work collaboratively to minimise social and environmental risks, provide product accountability and transparency and build a resilient supply chain to ensure resources for our future.

3

## Lead the Change

Lead the industry through innovation, research and education and drive sustainable business standards.

4

## Improve Wellbeing

Focus on wellbeing, improve community health and champion a safe and secure workplace.

TREAD LIGHTLY

**71%**

waste diverted from landfill

SOURCE RESPONSIBLY

Modern slavery compliance action plan developed

LEAD CHANGE

**74**

research projects, clinical trials and scholarly activities

IMPROVE WELLBEING

**7,543**

pairs of shoes donated to needy school children in Thailand

Richard Henfrey, a passionate champion for sustainability, and his bee hive, which contributes to the biodiversity of the local environment

# Sustainability Case studies

Solar energy at the Blackmores Campus

## 01 Tread lightly

### A CLEAN ENERGY FOCUS

Blackmores completed a full review of energy options at the Blackmores Campus at Warriewood to align our practices to the United Nations' Sustainable Development Goals around clean energy.

The Blackmores Clean Energy Strategy is divided into two time frames: Practical Strategy (2018-2024) and Visionary Strategy (2024-2030), focused on:

1. Energy Productivity: Maximise the energy efficiency potential of our production, distribution and retail facilities.
2. Energy Supply: Deploy a mix of clean, renewable and reliable energy supply solutions that are cost-effective and reduce our exposure to an increasingly volatile energy market.
3. Energy Management Systems: Adopt energy management procedures and systems to support decision-making, enable best practice, and achieve continuous improvement.
4. Communications & Partnerships: Establish win-win relationships with key suppliers and stakeholders, and establish our position as a thought leader in sustainability.

*Outcomes will be reported in the 2019 Sustainability Report.*

Anna Bearpark

## 02 Source responsibly

### STRONG SUPPLIER PARTNERSHIPS

We strive to partner with suppliers who share our values, have the ability to consistently meet our high quality standards, are committed to best practice and continuous improvement, and take a collaborative approach to sustainability.

In partnership with marine oil supplier TASA Omega, we have been able to improve the sustainability and traceability program for our fish oil supply chain from catch to capsule.

Blackmores Fish Oil comes from wild caught sardines and anchovies harvested in pristine waters off the coast of Peru from fisheries with independently set quotas. Fish are caught using responsible methods to protect the eco-system. Electronic 'Catch Certificates' enable us to track the origin of each batch and provide details of the harvest such as the time and date the fish were caught, the quantity and species, the GPS location of the harvest, and the vessel name and licence number.

In recognition of this successful collaborative partnership, TASA Omega received the 2018 Blackmores Sustainability Award at the Blackmores Supplier Conference which brought together more than 100 suppliers from around the globe.

# Sustainability Case studies

## 03 Lead the change

### ACCREDITED EDUCATION PROGRAMS

With widespread use of complementary medicine in Australia and Asia, patients are increasingly expecting their health practitioners to provide expert advice on the safety, efficacy and appropriateness of natural health supplements as a standalone or adjunct therapy.

In Malaysia, the Blackmores Institute and the Malaysian Pharmaceutical Society have developed a Complementary Medicine Education (CMEd) program to help build this knowledge base, so far engaging more than 600 pharmacists, especially community pharmacists.

CMEd aims to improve pharmacists' knowledge and confidence in advising about complementary medicines. The structured learning program includes six online modules covering vitamins, minerals, nutritional oils and herbal medicines, as well as face-to-face Masterclass sessions with case studies developed by pharmacists for pharmacists.

The accredited program allows pharmacists to receive continuing professional development points upon completion.

CMEd sits alongside Blackmores Institute's range of complementary medicine e-learning modules for healthcare professionals and pharmacy staff. These are available in English, Thai, Mandarin and Indonesian Bahasa.


Monitar Tan, Senior Asia Educator

## 04 Improve wellbeing

### HEALTHY COMMUNITIES

Blackmores is dedicated to making a difference and achieving long-lasting, sustainable outcomes for the communities in which we operate through grassroots collaborations. In Australia, Blackmores is a key sponsor of The Growth Project, which brings together individuals, companies and philanthropists with charity leaders for growth and leadership mentoring.

By providing one-on-one coaching to charities wanting to maximise the positive impact they have on the world, our team has not only given back but also benefited from this two-way relationship, gaining an improved understanding of leadership and purpose.

"Mentoring has provided an enriching opportunity to connect with a diverse network of people and do something outside the norm with meaning and purpose," said David Tuffin, Blackmores National Sales & Education Manager ANZ, who partnered with Edmund Rice Foundation.

"The amazing thing is, you have no idea how much you will learn and grow in the process – both personally and professionally," said Nicole Steven, Blackmores Head of Business Development ANZ, who partnered with A Sound Life.

Edo Kahn, co-founder of A Sound Life

# Community

## Giving back – from leadership mentoring to soup kitchens

The Blackmores Group is committed to giving back to the communities in which we operate across Asia-Pacific. We strive to make a difference by building healthier communities, supporting charitable organisations and inspirational individuals who are helping to create a brighter future.

In Australia, the Blackmores Mercie Whelan Women & Wellbeing Awards in partnership with CCNB celebrated women making an outstanding contribution to their local communities.

Marcus and Caroline Blackmore donated a revolutionary surf rescue drone to Bilgola Surf Life Saving Club.

As a key sponsor of The Growth Project, we provided one-on-one leadership mentoring to charities wanting to maximise their positive impact on the world.

In Asia, our staff rolled up their sleeves to drive key grassroots initiatives. This included our Malaysia team's Project Kindness, which served 7,500 meals to the homeless; our Thailand team's Keep Running Keep Wellbeing program, which donated 7,543 pairs of shoes to needy school children; and our continued support of Bumi Sehat Foundation in Indonesia to improve maternal and child health in rural communities.

Recognising that charity starts at home, Group employees gave $167,000 to a further 105 registered charities of their choice through our matched donations scheme, whereby 0.5% of their taxable pay is donated with Blackmores matching this amount.


# Community

## Key organisations and charitable events proudly supported by Blackmores

**Alice Springs School of the Air**
Delivering excellence in education to school children in remote Australia.

**Auckland City Mission**
Unique and specialised health and social services to marginalised Aucklanders.

**Blackmores Sydney Running Festival**
More than 33,000 participants and $1.5 million raised for numerous charities in 2017.

**Biggest Morning Tea**
Working towards a cancer free future.

**Bilgola Surf Life Saving Club and Bilgola Big Swim**
Proudly serving the community.

**Bumi Sehat Foundation, Indonesia**
Delivering community health services in rural Indonesia with a focus on maternal-child health.

**Byron Bay Lighthouse Run**
An annual charity fun run, raising $13,500 for Lismore Base Hospital United Hospital Auxiliary in 2017.

**The Cardiac Children Foundation, Thailand**
Under the Royal Patronage of H.R.H. Princess Galayani Vadhana Krom Luang Naradhiwas Rajanagarinda, the Foundation provides medical and emotional support to children with cardiac disease and their families in Thailand (supported by Blackmores Thailand's Run & Move events).

**CCNB**
Supporting people living with mental health issues, disability or ageing and their carers.

**Collingwood Netball Community Clinics:**
Encouraging health and wellbeing in local schools.

**Gotcha 4 Life**
Saving lives and making a significant impact in raising the mental state of boys, men and their families.

**Hands-on-Health Australia**
Delivering quality inter-disciplinary healthcare through training, education, research and treatment in Australia and overseas.

**HBF Run for a Reason**
More than 35,000 participants and over $1 million raised for WA health charities in 2017.

**Pit Stop Community Café, Malaysia**
Soup kitchen providing meals for the urban homeless and needy (supported by Blackmores Malaysia's Project Kindness).

**Pollie Pedal**
An annual event of politicians riding to help veterans and their families to Soldier On.

**Quest for Life Foundation**
Providing practical skills and strategies for people to create peace and resilience in their lives.

**Royal Guide Dogs Australia**
Assisting people who are blind to gain to freedom and independence.

**Royal Hospital for Women Foundation**
Innovation in women's healthcare services, teaching and research.

**Salvation Army Christmas Appeal**
Giving hope to Australians battling tough times.

**Special Olympics Australia**
Transforming the lives of people with an intellectual disability.

**Tender Loving Community**
Providing practical support to families affected by serious illness or injury.

**The Growth Project**
Bringing together individuals, companies and philanthropists with charity leaders to help maximise their positive impact on the world.

**Thoroughbred Rehabilitation Trust**
Assisting the rehabilitation and re-education of former NSW Thoroughbred racehorses.

**United in Compassion**
Advocating for patient access to medicinal cannabis in a manner that is safe, effective, affordable, equitable and favourable for patients, for the dignified relief of suffering.

**Individuals**
Holly Wawn – pro surfer
Sam Bloom – para surfer

# Community

## Project Kindness – paying it forward in Malaysia

Project Kindness is Blackmores' way of giving back to the local community in Malaysia, through charity drives and pay-it-forward collaborative efforts with a focus on health, wellbeing and nutrition.

Led by our 91 employees in Kuala Lumpur, Blackmores teamed up with Pit Stop Community Café to serve 7,500 meals to the homeless and hungry – with an incredible 350 Facebook fans stepping forward to help.

"Sometimes all we need is a little kindness – not just one day a year, but 365 days. It is our hope this idea is embraced by individuals and companies alike. We are grateful and happy for our partnership with Blackmores Malaysia," said Joycelyn Lee, Pit Stop Community Café Manager.

"The project motto – If you can choose to be one thing today, choose to be kind – inspired our desire to re-awaken the essential goodness at the heart of everyone and make a difference," said Eddy Ong, Blackmores Malaysia Country Director.

Other Project Kindness activities included helping victims of the Typhoon Damrey floods (that left more than 5,000 people homeless) to clean-up and repair their homes and get back on their feet to recovery and wellbeing.


## Supporting research into complementary medicine

Blackmores has an unwavering commitment to growing the knowledge base of complementary medicine and is proud of its ongoing partnerships with world-leading research institutions.

This year, the Blackmore Foundation (Marcus and Caroline Blackmore's personal philanthropic fund), BioCeuticals and the Jacka Foundation donated $1.5 million to support two new research fellowships at the Australian Research Centre in Complementary and Integrative Medicine (ARCCIM) at the University of Technology Sydney.

ARCCIM is a world-leading, critical public health and health services research centre focusing on traditional, complementary and integrative healthcare. It brings together experts in epidemiology and health economics, led by Distinguished Professor of Public Health and Australian Research Council Professorial Future Fellow, Jon Adams.

This research is all the more important considering today's major health challenges of an ageing population, chronic illness and a health system under stress.

"The complementary and integrative medicine landscape involves an array of medicines and practitioners and the work of ARCCIM will help to build the broad evidence base needed to inform policy development in this significant area of healthcare," said Eyal Wolstin, Managing Director of BioCeuticals.

"People like Marcus Blackmore and the team at BioCeuticals are making a significant contribution through their funding of Australian research centres, giving us a better understanding of natural therapies," said Health Minister Greg Hunt.

# Community

## Awards

The Blackmores Group has been recognised with numerous awards for product innovation, industry leadership and our commitment to sustainability. They include Executive Director Marcus Blackmore being inducted into the New Hope Network Hall of Legends and receiving the Nutrition Business Journal Lifetime Achievement Award, and Blackmores' induction into the Queensland Business Leaders Hall of Fame.

### OUR BEST IN CLASS AWARDS INCLUDE:

- Reader's Digest Most Trusted Brand – 10 years running (Australia)
- Reader's Digest Most Trusted Brand – 4 years running (Singapore)
- Reader's Digest Most Trusted Brand – Platinum (Malaysia)
- Brand Laureate Award (Malaysia)
- Superbrand Award – 7 years running (Thailand)

### WE ARE ALSO ESPECIALLY PROUD OF THE FOLLOWING RECOGNITION:

- Australian Packaging Covenant Organisation 2017 – Medium Pharmaceutical, Personal Care and Medical
- Guardian Health and Beauty Awards 2018
- LearnX Impact Awards 2018 – Best Bite Size eLearning Course
- LearnX Impact Awards 2018 – Best Free eLearning Resource
- Nature & Health Natural Baby Awards 2018
- Sigma Healthcare Awards 2018 – Health and Wellbeing Supplier of the Year
- Watsons Health & Wellbeing Awards 2018

## Partnerships

### ACADEMIC

- Australasian College of Natural Therapies
- Australasian College of Nutritional and Environmental Medicine
- Chulabhorn Research Institute, Thailand
- Chulalongkorn University, Thailand
- Commonwealth Scientific and Industrial Research Organisation (CSIRO), Australia
- Deakin University, Australia
- Endeavour College of Natural Health, Australia
- Griffith University School of Pharmacy and Pharmacology, Australia
- International Medical University, Malaysia
- Khon Kaen University, Thailand
- Laureate Australia
- Monash University, Australia
- MTHFR Support Australia
- Naresuan University, Thailand
- National Institute of Complementary Medicine (NICM) at Western Sydney University, Australia
- National University of Malaysia (Universiti Kebangsaan Malaysia)
- National University of Singapore
- Royal Melbourne Institute of Technology, Australia
- Rangsit University, Thailand
- Southern School of Natural Therapies, Australia
- Swinburne University, Australia
- Taylor's University, Malaysia
- Thammasat University, Thailand
- Tsinghua University, China
- UCSI University, Malaysia
- University of Canberra, Australia
- University of Hawaii, USA
- University of Indonesia (Universitas Indonesia)
- University of Malaya, Malaysia
- University of Newcastle and Hunter Medical Research Institute, Australia
- University of Sydney, Australia
- University of Technology Sydney:
  - Australian Research Centre in Complementary and Integrative Medicine (ARCCIM)
  - Graduate School of Health
  - Pharmacy

### INDUSTRY

- Australian Register of Naturopaths and Herbalists (ARONAH)
- Australasian Integrative Medicine Association
- Australian Traditional Medicine Society
- China Association for Quality Inspection
- China Medical Pharmaceutical Material Association
- Chiropractors Association of Australia
- Community Pharmacy Association, Thailand
- Complementary Medicines Australia
- FODMAP Friendly
- Global Organisation for EPA and DHA Omega-3 (GOED)
- Informed Sport
- International Probiotics Association
- Malaysian Pharmaceutical Society
- Medicines Australia
- MINDD Foundation
- Naturopaths & Herbalists Association of Australia
- Pharmaceutical Society of Australia
- Pharmaceutical Society of Hong Kong
- Sydney University Glycemic Index Research Service (SUGiRS)
- World Wide Fund for Nature

"I have recently been honoured with a number of awards recognising lifetime achievements. Those awards rightfully belong to my father, Maurice Blackmore, Australia's pioneering naturopath. But in his time he was oft referred to as a quack, a charlatan or a snake oil salesman, so it was difficult for the establishment to recognise his contributing to natural health and to natural medicine. To see so many of his teachings now accepted as mainstream is immensely rewarding for those of us who continue his life's work in the very company he created. He was ahead of his time."

MARCUS C. BLACKMORE AM

- EY Entrepreneur of the Year – 2018 Eastern Region Champion
- Natural Products Industry, Hall of Legends by the New Hope Network, USA, Inductee
- Nutrition Business Journal Lifetime Achievement Award 2018, USA

# Our People

## Wellness at work

The wellbeing of Blackmores' employees is a key enabler of culture. In the 2018 financial year, the Blackmores Workplace Health and Safety (WHS) Committee doubled down on employee training, communications and engagement across the business. There were a total of 12,411 WHS training experiences across the Group in the 2018 financial year. As a direct result of this increased focus, it has been encouraging to see incident severity decline this year, with:

- Workforce recordable injury rate is down on last year from 0.92% to 0.7%
- 11% decrease on total reported incidents compared to last year – 87% resulted in no impairment and 12% experienced short-term impairment only, with no permanent impairment or fatalities.

Our global program, B!Safe B!Healthy leverages the expertise of our Australian staff to drive safe work practices across all markets.

Other training focus areas in financial year 2018 included ergonomics and manual handling, and slips, trips and falls. In order to ensure the takeaways were well understood by employees, training moments were designed as a combination of face-to-face sessions and videos featuring real employees.

At Blackmores, a strong WHS culture covers more than just the physical, but also addresses the work life balance, mental health and overall wellbeing of employees.

In May, the WHS Committee ran its "Making your head a space you want to be" campaign, aimed at promoting good mental health and reducing the stigma around mental health conditions. An awareness presentation was cascaded through team meetings and huddles, followed up by an eLearning test module. This activity coincided with the launch of Benestar and the 'Best You' program, Blackmores' new Employee Assistance Program (EAP).

The focus on WHS commitments is reflected in the bi-annual Climate Survey data, which showed an overall favourable rating of 87% for WHS at Blackmores. Highest ratings (89%) were given to the statements "Workplace Health and Safety is a priority at Blackmores" and "Staff are aware of their work health and safety responsibilities". This is a good indication that the work the Committee has been doing on communication and training this financial year has been relevant and valuable.

# No barriers to realising career goals

The Blackmores Group is a leader in diversity and we are committed to championing it at all levels of the organisation. We believe that utilising and developing the collective skills and diverse experiences and attributes of everyone positively impacts employee engagement and improves business performance.

Shanna Colver, Blackmores Group Head of Building Infrastructure & Services, is a great example of this. At high school she dreamed of landing a carpentry apprenticeship, but instead took a legal secretary traineeship. She later moved into project and change management, before joining Blackmores in 2010 as a Project Manager for New Product Development.

Blackmores supported Shanna's aspirations to upskill into operations, and today she is making her professional – and uniquely personal – mark in a traditionally male-dominated role running site operations across the Group, focused on maximising functionality, safety, sustainability and innovation.

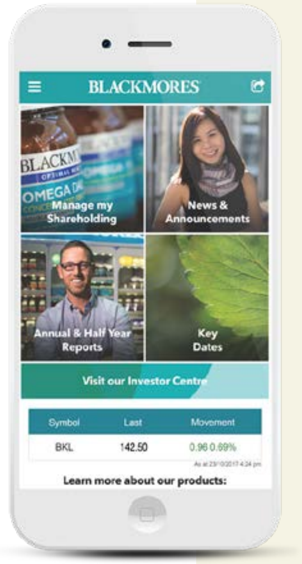
"I finally feel at home in this role and I'm looking forward to going from strength to strength," said Shanna, who is one of two women on her team. "My colleagues and external contractors treat me no differently to how they would treat a male doing this job."

Valued for her technical and organisational skills on site, Shanna is also a busy mum to two children and President of her local Little Athletics organisation.

Her advice for other women – and men – considering a career shift but unsure they have everything the role requires? "Go for it – know that you will have other skills sets and experiences you can offer your team and gain new experiences for yourself."

**"I finally feel at home in this role and I'm looking forward to going from strength to strength."**

## Investor App




Blackmores offers shareholders a free app that integrates with the Computershare platform to give shareholders and brokers mobile access to manage their shareholdings. It allows them to:

- View live share price updates
- View dividend history
- Obtain dividend or tax statements
- Receive news, announcements, key dates and invitations to shareholder events.

The Blackmores Investor app is downloadable at https://blackmores.computershareapps.com or by texting the word **'Blackmores'** to 0400 813 813 (Aust and NZ).

The app is compatible with all mobile devices, and gives all shareholders easy access to their holdings and all relevant Blackmores investor announcements and Company information. Access is via a secure login using a Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode.

Shanna Colver,
Blackmores Head of Building
Infrastructure & Services

# Executive Team

## 01
### Richard Henfrey

Chief Executive Officer

Richard Henfrey began as Chief Executive Officer on 17 August 2017 after more than eight successful years on Blackmores' Leadership Team including three years as Chief Operating Officer.

He was Board President of Complementary Medicines Australia from June 2011 until December 2015, leading the industry association's input into the most comprehensive review into regulation of complementary medicine since the system was established in 1989.

Prior to Blackmores, he worked for Telstra Corporation in roles including Director of Technical Sales, Telstra Business. General Manager, Business Sales NSW; and General Manager of Marketing Strategy, Telstra Business and Government.

Prior to emigrating to Australia from the UK in 2003 with his Australian wife and children, Richard was Director of Strategy and Market Intelligence for Energis plc and played a key role in the financial restructuring of the business.

Richard graduated from the University of Cambridge with honours in Natural Sciences, specialising in genetics and molecular and cell biology. He passionately supports the molecular cardiology work of the Centenary Institute, Quest for Life Foundation and Bear Cottage.

## 02
### Adjunct Associate Professor Lesley Braun

Director, Blackmores Institute

Dr Lesley Braun is an Adjunct Associate Professor at the National Institute of Complementary Medicine (Western Sydney University) and has held research positions at The Alfred Hospital, Monash University.

She was Vice President of the National Herbalists Association of Australia, an Academic Board Member of Endeavour College, and former member of key industry groups including the Australian Therapeutic Goods Advisory Council, Advisory Committee for Complementary Medicine (TGA), the Advisory Committee for the Australasian Integrative Medicine Association, and the National e-Health Transition Authority (NeHTA) medicines terminology group.

Lesley is a current member of the Clinical Oncology Society of Australia's Complementary and Integrative Therapies Group Executive, Pharmaceutical Society of Australia, Australian Institute of Company Directors, Australia-China Business Council Health and Medical Research working group, and is on the course advisory committees for nutrition courses at Endeavour College and the Think Group.

She is the main author of four best-selling textbooks including *Herbs and Natural Supplements – an evidence based guide*, founding Editor-in-Chief of the journal *Advances in Integrative Medicine*, and was a regular columnist for the *Australian Journal of Pharmacy* for 20 years.

## 03
### Aaron Canning

Chief Financial Officer

Aaron has a wealth of experience gained from working in a variety of general management and financial leadership positions in ASX-listed and multi-national organisations in Asia, Australia and New Zealand, the UK and the US. Prior to joining Blackmores in December 2014, Aaron worked at Goodman Fielder, Westfield and Diageo plc. At Goodman Fielder he held several leadership roles including Managing Director Grocery Category, Managing Director Asia-Pacific, and Finance Director Asia-Pacific.

Aaron has a Bachelor of Commerce degree in Marketing and Management and Postgraduate First Class Honours in Management. He is a qualified accountant, a Fellow of the Association of Chartered Certified Accountants, a member of Chartered Accountants Association of Australia and New Zealand and a graduate of the Australian Institute of Company Directors. Aaron was named CEO Magazine's 2016 CFO of the Year (runner-up).

## 04
### Cecile Cooper

Company Secretary & Director of Corporate Affairs

Cecile is an accountant and Company Secretary with more than 30 years of commercial experience. She is responsible for Blackmores' Board administration, secretariat, governance, risk management, compliance and corporate communications initiatives. She has held a variety of senior positions within Blackmores, including Business Manager for Development, Marketing and Sales.

Cecile is a Chartered Secretary and a Certified Practicing Accountant and has a Bachelor of Business (Accounting) and a Graduate Diploma of Applied Corporate Governance with the Governance Institute of Australia. She is a graduate of the Australian Institute of Company Directors, serves on the Governance Institute of Australia's Legislation Review Committee, and is the Chairman of CCNB Limited. In 2015 she was awarded the Rotary Paul Harris Fellow.

## 05
### Jeremy Cowan

Chief Operations Officer

Jeremy joined Blackmores in July 2018 and brings strong technical acumen across the end-to-end supply chain encompassing sales and operations planning, manufacturing, logistics and procurement. He has a proven record of generating value through supply chain strategies and continuous improvement.

He was the Asia-Pacific Procurement Director of Nando's for 18 months prior to joining Blackmores, and before this he had a 20-year career with Mars Inc. across the chocolate, sugar and coffee segments in multiple supply chain and procurement leadership roles in both Australia and the US.

Jeremy has delivered results in both business and functional leadership through developing high performing teams and nurturing a positive culture through his communication and interpersonal skills.

## 06
### David Fenlon

Managing Director, Australia & NZ

David brings more than 30 years of retail and brand experience to Blackmores including an in-depth understanding of grocery and retail channel strategies. With an emphasis on driving business transformation and showcasing leadership, David has held key positions in Tesco throughout Europe and Safeway in the UK. In Australia, he has held key leadership roles with a diverse range of brands.

David joined Blackmores in 2013 as Managing Director of the Australian, New Zealand and Animal Health divisions. He previously served on the Board of ASX-listed The PAS Group, is a member of the Australian Institute of Company Directors, a Director of the Quest For Life Foundation, and on the Board of the Special Olympics.

## 07
### Peter Osborne

Managing Director, Asia

Peter is a former Australian trade diplomat with extensive experience in business development, sales and marketing, trade development, and export and investment facilitation and promotion. He is responsible for Blackmores' Asia business, including subsidiary companies in Singapore, Thailand, Malaysia, Taiwan, Hong Kong, Korea, China and Japan; joint venture Kalbe Blackmores Nutrition in Indonesia; distribution partnerships including Vietnam, Cambodia, Kazakhstan and Mongolia; and overall strategy for Blackmores' growth objectives in Asia.

Prior to joining Blackmores in 2009, Peter was one of Australia's most senior trade diplomats working with the Australian Trade Commission in China, Taiwan, and Hong Kong. He also spent several years in Fiji as the Trade and Investment Director of the South Pacific Forum Secretariat and served as Expert Adviser to the UN Conference on Trade and Development and the UN Commission for Sustainable Development.

Peter has lived and worked in Asia for nearly 30 years and speaks Mandarin-Chinese. Peter is a graduate of the Australian

Institute of Company Directors, a Fellow of the Hong Kong Institute of Directors, and the first foreigner to be appointed as Honorary Vice Chairman of the China Association for Quality Inspection (CAQI) in Beijing.

## 08

### Brett Winn

Chief Information Officer

Brett has 25 years' experience delivering innovative, customer-obsessed technology solutions across a range of industries throughout Asia-Pacific. Prior to joining Blackmores in 2016, Brett was Chief Information Officer at Medibank where he created leading telehealth and population health initiatives to improve access to services and reduce stress on the Australian health system. Brett has also held executive IT positions at CitiPower, PageGroup, Saatchi & Saatchi and McCann Worldgroup.

As Blackmores' Chief Information Officer, Brett is responsible for technology and digital solutions aimed at customer outcomes and innovation, while driving operational efficiencies across the Group. He has an MBA from the University of Technology, Sydney, and is passionate about championing company culture to achieve world-class outcomes.

## 09

### Eyal Wolstin

Managing Director, BioCeuticals

Eyal brings more than 25 years of sales and marketing experience to the Blackmores Group as Managing Director of BioCeuticals.

Armed with strong leadership skills and a deep industry knowledge of FMCG and complementary medicines, Eyal has consistently delivered high performance results, innovation initiatives and change management.

He advocates BioCeuticals' reputation for integrity, innovation, quality and reliable practitioner support, and was appointed Managing Director in 2018. Eyal holds an MBA (Marketing) from the University of Manchester and a BA in Political Science and Management from Open University in Israel.









2018

# Financial Report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# Five Year History

| $'000 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Revenue | **601,136** | 552,160 | 598,659 | 388,366 | 287,458 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | **110,552** | 94,642 | 152,266 | 78,655 | 46,055 |
| Depreciation and amortisation | **8,940** | 8,411 | 7,045 | 6,391 | 6,266 |
| Earnings before interest and tax (EBIT) | **101,612** | 86,231 | 145,221 | 72,264 | 39,789 |
| Net interest expense | **3,930** | 4,180 | 1,810 | 3,432 | 4,826 |
| Net profit before tax | **97,682** | 82,051 | 143,411 | 68,832 | 34,963 |
| Income tax expense | **28,459** | 24,023 | 43,391 | 22,276 | 9,534 |
| (Loss)/gain attributable to non-controlling interests | **(782)** | (985) | 12 | - | - |
| Profit after tax attributable to shareholders of Blackmores Limited (NPAT) | **70,005** | 59,013 | 100,008 | 46,556 | 25,429 |
| Net debt | **49,532** | 44,717 | 17,793 | 7,069 | 54,401 |
| Shareholders' equity | **192,875** | 177,541 | 178,263 | 132,915 | 104,226 |
| Total assets | **464,850** | 412,174 | 443,362 | 293,407 | 236,594 |
| Current assets | **302,507** | 258,662 | 294,624 | 187,844 | 131,376 |
| Current liabilities | **174,467** | 142,556 | 192,279 | 114,998 | 58,040 |
| Net tangible assets (NTA) | **111,279** | 107,369 | 116,484 | 90,809 | 65,185 |
| Cash generated from operations | **90,131** | 95,310 | 123,022 | 89,791 | 49,507 |
| Number of shares on issue ('000s) | **17,227** | 17,226 | 17,225 | 17,224 | 17,113 |
| Earnings per share (EPS) – basic (cents) | **406.4** | 342.6 | 580.6 | 270.7 | 149.2 |
| Ordinary dividends per share (cents) | **305** | 270 | 410 | 203 | 127 |
| Share price at 30 June | **$142.50** | $95.84 | $131.39 | $75.27 | $27.20 |
| Net tangible assets (NTA) per share | **$6.46** | $6.23 | $6.76 | $5.27 | $3.81 |
| Cash conversion ratio[1] | **81.5%** | 100.7% | 80.8% | 114.2% | 107.5% |
| Return on shareholders' equity[2] | **36.3%** | 33.2% | 56.1% | 35.0% | 24.4% |
| Return on assets[3] | **23.2%** | 20.2% | 39.4% | 27.3% | 17.0% |
| Dividend payout ratio | **75.0%** | 78.8% | 70.6% | 75.0% | 85.1% |
| Gearing ratio[4] | **20.4%** | 20.1% | 9.1% | 5.1% | 34.3% |
| EBIT to revenue ratio | **16.9%** | 15.6% | 24.3% | 18.6% | 13.8% |
| Effective tax rate | **29.1%** | 29.3% | 30.3% | 32.4% | 27.3% |
| Current assets to current liabilities (times) | **1.73** | 1.81 | 1.53 | 1.63 | 2.25 |
| Net interest cover (times) | **25.9** | 20.6 | 80.2 | 21.1 | 8.2 |
| Gross interest cover (times) | **23.4** | 18.9 | 63.9 | 18.8 | 7.7 |
| **% change on prior year** | | | | | |
| Revenue | **8.9** | (7.8) | 54.1 | 35.1 | 6.0 |
| EBITDA | **16.8** | (37.8) | 93.6 | 70.8 | 3.1 |
| EBIT | **17.8** | (40.6) | 101.0 | 81.6 | 2.8 |
| NPAT | **18.6** | (41.0) | 114.8 | 83.1 | 1.8 |
| EPS | **18.6** | (41.0) | 114.5 | 81.4 | 0.9 |
| Ordinary dividends per share | **13.0** | (34.1) | 102.0 | 60.0 | 0.0 |

1. Calculated as cash generated from operations divided by EBITDA.
2. Calculated as NPAT attributable to shareholders of Blackmores Limited divided by closing shareholders' equity.
3. Calculated as EBIT divided by average total assets.
4. Gearing ratio is calculated as net debt divided by the sum of net debt and shareholders' equity.

# Directors' Profiles

## 01

### Stephen Chapman

BCOMM, MBA, CA, FAICD

Chairman

Mr Chapman is an investment banker and experienced company director who joined the Board in September 1993. Mr Chapman has broad commercial and investment experience gained in Australia and internationally, from both his executive and board roles. He was an international director of Morgan Grenfell & Co and was a founder and Chairman of Baron Partners Limited, an Australian investment bank.

Mr Chapman is a Non-Executive Director of several ANZ Bank Wealth division subsidiaries, including Chairman of One Path Funds Management Limited, and was previously Deputy Chairman of Perpetual Limited.

Mr Chapman held the position of Blackmores Deputy Chairman from 24 October 2007 to 1 March 2017. He was then Acting Chairman until 27 June 2017 when he was appointed Chairman.

## 02

### Marcus C Blackmore AM

ND, MAICD, D UNIV, D LITT

Executive Director

Mr Blackmore has served on the Board since October 1973. He holds an Honorary Doctorate from Southern Cross University for distinguished leadership in complementary medicines in Australia and an Honorary Doctorate of Letters from Western Sydney University for his distinguished services to business, charity and the broader community.

Mr Blackmore is an honorary trustee of the Committee for the Economic Development of Australia (CEDA), an Alumnus of Harvard Business School, and an Honorary Fellow of the Heart Research Institute.

Marcus Blackmore held the position of Chairman up to 28 February 2017.

## 03

### Richard Henfrey

MA, GAICD

Chief Executive Officer and Managing Director

Richard Henfrey commenced as Chief Executive Officer on 17 August 2017 after more than eight successful years on Blackmores' Leadership Team including three years as Chief Operating Officer.

He was Board President of Complementary Medicines Australia from June 2011 until December 2015, leading the industry association's input into the most comprehensive review into regulation of complementary medicine since the system was established in 1989.

Prior to Blackmores, he worked for Telstra Corporation in roles including Director of Technical Sales, Telstra Business; General Manager, Business Sales NSW; and General Manager of Marketing Strategy, Telstra Business and Government.

Prior to emigrating to Australia from the UK in 2003 with his Australian wife and children, Richard was Director of Strategy and Market Intelligence for Energis plc and played a key role in the financial restructuring of the business.

Mr Henfrey graduated from the University of Cambridge with honours in Natural Sciences, specialising in genetics and molecular and cell biology. He passionately supports the molecular cardiology work of the Centenary Institute, Quest for Life Foundation and Bear Cottage.

## 04

### Brent W Wallace

BCOMM (MARKETING), FAICD

Independent Director

Mr Wallace joined the Board in October 2005 and has been Chair of the Audit and Risk Committee since 2015. He is a co-founder and Chairman of Galileo Kaleidoscope (Galkal), an Asia-Pacific company known for its strategic marketing, brand and consumer insight solutions that drives growth for clients.

Mr Wallace has held senior positions in London and Sydney advertising agencies and until 1996 was Managing Director of Ogilvy & Mather in Australia. Mr Wallace has more than 30 years of international experience in marketing, advertising and research insights across a wide variety of organisations and consumer categories.

Mr Wallace is a former Board Director (2005-2017) and has been a Governor of the World Wide Fund for Nature, the global environmental group since 1993. He has also held board positions on ASX-listed and unlisted technology companies in online procurement, education and information.

## 05

### Helen Nash

BA (HONS) GAICD

Independent Director

Ms Nash joined the Board in October 2013. Ms Nash has more than 20 years' experience across 3 diverse industries: Consumer Packaged Goods, Media, and Quick Service Restaurants.

Ms Nash brings robust financial skills to her role having initially trained in the UK as a Certified Management Accountant. Her 17+years in brands and marketing allow her to bring a strong consumer lens to the Board. Before transitioning to a NED career she held the position of Chief Operating Officer at McDonalds Australia, overseeing business and corporate strategy, restaurant operations, marketing, menu, insights and research and information technology. This extensive strategic and operational experience allows Ms Nash to bring rounded commercial skills to the Board.

Ms Nash is currently a Non-Executive Director of Metcash Limited (since October 2015), a Non-Executive Director of Southern Cross Media Group (since April 2015), a Non-Executive Director of Inghams Group Limited (since May 2017), and a former Non-Executive Director of Pacific Brands Limited (2013-2016).

## 06

### David Ansell

BA (COMMUNICATION), GAICD

Independent Director

Mr Ansell joined the Board in October 2013, following a highly successful career in consumer-facing organisations in Australia, Asia and the United States. Mr Ansell played a pivotal role in the start-up years of Foxtel and was CEO of advertising agency Saatchi & Saatchi. He was Managing Director of Mars Incorporated in Australia and President of a global Mars unit in the United States. Mr Ansell has a strong operating and supply chain skill set and a deep understanding of customer strategy. He is also Managing Director and Chairman of Jacobs Douwe Egberts ANZ, Australasia's largest pureplay coffee company, where he recently led a major acquisition and integration project. Mr Ansell is also a board member of the peak body of cycling in this country, Cycling Australia.

## 07

### John Armstrong

BBUS, MBA, MAICD

Independent Director

Mr Armstrong joined the Board in May 2015. Mr Armstrong has more than 30 years' experience in various financial and commercial management roles. His most recent executive role was at SEEK Limited, an ASX 50 listed leading recruitment and education provider, where he was Chief Financial Officer for over 12 years.

Mr Armstrong's focus was on SEEK's Asian operations and investments, mergers & acquisitions, including directorships of SEEK's business in China, Zhaopin Ltd (a US listed company), and SEEK Asia, which operates across South East Asia. Prior to SEEK, he held management roles at Carlton & United Breweries and commenced his career at Ernst & Young.

Mr Armstrong has previous ASX listed experience as a Non-Executive Director with Melbourne IT and iProperty Group.

## 08

### Jackie McArthur

BENG (AERONAUTICAL), MAICD

Independent Director

Ms McArthur joined the Board in April 2018 with more than 20 years' experience in operations, supply chain, manufacturing, logistics and global procurement functions. She was most recently the Managing Director ANZ for Martin-Brower, a leading global player in logistics, distribution and transport operations as well as end to end supply chain solutions.

Previously, Ms McArthur enjoyed a long career at McDonalds where she held roles such as Vice President Supply Chain for Asia Pacific, Middle East and Africa, a role that covered 38 countries. She also was the McDonalds Australia Senior Vice President Chief Restaurant Support Officer and outside of supply chain, was also responsible for real estate, construction, menu development and crisis management.

Ms McArthur was the 2016 Telstra NSW Business Woman of the Year and overall 2016 Telstra Business Women's Awards - Corporate and Private National Winner. Ms McArthur is also a Non-Executive Director of Inghams Group Limited (since September 2017).








2018
# Directors' Report

# Directors' Report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

## DIRECTORS' SHAREHOLDINGS

The following table sets out each Director's relevant interest in all financial instruments issued by Blackmores as at the date of this report:

| DIRECTORS | FULLY PAID ORDINARY SHARES | SHARE RIGHTS |
|---|---|---|
| David Ansell | 1,000 | - |
| John Armstrong | 800 | - |
| Marcus Blackmore | 4,001,835 | - |
| Stephen Chapman | 20,028 | - |
| Richard Henfrey | 11,936 | 17,809 |
| Jackie McArthur | - | - |
| Helen Nash | 1,487 | - |
| Brent Wallace | 12,302 | - |
| **Total** | **4,049,388** | **17,809** |

## SHARE RIGHTS GRANTED TO DIRECTORS AND SENIOR EXECUTIVES

Selected Senior Executives are invited annually by the Board to participate in the Executive Performance Share Plan (EPSP). Under this plan, eligible Senior Executives are granted rights to acquire shares in Blackmores. Refer to the Remuneration Report on pages 56 to 73 for more details. During the year, the following rights to shares were granted:

| | 2018 [1,2] NUMBER |
|---|---|
| **Executive Director** | |
| Richard Henfrey | 12,852 |
| Aaron Canning[2] | 3,849 |
| Dave Fenlon | 3,716 |
| Peter Osborne[2] | 2,960 |
| **Total** | **23,377** |

1. Rights granted during FY18 vest provided specific performance objectives and hurdles are met over the three-year period commencing 1 July 2017 to the year ending 30 June 2020.
2. Includes rights granted during FY18 under the Staff Share Plan. Rights to 25 shares for these Senior Executives will vest in the 2019 financial year (FY19).

## SHARE OPTIONS

During and since the end of the financial year, no share options were in existence and no new share options were granted to Directors or Senior Executives of Blackmores.

## REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Information about remuneration of Directors and Key Management Personnel is set out in the Remuneration Report of this Directors' Report, on pages 56 to 73.

## COMMITTEE MEMBERSHIPS

As at the date of this report, the Company has an Audit and Risk Committee, a Nominations Committee and a People and Remuneration Committee. Members of the Board acting on the Committees during the year were:

| | |
|---|---|
| **Audit and Risk:** | Brent Wallace, Chairman |
| | David Ansell |
| | John Armstrong |
| | Stephen Chapman |
| | Jackie McArthur (appointed 27 August 2018) |
| **Nominations:** | Stephen Chapman, Chairman |
| | David Ansell |
| | John Armstrong |
| | Marcus Blackmore |
| | Richard Henfrey |
| | Jackie McArthur |
| | Helen Nash |
| **People and Remuneration:** | Helen Nash, Chairman |
| | Stephen Chapman |
| | Jackie McArthur (appointed 27 August 2018) |
| | Brent Wallace |

# Directors' Report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

## COMPANY SECRETARIES

Cecile Cooper, BBus, Dip Inv Rel (AIRA), CPA, GAICD. Company Secretary and Director Corporate Affairs. Ms Cooper joined Blackmores in 1991. As Company Secretary, Ms Cooper is responsible for company secretarial and corporate governance support across the Group. She has held a variety of positions within Blackmores and her experience includes financial and management experience including enterprise resource planning system implementations, design of business reporting solutions, business management, risk management and compliance. Ms Cooper is the Chairman of CCNB Ltd.

Aaron Canning, BCom (Hons), FCCA, CA, GAICD. Chief Financial Officer. Mr Canning joined Blackmores in 2014 as Chief Financial Officer. He has extensive management experience in Asia, New Zealand, the UK, the US and Australia from ASX-listed and multi-national organisations including Goodman Fielder, Westfield and Diageo plc. His most recent experience was with Goodman Fielder as the Managing Director Grocery Category. Prior to this, he was the Managing Director Asia-Pacific and Finance Director Asia-Pacific. Mr Canning is a qualified accountant, Fellow of the Association of Chartered Certified Accountants, member of the Chartered Accountants Association of Australia and New Zealand and a graduate of the Australian Institute of Company Directors.

## PRINCIPAL ACTIVITIES

The principal activity of the Blackmores Group in the course of the financial year was the development, sales and marketing of natural health products for humans and animals including vitamins, and herbal and mineral nutritional supplements. The Blackmores Group has operations in Australia, New Zealand and Asia.

## RESULTS

The Financial Report for the years ended 30 June 2018 and 30 June 2017 and the results herein have been prepared in accordance with Australian Accounting Standards.

The net profit after tax attributable to shareholders (NPAT) for the financial year was $70 million (2017: $59 million).

A review of the operations of the Blackmores Group during the financial year and the results of those operations is set out in the Operating and Financial Review on pages 23 to 33.

## DIVIDENDS

The amounts paid or declared by way of dividend since the start of the financial year are:

- a final dividend of 140 cents per share fully franked in respect of the year ended 30 June 2017, as detailed in the Directors' Report for that financial year, was paid on 26 September 2017
- an interim dividend of 150 cents per share fully franked in respect of the year ended 30 June 2018 was paid on 22 March 2018
- on 28 August 2018, the Directors declared a final dividend for the year ended 30 June 2018 of 155 cents per share fully franked, payable on 12 October 2018 to shareholders registered on 27 September 2018.

This will bring total ordinary dividends to 305 cents per share fully franked (2017: 270 cents per share fully franked) for the full year.

## CHANGES IN STATE OF AFFAIRS

During the financial year, there was no significant change in the state of affairs of the Blackmores Group other than that referred to in the Consolidated Financial Statements or notes thereto and elsewhere in the Annual Report of the Blackmores Group for the year ended 30 June 2018.

## SUBSEQUENT EVENTS

There has not been any matter or circumstance, other than that referred to in the Consolidated Financial Statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of Blackmores Limited, the results of those operations, or the state of affairs of the Blackmores Group in future financial years.

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Board of Blackmores Limited endorses the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The Company's Corporate Governance Statement is available on the Blackmores website at blackmores.com.au (Go to 'Investor Centre', then click on 'Corporate Governance').

## INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, Blackmores paid a premium in respect of a contract insuring the Directors, the Company Secretary and all Executive Officers of the Blackmores Group against any liability incurred in their role as Director, Company Secretary or Executive Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. Blackmores has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an Officer or auditor of the Blackmores Group against a liability incurred as such an Officer or auditor.

## DIRECTORS' MEETINGS

The number of Directors' meetings held (including meetings of Committees of Directors) during the financial year are as follows:

| | BOARD OF DIRECTORS | | AUDIT & RISK COMMITTEE | | NOMINATIONS COMMITTEE | | PEOPLE AND REMUNERATION COMMITTEE | |
|---|---|---|---|---|---|---|---|---|
| DIRECTORS | HELD[1] | ATTENDED | HELD[1] | ATTENDED | HELD[1] | ATTENDED | HELD[1] | ATTENDED |
| David Ansell | 10 | 10 | 4 | 3 | 2 | 2 | - | - |
| John Armstrong | 10 | 10 | 4 | 4 | 2 | 2 | - | - |
| Marcus Blackmore[2] | 10 | 10 | N/A | 1 | 2 | 2 | N/A | 3 |
| Stephen Chapman | 10 | 10 | 4 | 4 | 2 | 2 | 4 | 4 |
| Richard Henfrey[2] | 7 | 7 | N/A | 3 | 2 | 2 | N/A | 3 |
| Christine Holgate[2] | 3 | 3 | N/A | 1 | - | - | N/A | 1 |
| Jackie McArthur[2] | 2 | 2 | N/A | 1 | - | - | N/A | 1 |
| Helen Nash | 10 | 10 | - | - | 2 | 2 | 4 | 4 |
| Brent Wallace | 10 | 10 | 4 | 4 | 2 | 2 | 4 | 4 |

1. Reflects the number of meetings held during the time that the Director held office during the year.
2. Attendance at Committee meetings as invitees.

## STATEMENT OF NON-AUDIT SERVICES

The Directors are satisfied that the provision of non-audit 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. Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 7.2 to the Consolidated Financial Statements.

Directors have accepted a statement from the auditor that it is satisfied that the provision of these services did not breach the independence standards included in the Corporations Act 2001. Based on this statement from the auditor and having regard to the nature and fees involved in the provision of these non-audit services, the Directors are satisfied that the provision of non-audit services during the year by the auditor (or other person or firm on the auditor's behalf) did not compromise the audit independence requirements of the Corporations Act 2001.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's Independence Declaration is set out on page 74 of this Annual Report.

## ROUNDING OFF AMOUNTS

In accordance with the Australian Securities and Investments Commission (ASIC) Corporations Instrument 2016/191, the amounts in the Directors' Report and the Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

# 2018 Remuneration Report

## Key points

- Blackmores' remuneration structure aligns Senior Executive remuneration to Group performance.
- Blackmores' long-standing profit share scheme aligns the remuneration of all employees to profits of the Group.
- FY18 short-term incentives (STI) were paid 'at target' to the Executive Directors and Senior Executives.
- Long-term incentive (LTI) awards in the year reflect achievement of the three-year EPS growth targets for the FY16 plans, granted in July 2015.
- No LTI vested in relation to FY17 or FY18 plans.
- Senior Executives received increases to Fixed Annual Remuneration (FAR) during the year due to organisational changes, expanded roles and responsibilities and alignment to appropriate benchmarking.
- Non-Executive Director fees were not increased in FY18.
- An externally facilitated Board review was conducted during the year.
- A new CEO was appointed in the year and remuneration benchmarked accordingly.
- The appointment of Jackie McArthur as a Non-Executive Director in April 2018 brings new skills to the Board and supports our continued commitment to diversity.
- Jane Franks accepted the role as Chief People Officer and will commence with the Group in October 2018.

## Introduction from the Chairman of the People and Remuneration Committee

Dear Shareholder,

I am pleased to present to you our 2018 Remuneration Report. This report outlines FY18 performance and remuneration outcomes for Blackmores, the Chief Executive Officer (CEO), direct reports to the CEO (Senior Executives) and Executive and Non-Executive Directors.

Our remuneration structure is linked to the achievement of year-on-year profit growth and shareholder returns.

FY18 was a return to solid sales and profit growth following the prior year's challenges caused by changes in the operating environment particularly in servicing Chinese consumers from the Australian retail channel. Record Net Sales for the Group was achieved, notwithstanding the impact of supply challenges during the year due to structural changes in the manufacturing sector which affected sales across the Group. Net Sales were up 9% and NPAT up 19% on the prior year The share price increased 49% during the year. Blackmores' total shareholders return (TSR) was an increase of 52%, ROE of 36%, EPS increase of 19% and dividend increase of 13%.

As a result, I am pleased to advise that the Executive Directors and Senior Executives received an "at target" award (prior to individual modifiers) under the short-term incentive (STI) plan.

Additionally, shares vested under the three-year long-term incentive (LTI) plan. Executive Directors and Senior Executives were awarded 78% of the maximum potential under this plan due to the achievement of strong earnings per share (EPS) growth during the FY16 to FY18 performance period.

### ALIGNING REMUNERATION WITH BUSINESS PERFORMANCE AND STRATEGY

There has been exceptional growth in the business since FY14 and during this period the Committee has focused on ensuring that Senior Executives fixed and performance-based remuneration was both aligned to delivery of the strategy and that the remuneration outcomes were aligned with shareholder returns. The benchmarking reviews of the CEO, Senior Executive and Non-Executive Director remuneration conducted in FY17 and FY18 have ensured that remuneration was commensurate with the size and scale of the organisation along with the retention of key personnel.

### KEY OUTCOMES FOR FY18 REMUNERATION

1. Consistent with our 'One Blackmores' philosophy, whereby we strive to create a unified culture and set of goals, the FY18 STI plan included a strategic measure component of Net Sales performance over the prior year in addition to the current measure of NPAT growth performance over the prior year.
2. The current hurdle requires positive NPAT growth before any component of the STI can be awarded to a Senior Executive.
3. The FY18 key terms of Blackmores' newly appointed CEO, Mr Richard Henfrey, were included in the ASX announcement dated 17 August 2017. These are FAR $950,000, participation in the Company's cash-based profit share plan, STI maximum potential calculated at 100% of FAR and rights in the LTI plan at maximum potential calculated at 150% of FAR.
4. Following the internal appointment of a new CEO and a change to the organisational structure better aligned to the delivery of the strategic goals, the roles and responsibilities of MD Asia, MD ANZ and CFO were expanded and then externally benchmarked versus relevant comparative roles. Accordingly, these Senior Executives' FAR was

increased between 16% and 30%. Full details are on page 67. Additionally, the number of Senior Executives in Key Management Personnel roles included in the Remuneration Report was redefined at the start of FY18.

5. The FY18 Net Sales increase of 9% and NPAT increase of 19% were "on target" set by the Board for FY18 and as a result "on target" STIs were awarded to Senior Executives. This is in contrast to the FY17 payments, where NPAT decrease of 42% was below the hurdle rate and as such the CEO and Senior Executives did not receive an STI payment in that year. The Board considers the STI outcomes for FY18 and FY17 highlight the strong alignment between financial performance, shareholders' interests and remuneration outcomes. The STI calculation was based on statutory Net Sales and NPAT and the Board did not exercise discretion in changing the calculation for purposes of determining the financial achievement of targets.
6. Under the long-standing profit share scheme, 10% of NPAT was paid to employees of Blackmores being equivalent to 26 days' incremental salary. The conditional requirement of achieving year-on-year growth was met whereby an additional 2.5% of NPAT was included in the amount distributed. This compares to FY17 which did not meet the conditional requirement of achieving year-on-year growth, resulting in the distribution of 7.5% NPAT in a total payment of 16 days' incremental salary in that year.
7. Long-term incentive (LTI) awards were eligible to vest in FY18. The LTI plan has a three-year performance period and the Board is pleased that the FY16 plan vested at 78% of the maximum potential. This was based on the performance metric of 15% three-year compound annual growth rate (CAGR) in EPS and reflects the strong growth over this period.

   The FY17 and FY18 LTI plans are three-year plans. The total remuneration for the financial year, the details of which are shown on page 67, includes an accounting expense for all vested and unvested performance rights calculated using the value of the number of rights that could vest over the three-year performance period of each LTI plan.
8. The FY18 LTI plan has a threshold hurdle of 5% three-year CAGR in EPS. In order to receive the maximum award under the plan an achievement of 25% CAGR is required. The hurdles ensure that Senior Executive reward is aligned with increasing shareholder value, a continuous focus on the successful achievement of long-term strategic goals and long-term retention of key executive management.
9. As outlined in the 2017 Report, the Non-Executive Director fee increases were staged over several years in line with the Company's market capitalisation growth over the period and a review of relevant external benchmarks. The last staged increase was deferred to the fourth quarter of FY17. There was no further increase in FY18 other than increases to statutory superannuation. An additional Non-Executive Director, Jackie McArthur, was appointed during the year.
10. During the year an external Board review was conducted. All Board members and the senior management team were involved. This has provided the Directors with both collective and individual feedback. The board strongly believes that a high performance culture starts in the Boardroom and is committed to a journey of continuous improvement and in holding themselves to the highest standards. The review has helped provide the Board and Senior Management team with some focus areas to action over the coming two years

## FY19 CHANGES

Commencing in October 2018, Jane Franks has been appointed to the new role of Chief People Officer reporting to the CEO. The creation of this new role is the start of a more strategic people function that will ensure a strong link between our business strategy and the organisational structure, skills, capability and culture we need to build. Jane has a proven track record as an experienced HR executive and we look forward to her contribution to Blackmores' continued success.

In our continued move towards a simple balanced scorecard approach for STI awards, the FY19 STI plan will include two additional strategic measures: a China growth measure and a delivery performance measure. These will sit alongside the current measure of NPAT growth performance over the prior year and the strategic measure of Group Net Sales growth performance over the prior year.

The FY19 STI plan will be further enhanced to ensure Senior Executives are only rewarded for achievement of outcomes if they have displayed leadership behaviours during the year in line with Blackmores' values. This will act as a gateway for the FY19 STI.

Non-Executive Director fees will increase by 18% from July 1 2018. The previous increase was April 2017. The FY19 increase represents the final step in closing the significant gap to the median of the comparable benchmark group that opened up as a result of the increase in size and scale of the company in recent years. The Board expects any future increases to fees to be in line with CPI. The total Directors' pool is now $1,000,000. Shareholder approval to increase the pool to $1,300,000 will be included in the 2018 AGM. The projected FY19 annualised Non-Executive Director fees are $1,090,000. Details of Directors' fees are on page 70.

On behalf of the Board and Committee, I invite you to read the 2018 Remuneration Report and welcome your feedback on our approach to and disclosure of Blackmores' remuneration arrangements.

**Helen Nash**
**Chairman, People and Remuneration Committee**

# 2018 Remuneration Report


1. Introduction
2. Senior Executive Remuneration Outcomes Table
3. Remuneration Governance and Framework
4. Senior Executive Remuneration Structure
5. Performance and Remuneration Outcomes
6. Senior Executive Remuneration Tables – Statutory
7. Employment Contracts
8. Non-Executive Directors' Remuneration
9. Non-Executive Directors and Senior Executive Transactions


## 1. INTRODUCTION

The Directors of Blackmores Limited present the Remuneration Report for the Blackmores Group. The report outlines Blackmores' remuneration framework and the outcomes for the year ended 30 June 2018 (FY18) for Blackmores' Key Management Personnel.

The report has been prepared in accordance with the requirements of section 300A of the Corporations Act 2001. In this report the following terms and phrases have the meanings indicated below:

Directors – Executive Directors and Non-Executive Directors.

Executive Directors – Marcus Blackmore and the Chief Executive Officer.

Senior Executives – Executive Directors and the other Company executives who have authority and responsibility for planning, directing and controlling the activities of the Blackmores Group, directly or indirectly.

Key Management Personnel – Non-Executive Directors and Senior Executives.

Exercised – Owned.

Granted – Assigned to, but not yet vested.

Vested – Met performance and service criteria and available to be exercised, but not yet owned.

### Key Management Personnel

The following table lists all the current Key Management Personnel (KMP) and their titles as at 30 June 2018:

| | |
|---|---|
| **Non-Executive Directors** | |
| David Ansell | Non-Executive Director and member of the Audit and Risk Committee and Nominations Committee |
| John Armstrong | Non-Executive Director and member of the Audit and Risk Committee and Nominations Committee |
| Stephen Chapman | Non-Executive Director, Chairman of the Board, Chairman of the Nominations Committee, member of the Audit and Risk Committee and People and Remuneration Committee |
| Jackie McArthur | Non-Executive Director and member of the Nominations Committee (joined 24 April 2018) |
| Helen Nash | Non-Executive Director, Chairman of the People and Remuneration Committee and member of the Nominations Committee |
| Brent Wallace | Non-Executive Director, Chairman of the Audit and Risk Committee, member of the People and Remuneration Committee and Nominations Committee |
| **Executive Directors** | |
| Marcus Blackmore | Executive Director and member of the Nominations Committee |
| Richard Henfrey | Chief Executive Officer, Managing Director and member of the Nominations Committee (effective 29 September 2017) |
| **Senior Executives** | |
| Aaron Canning | Chief Financial Officer |
| David Fenlon | Managing Director Australia and New Zealand |
| Peter Osborne | Managing Director Asia |

# 2.

## SENIOR EXECUTIVE REMUNERATION OUTCOMES TABLE

The following table has been provided to disclose additional non-statutory information to assist shareholders in understanding the total value of the remuneration of Senior Executives, who were KMP of Blackmores during the year.

The table sets out the remuneration that the KMP became entitled to during FY18 and that was either paid or payable during the financial year or will be paid subsequent to the end of the year.

The remuneration outcomes prepared in accordance with accounting standards as required by the Corporations Act 2001 are contained on page 67 of the report. The totals in the statutory remuneration table on page 67 of the report differ to the following table. This is because of the following:

1. Leave movements – the statutory remuneration table shows annual leave and long service leave movements due to an increase in the statutory accruals rather than cash payment.
2. Share-based payments – the accounting standards require the share-based payments expense to be calculated using the fair value of the shares at grant date, amortised over the relevant performance and service period. Included in the statutory remuneration table is the FY18 portion of the fair value of rights granted in FY16, FY17 and FY18 under the LTI plan. Vesting of the FY17 and FY18 rights remains subject to performance and service conditions being met in the future.

The FY16 rights have vested and were valued at $147.49 in the statutory remuneration table. This differs to the following outcomes table, which includes the FY16 LTI awards valued at $142.50, which was the share price on the 30 June 2018 vesting date.

| | SALARY AND FEES | STI AND PROFIT SHARE | NON-MONETARY[1] | OTHER[2] | SUPERANNUATION | TOTAL | EQUITY THAT VESTED DURING 2018[3] | TOTAL REMUNERATION RECEIVED |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **Executive Directors** | | | | | | | | |
| Marcus Blackmore | | | | | | | | |
| **2018** | **110,000** | **29,128** | **16,677** | **2,098** | **15,416** | **173,319** | **232,572** | **405,891** |
| 2017 | 304,573 | 17,356 | 20,521 | 3,260 | 17,708 | 363,418 | 712,830 | 1,076,248 |
| Richard Henfrey | | | | | | | | |
| **2018** | **866,418** | **265,513** | **9,401** | **2,693** | **23,990** | **1,168,015** | **272,390** | **1,440,405** |
| 2017 | 420,586 | 26,482 | 8,060 | 1,784 | 26,124 | 483,036 | 767,899 | 1,250,935 |
| **Senior Executives** | | | | | | | | |
| Aaron Canning | | | | | | | | |
| **2018** | **521,657** | **135,769** | **-** | **2,124** | **23,032** | **682,582** | **278,451** | **961,033** |
| 2017 | 474,542 | 28,433 | 5,815 | 1,675 | 27,616 | 538,081 | 492,918 | 1,030,999 |
| David Fenlon | | | | | | | | |
| **2018** | **558,750** | **122,613** | **46,345** | **2,085** | **20,049** | **749,842** | **-** | **749,842** |
| 2017 | 432,349 | 26,482 | 111,650 | 1,587 | 19,625 | 591,693 | 821,128 | 1,412,821 |
| Peter Osborne | | | | | | | | |
| **2018** | **511,769** | **106,534** | **-** | **-** | **-** | **618,303** | **220,883** | **839,186** |
| 2017 | 363,629 | 29,014 | - | - | - | 392,643 | 625,619 | 1,018,262 |
| Lesley Braun[4] | | | | | | | | |
| 2017 | 279,876 | 17,119 | - | - | 19,618 | 316,613 | 586,519 | 903,132 |
| Nathan Cheong[4] | | | | | | | | |
| 2017 | 316,771 | 20,326 | 18,701 | - | 19,622 | 375,420 | 553,324 | 928,744 |
| Cecile Cooper[4] | | | | | | | | |
| 2017 | 284,765 | 18,222 | 11,652 | 1,882 | 20,384 | 336,905 | 452,776 | 789,681 |
| **Former Executive Director** | | | | | | | | |
| Christine Holgate[5] | | | | | | | | |
| **2018** | **626,089** | **-** | **17,924** | **-** | **5,012** | **649,025** | **-** | **649,025** |
| 2017 | 931,443 | 60,596 | 9,550 | - | 19,616 | 1,021,205 | 3,300,349 | 4,321,554 |
| **Total** | | | | | | | | |
| **2018** | **3,194,683** | **659,557** | **90,347** | **9,000** | **87,499** | **4,041,086** | **1,004,296** | **5,045,382** |
| 2017 | 3,808,534 | 244,030 | 185,949 | 10,188 | 170,313 | 4,419,014 | 8,313,362 | 12,732,376 |

1. 'Non-monetary' includes motor vehicle benefits and any fringe benefits tax paid on these benefits.
2. 'Other' includes insurance and superannuation membership fees.
3. The equity that vested in FY18 relates to the FY16 LTI grant. The value disclosed is based on the share price on the vesting date 30 June 2018. Mr Blackmore received his LTI as a cash equivalent in lieu of shares.
4. Lesley Braun, Nathan Cheong and Cecile Cooper were Senior Executives during FY17. Lesley Braun and Cecile Cooper remained members of the Executive Team in FY18.
5. Christine Holgate resigned 29 September 2017.

# 2018 Remuneration Report

# 3.

## REMUNERATION GOVERNANCE AND FRAMEWORK

### Remuneration Governance

**People and Remuneration Committee**

The primary responsibility of the People and Remuneration Committee (the 'Committee') is to make recommendations to the Board on remuneration strategy and policy for KMP and other executives of Blackmores that are in the best interests of Blackmores and its shareholders. This includes recommendations related to Non-Executive Director Fees, executive remuneration and short-term incentive (STI) and long-term incentive (LTI) schemes. The Committee also advises the Board on remuneration policies and practices for the Company. The responsibilities of the People and Remuneration Committee are set out in the Committee's charter, which can be viewed or downloaded from the Company's website at blackmores.com.au (go to 'Investor Centre', then click on 'Corporate Governance'). The charter is reviewed annually by the Committee and the Board.

The People and Remuneration Committee comprises three independent Non-Executive Directors who have experience in both remuneration governance and the Blackmores business. The members during FY18 were Helen Nash (Committee Chairman), Stephen Chapman and Brent Wallace.

**Advisors to the Committee**

The People and Remuneration Committee has established protocols for engaging and dealing with external advisors and these are included in the Committee's charter. The Committee obtains specialist external advice about remuneration structure and levels. The advice is used to support its assessment of the market to ensure that Senior Executives and Non-Executive Directors are being rewarded appropriately, given their responsibilities and experience. Executive remuneration packages are also reviewed annually against suitable benchmarks to ensure that an appropriate balance between fixed and incentive pay is achieved.

During the financial year, the Committee used KPMG to provide advice on performance based remuneration. The Board was satisfied that the advice received was free from any undue influence by KMP to whom the advice may relate, as the established protocols were observed and complied with and all remuneration advice and recommendations were provided to the Committee Chairman. The fee paid for the service was $30,000.

### Remuneration Framework

The remuneration framework links remuneration to both the Group's performance and the individual's performance and behaviour and provides the opportunity to share in the success and profitability of Blackmores in alignment with increased shareholder wealth. The remuneration framework is included in Blackmores' remuneration structure and policies and the key elements of this framework are illustrated here:

**Blackmores' Remuneration Framework**

Rewards for the achievement of strategic goals, financial targets and operational performance

Attracts and retains talented Senior Executives and Directors

Aligns Senior Executives to the enhancement of Blackmores' earnings and shareholder wealth

**BLACKMORES REMUNERATION STRUCTURE**

**Fixed Remuneration – Not at Risk Component**

**Fixed Remuneration** – It is targeted to be reasonable and fair, taking into account Senior Executives' responsibilities and experience benchmarked against companies with relative size and scale of Blackmores' operations.

**Performance-based Remuneration – At Risk Component**

**Short-term incentives (STI)** – comprise cash payments linked to clearly-specified annual Group targets and individual objectives and behaviours. This element of remuneration is considered to be an effective tool in promoting the interests of Blackmores and its shareholders. The STI scheme is designed around appropriate performance benchmarks based primarily on Blackmores' NPAT performance relative to the prior year and requires the achievement of year-on-year growth.

**Staff Share Plan** – Participation is open to Senior Executives as well as all permanent staff. Under the plan, staff can elect annually to participate and purchase shares. At the end of the financial year, Blackmores provides an additional benefit by matching these purchased shares on a pre-determined matching ratio subject to capping of the total cost. Exercise of the matched shares is at no cost and vesting takes place once the service condition has been met.

**Profit share** – Executive Directors and Senior Executives participate in the same cash based profit share plan as all permanent staff. The scheme allocates up to 10% of Group NPAT to eligible employees.

**Long-term incentives (LTI)** – Participation is open to Executive Directors and Senior Executives determined to be eligible by the Board. Under this plan, rights to acquire shares in Blackmores are granted annually to eligible Senior Executives at no cost and vest provided specific performance hurdles are met. Marcus Blackmore's incentive is a cash-based equivalent.

**Special long-term incentives (SLTI)** – From time to time the Board may offer 'one-off' SLTIs to particular Executive Directors and Senior Executives in addition to the LTI. There are currently no SLTIs in place.

# 2018 Remuneration Report

## 4.

### SENIOR EXECUTIVE REMUNERATION STRUCTURE

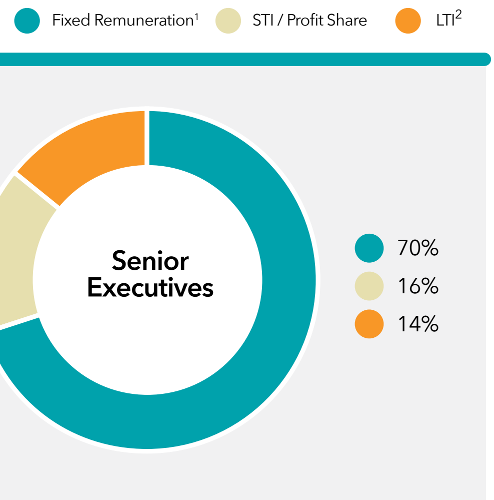
#### Executive Remuneration Mix

In determining the mix of Senior Executive remuneration, the Board aims to find a balance between:

- fixed (not at risk) and performance (at risk) remuneration
- short and long-term remuneration
- remuneration paid in cash and deferred equity.

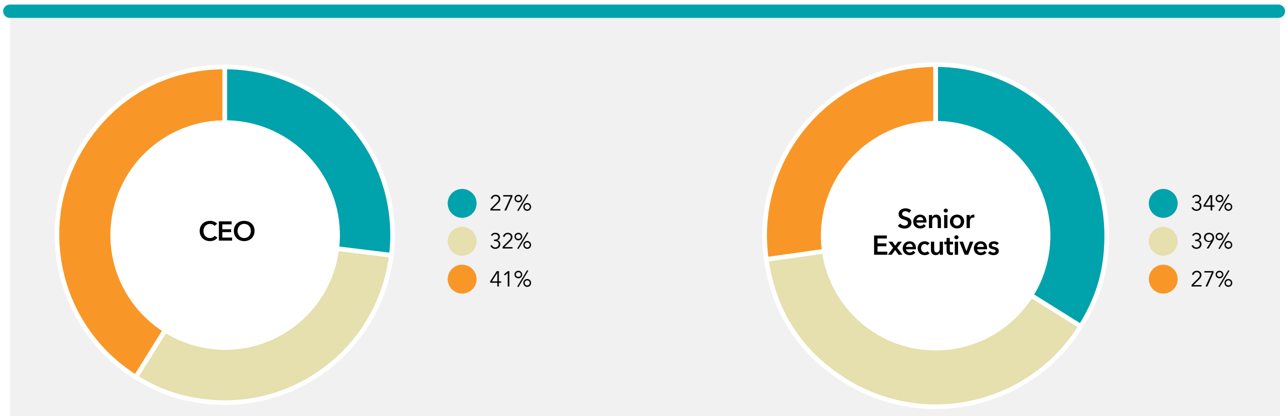
Blackmores' target of fixed and at risk components of the current Senior Executives disclosed in the report as a percentage of total target annual remuneration for FY18 is as follows:

#### On Target Remuneration Mix




At maximum levels of STI and LTI the mix of remuneration elements expressed as a % of total remuneration[3] is as follows:

#### Remuneration Mix at Maximum Reward




1. Fixed remuneration includes cash, non-monetary benefits and superannuation.
2. Total is the Aggregate Reward (Fixed Remuneration plus STI plus Profit Share plus LTI).
3. LTI value is expressed as the % of Fixed Annual Remuneration as at the start of the three-year performance period.

#### Fixed Annual Remuneration (FAR)

FAR includes base salary, non-monetary benefits (including fringe benefits tax and superannuation).

The Committee and the Board conduct an annual review of remuneration at the end of each financial year for Senior Executives. The process incorporates a comprehensive assessment of market benchmarking, and individual and Company performance. In addition to the annual review of remuneration, Senior Executives received increases during the year due to organisation changes and redefined roles and responsibilities.

## Short-term Incentives (STI) – Performance Conditions

Specific information relating to the actual annual performance awards is set out in the table on page 68.

**What is the annual incentive and who is eligible to participate?**

The STI plan provides eligible employees with a reward for annual performance against measured targets set at the beginning of the performance period. Eligible employees include the Executive Directors, Senior Executives and other nominated employees.

**What is the amount the eligible employee can earn?**

| | Executive Director | Chief Executive Officer | Senior Executives |
|---|---|---|---|
| Year-on-year Net Sales /NPAT Growth | % of FAR | | |
| Threshold | 0% | 0% | 0% |
| | Sliding scale | Sliding scale | Sliding scale |
| Maximum | 80% | 100% | 100% |

**What were the performance conditions for FY18?**

| Measures | Executive Director | Chief Executive Officer | Senior Executives |
|---|---|---|---|
| **Financial measures:** | | | |
| Group NPAT achievement of growth over prior year | 80% | 80% | 80% |
| Group Net Sales achievement of growth over prior year | 20% | 20% | 20% |
| **Individual objectives:**<br>Financial (i.e. revenue, new product launches and other specific objectives)<br>Non-financial measures (i.e. safety, employee engagement and other agreed objectives) | N/A | Personal multiplier of 0 – 1.25 applied to the outcome of financial measures | Personal multiplier of 0 – 1.25 applied to the outcome of financial measures |

**Why were these performance measures chosen?**

NPAT performance over prior year is a well-recognised measure of financial performance and a key driver of shareholder returns. It is the primary measure considered by Directors in determining the level of dividend payments to shareholders.

In FY18, the Directors added a strategic measure in the STI plan. For FY18, the measure that was considered most important was Net Sales growth over prior year.

Using both NPAT and Net Sales as an incentive performance measure ensures that incentive payments are aligned with Blackmores' business strategy and objectives.

The incentive targets are set by the Board at levels designed to reward superior performance.

A requirement of NPAT and Net Sales growth over prior year aligns remuneration outcomes with shareholders' expectations.

Individual performance was selected as a secondary performance condition to ensure that Senior Executives have clear objectives and performance indicators that are linked to Blackmores' performance.

Blackmores' policy is that STIs will only be awarded when Blackmores meets agreed performance hurdles. In addition, Senior Executives are not awarded any STI in the instance of the lowest personal performance assessment.

**When are performance conditions tested?**

NPAT and Net Sales are calculated by Blackmores at the end of the financial year, verified by Blackmores' auditors and published in the Group's Financial Statements before any payment is made. This method was chosen to ensure transparency and consistency with disclosed information.

The person to whom a Senior Executive reports assesses that individual's performance by reviewing his or her individual objectives, key tasks and performance indicators and the extent to which they have been achieved. Individual objectives are set at the start of each financial year and are formally reviewed every six months. The Board reviews performance assessments for KMP.

| | |
|---|---|
| Does the Board have an Executive Clawback Policy? | The Board has adopted a Clawback Policy that is applicable to KMP with a view to further aligning the interests of KMP with the long-term interests of Blackmores. In the event of any deliberate misstatement or manipulation of results in the Financial Statements for any of the immediately preceding three financial years, after assessment, the Board may require that KMP to repay all or a part of the STI award and withhold the payment or allocation of all or a part of an unpaid STI. |

### Staff Share Plan – Performance Conditions and Operation

Specific information relating to the actual annual performance awards is set out in the table on page 68.

| | |
|---|---|
| What is the annual incentive and who is eligible to participate? | All eligible permanent staff in the Group, including Senior Executives, can elect to contribute between $1,000 and $10,000 to be used to purchase shares in the Company. At the end of the financial year, the Company will provide a benefit by applying a matching ratio to the shares purchased by each participant for that financial year. |
| What is the amount the Senior Executive can earn? | The total benefit an Executive can earn is determined by the number of matched shares the Company will provide. This number is subject to capping and a maximum cost to the Company. |
| What were the performance conditions for FY18? | For FY18, the Company will match one share for every three shares purchased during the financial year. For FY18 the Board has capped the total cost to the Company for the matched shares at $500,000. An executive must be employed by the Company at 30 June 2018 and have purchased shares during the year which remain in the plan. |
| Why were these performance measures chosen? | Senior Executives increase their shareholding in Blackmores, their interests become more directly aligned with those of Blackmores' other shareholders. |
| When are performance conditions tested? | Matched shares are provided each July following completion of the annual service period. |

### Profit Share – Performance Conditions and Operation

Specific information relating to the actual annual performance awards is set out in the table on page 68.

| | |
|---|---|
| What is the annual incentive and who is eligible to participate? | All eligible permanent staff in the Group, including Senior Executives, participate in a profit share plan, whereby up to 10% of Group NPAT is allocated to all eligible permanent Group staff on a pro-rata basis by reference to their Fixed Annual Remuneration. The profit share plan is in addition to the STI award. |
| What is the amount the Senior Executive can earn? | The amount distributed is a percentage of Group NPAT. As the amount is distributed on a pro-rata basis, the amount earned in any year depends on both the Group NPAT achievement and the total number of employees and salaries in the calculation. The approximate maximum amount of Fixed Annual Remuneration that can be earned is 17%. |
| What were the performance conditions for FY18? | Under the Company's Collective Agreement, 7.5% of Group NPAT is allocated and an additional 2.5% of Group NPAT is allocated conditional on the achievement of Group NPAT growth on the prior financial year. |
| Why were these performance measures chosen? | NPAT is a well-recognised measure of financial performance and a key driver of shareholder returns. Using NPAT as an incentive performance measure ensures that incentive payments are aligned with Blackmores' business strategy and objectives. |
| When are performance conditions tested? | Profit share is paid twice a year based on Blackmores' NPAT calculation.<br>All employees, including Senior Executives, may purchase up to $1,000 of Blackmores shares each year under the Staff Share Acquisition Plan with money that would have otherwise been received under the profit share plan. |

## Long-term Incentives (LTI) – Performance Conditions

Specific information relating to the actual annual performance awards is set out in the table on page 68.

| | |
|---|---|
| What is the annual incentive and who is eligible to participate? | Eligible employees are invited annually by the Board to participate in the Executive Performance Share Plan (EPSP). Under this plan, eligible employees are granted rights to acquire shares in Blackmores.<br>Eligible employees include the Executive Directors, Senior Executives and other nominated employees. |

What is the amount the eligible employee can earn?

| | Chief Executive Officer | Executive Director and Senior Executives |
|---|---|---|
| % of target performance | % of FAR | |
| Less than 5.0% | 0% | 0% |
| 5.0% | 25% | 10% |
| 5.0% to 10.0% | Sliding scale | Sliding scale |
| 10.0% | 50% | 20% |
| 10.0% to 25.0% | Sliding scale | Sliding scale |
| 25.0% | 150% | 80% |

| | |
|---|---|
| What was the performance condition for FY18? | The performance condition is the three-year CAGR in EPS. The performance period for measuring EPS growth is three years (FY18 to FY20). |
| Why were these performance measures chosen? | In determining the performance conditions for Blackmores' LTI plan, the Board has recognised EPS growth to be the key driver of shareholder value, influencing both share price and the capacity to pay increased dividends.<br>Growth in EPS is simple to calculate and basing the vesting of rights on EPS growth encourages Senior Executives to improve Blackmores' financial performance. As Senior Executives increase their shareholding in Blackmores through awards received under the EPSP, their interests become more directly aligned with those of Blackmores' other shareholders. |
| How does the EPSP operate? | The value of rights granted to eligible employees is equivalent to a percentage of their base remuneration at the time of grant.<br>The number of rights granted equals the value of rights divided by:<br>• the weighted average price of Blackmores' shares for the five-day trading period commencing seven days after Blackmores' results in respect of the prior financial year are announced to the ASX, less<br>• the amount of any final dividend per share declared as payable in respect of the prior financial year.<br>The rights will automatically exercise following vesting, audit clearance of the 2020 Financial Statements, Board approval and the first trading window. These Blackmores shares are issued to participants at zero cost.<br>The number of shares issued is identical to the number of rights exercised.<br>In the case of the Executive Director, Marcus Blackmore, a cash equivalent is paid in lieu of shares. Where regulations prohibit an equity-based plan, a cash equivalent is awarded. |
| When are performance conditions tested? | Compounded annual growth in EPS is calculated at the end of the three-year performance period and verified with reference to Blackmores' audited Financial Statements prior to determining the number of rights that will vest. This method was chosen as it is an objective test that is easy to calculate and ensures transparency and consistency with public disclosures. |
| What happens if the eligible employee ceases employment during the performance period? | If an executive ceases employment during the three-year performance period, the rights lapse. In certain circumstances the Board has discretion to allow a portion of rights to vest for a 'good leaver'. |
| Does the Board have an Executive Clawback Policy? | The Board has adopted a Clawback Policy that is applicable to KMP with a view to further aligning the interests of KMP with the long-term interests of Blackmores. In the event of any deliberate misstatement or manipulation of results in the Financial Statements for any of the immediately preceding three financial years, after assessment, the Board may require KMP to repay all or a part of the LTI Award, forfeit all or any unvested LTI; and withhold all or part LTI to the extent it has not been given to that KMP. |

# 2018 Remuneration Report

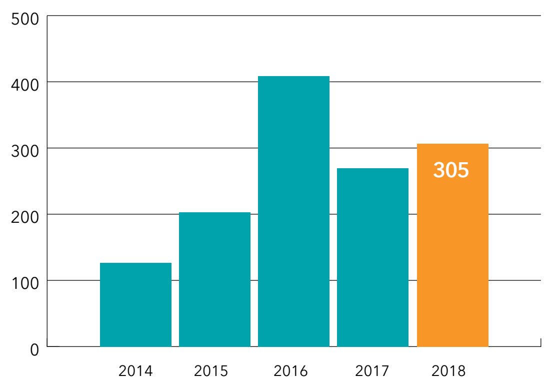
# 5.

## PERFORMANCE AND REMUNERATION OUTCOMES

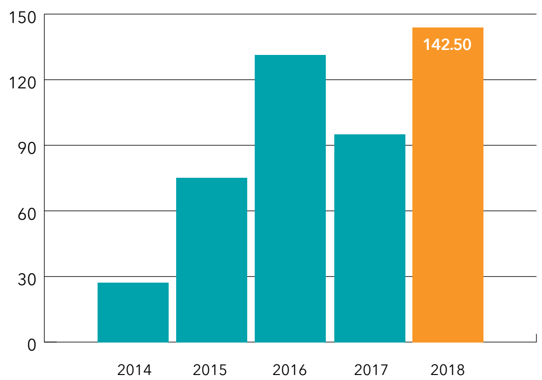
### Performance Incentives – Actual Performance 2018 Financial Year

The actual performance is illustrated in the charts below:

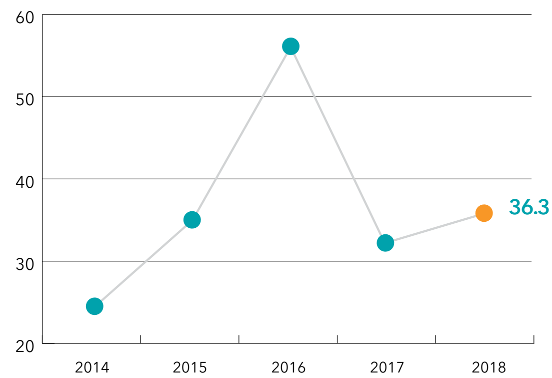
DIVIDEND PER SHARE (CENTS)




SHARE PRICE ($)




RETURN ON EQUITY (%)




### Short-term Incentives (STI)

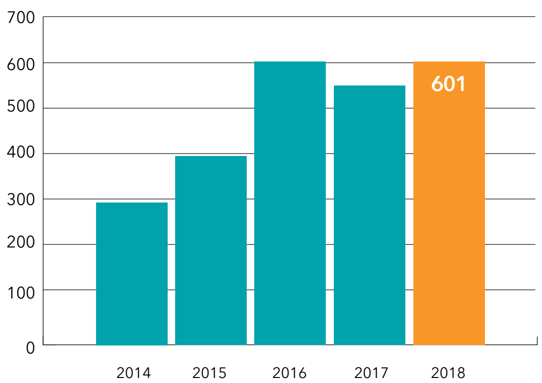
Similar to previous years, NPAT achievement was selected as the Group performance measure for the STI awards in respect of FY18. Commencing in FY18, the Directors included an additional strategic measure for the STI awards to align with the key strategic objectives in a year. In respect of FY18 the Directors selected Net Sales achievement as the strategic measure.

Blackmores FY18 NPAT of $70 million represented a 19% increase on prior year and FY18 Net Sales of $601 million represented a 9% increase on prior year and were "on target" set by the Board for FY18.

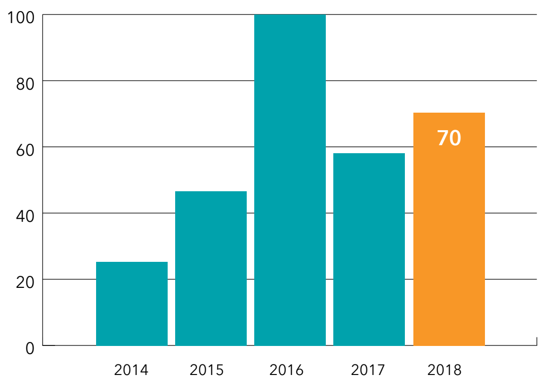
As a result, "on target" STIs were awarded to the Senior Executives. The amount awarded for the FY18 STI was $400,991 (2017: $nil). This award is included under the 'STI and Profit Share' column in the remuneration disclosures table on page 67.

Blackmores' NPAT and Net Sales over the past five years are shown in the following graphs:

NET SALES ($M)




NPAT ($M)



# 2018 Remuneration Report

### Long-term Incentives (LTI)

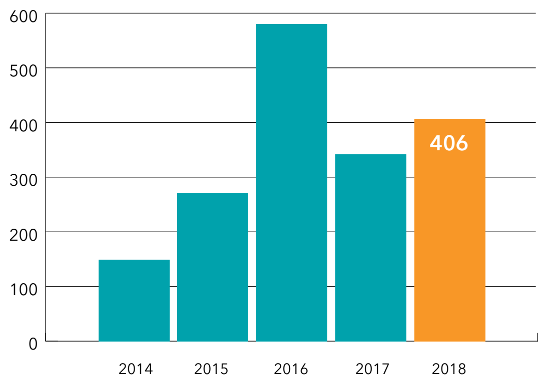
Similar to previous years, EPS achievement was selected as the Group performance measure for the LTI awards in respect of FY18.

The LTI plan includes a three-year performance period. The FY16 LTI awards were eligible to vest in FY18 at 78% of the maximum potential. The FY17 and FY18 awards were not eligible to vest in the current year.

The total remuneration for the financial year, the details of which are shown on page 67, includes an accounting expense of $935,849 (2017: $960,764) for these performance rights. This amount has been calculated based on an assessment of the achievement of the performance hurdle over the three-year performance period and represents one-third of the total value of the unvested rights. In the case of the Executive Director Marcus Blackmore, the incentive is paid in cash.

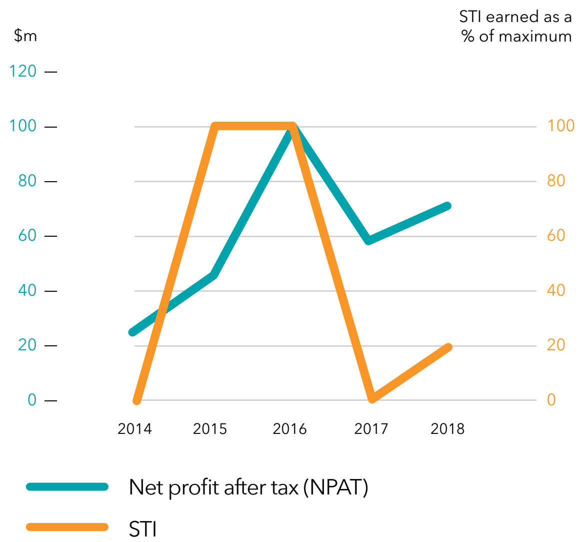
Blackmores' EPS over the past five years is shown in this graph.

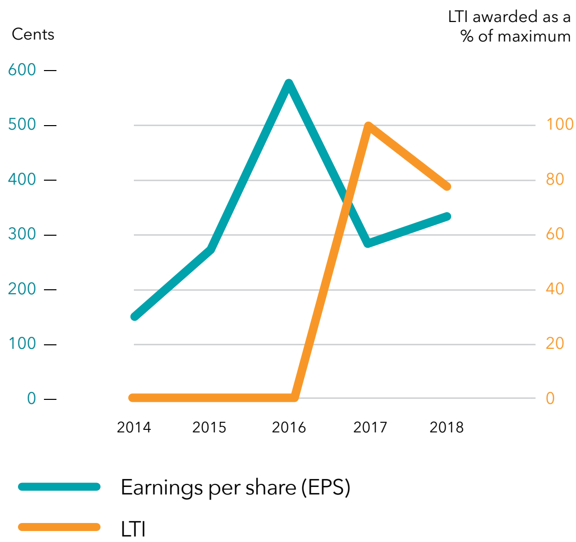
**EPS (CENTS)**




### CEO Remuneration Outcomes – Five Year History

The Group's remuneration framework is designed to reward Senior Executives based on the achievement of the Group's performance goals and to share in the success and profitability of Blackmores in alignment with increased shareholder wealth. The history of the CEO performance-related remuneration over the past five years illustrates this linkage to business performance. Richard Henfrey was appointed CEO during FY18. The FY18 LTI award is the incentive plan for his prior role as a Senior Executive.



# 6.

## SENIOR EXECUTIVE REMUNERATION TABLES – STATUTORY

### Statutory Remuneration Table

The following table discloses the remuneration outcomes of the Senior Executives of Blackmores for the financial year ended 30 June 2018. The table has been prepared in accordance with Section 300A of the Corporations Act 2001 and has been audited.

The amounts in the statutory tables differ to the remuneration table on page 59 because of the following:

1. **Leave movements** – annual leave and long service leave movements due to an increase in the statutory accruals rather than cash payments.
2. **Share-based payments** – the accounting standards require share-based payments expense to be calculated using the fair value of the shares at grant date, amortised over the relevant performance and service period. The statutory remuneration table includes the accounting value for LTI grants for FY16 which have vested, and FY17 and FY18, which have not yet vested.

| | SHORT-TERM EMPLOYMENT BENEFITS | | | | POST-EMPLOYMENT BENEFITS | OTHER LONG-TERM EMPLOYMENT BENEFITS | SHARE-BASED PAYMENT | |
|---|---|---|---|---|---|---|---|---|
| | SALARY AND FEES $ | STI AND PROFIT SHARE[1] $ | NON-MONETARY[2] $ | OTHER[3] $ | SUPER-ANNUATION $ | OTHER[4] $ | PERFORMANCE RIGHTS[5,6] $ | TOTAL $ |
| **Executive Directors** | | | | | | | | |
| Marcus Blackmore | | | | | | | | |
| **2018** | **110,000** | **29,128** | **16,677** | **2,098** | **15,416** | **-** | **148,130** | **321,449** |
| 2017 | 169,165 | 17,356 | 20,521 | 23,537 | 17,708 | 2,599 | 582,116 | 833,002 |
| Richard Henfrey | | | | | | | | |
| **2018** | **826,959** | **265,513** | **9,401** | **73,899** | **23,990** | **99,270** | **390,989** | **1,690,021** |
| 2017 | 391,626 | 26,482 | 8,060 | 34,823 | 26,124 | 9,700 | 130,433 | 627,248 |
| **Senior Executives** | | | | | | | | |
| Aaron Canning | | | | | | | | |
| **2018** | **475,777** | **135,769** | **-** | **43,697** | **23,032** | **4,544** | **180,676** | **863,495** |
| 2017 | 435,717 | 28,433 | 5,815 | 38,551 | 27,616 | 2,023 | 113,941 | 652,096 |
| David Fenlon | | | | | | | | |
| **2018** | **522,042** | **122,613** | **46,345** | **53,043** | **20,049** | **7,966** | **71,306** | **843,364** |
| 2017 | 409,158 | 26,482 | 111,650 | 34,627 | 19,625 | 2,989 | 72,026 | 676,557 |
| Peter Osborne | | | | | | | | |
| **2018** | **471,473** | **106,534** | **-** | **55,466** | **-** | **-** | **144,748** | **778,221** |
| 2017 | 346,485 | 29,014 | - | 27,611 | - | - | 99,415 | 502,525 |
| Lesley Braun[7] | | | | | | | | |
| 2017 | 265,998 | 17,119 | - | 27,693 | 19,618 | 1,949 | 93,140 | 425,517 |
| Nathan Cheong[7] | | | | | | | | |
| 2017 | 312,613 | 20,326 | 18,701 | 35,537 | 19,622 | 4,383 | 94,564 | 505,746 |
| Cecile Cooper[7] | | | | | | | | |
| 2017 | 260,630 | 18,222 | 11,652 | 32,011 | 20,384 | 22,119 | 81,841 | 446,859 |
| **Former Executive Director** | | | | | | | | |
| Christine Holgate[8] | | | | | | | | |
| **2018** | **520,384** | **-** | **17,924** | **50,941** | **5,012** | **(89,729)** | **-** | **504,532** |
| 2017 | 856,348 | 60,596 | 9,550 | 86,323 | 19,616 | 18,183 | (306,712) | 743,904 |
| **Total** | | | | | | | | |
| **2018** | **2,926,635** | **659,557** | **90,347** | **279,144** | **87,499** | **22,051** | **935,849** | **5,001,082** |
| 2017 | 3,447,740 | 244,030 | 185,949 | 340,713 | 170,313 | 63,945 | 960,764 | 5,413,454 |

1. STI and Profit Share includes amounts paid by way of profit share on 13 December 2017 and 13 June 2018.
2. Non-monetary includes motor vehicle benefits and any fringe benefits tax paid on these benefits.
3. Other shown in short-term employment benefits relates to provisions for annual leave.
4. Other shown in long-term employment benefits relates to provisions for long service leave.
5. FY18 share-based payments includes the LTI plan and represent the FY18 portion of the fair value of rights granted in FY16, FY17 and FY18. The FY16 rights have vested. Vesting of the FY17 and FY18 rights remains subject to performance and service conditions as outlined on page 64. Marcus Blackmore's LTI plan is paid as a cash equivalent in lieu of shares. Mr Blackmore's performance rights are proportionately lower than other KMP as his rights are valued on the share price at 30 June 2018 ($142.50). The rights of other KMP are valued at fair value at grant date. This difference reflects Mr Blackmore's LTI plan being paid as a cash equivalent.
6. FY18 share-based payments include the Staff Share Plan and represent the FY18 portion of the fair value of rights granted in FY17 and FY18. Vesting of the FY18 plan remains subject to service conditions as outlined on page 64.
7. Lesley Braun, Nathan Cheong and Cecile Cooper were Senior Executives during FY17. Lesley Braun and Cecile Cooper remained members of the Executive Team in FY18.
8. Christine Holgate resigned 29 September 2017. Ms Holgate's FY17 Performance Rights represent the combination of (a) reversal of the fair value of share-based payments expensed in prior financial years that were forfeited by her as the service period was not met owing to her resignation and (b) the FY17 portion of the fair value awards granted to Ms Holgate in previous years expensed during FY17.

# 2018 Remuneration Report

## Performance Related Remuneration

### Statutory Performance Related Remuneration Table

The following table shows an analysis of the non-performance and performance related (STI, Profit Share and LTI) components of the FY18 remuneration mix detailed in the Statutory Remuneration table.

| | NON-PERFORMANCE RELATED REMUNERATION[1] % | STI AND PROFIT SHARE % | PERFORMANCE RIGHTS[2,3] % | TOTAL PERFORMANCE RELATED REMUNERATION % |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Marcus Blackmore | | | | |
| **2018** | **44.9%** | **9.1%** | **46.1%** | **55.1%** |
| 2017 | 28.0% | 2.1% | 69.9% | 72.0% |
| Richard Henfrey | | | | |
| **2018** | **61.2%** | **15.7%** | **23.1%** | **38.8%** |
| 2017 | 75.0% | 4.2% | 20.8% | 25.0% |
| **Senior Executives** | | | | |
| Aaron Canning | | | | |
| **2018** | **63.4%** | **15.7%** | **20.9%** | **36.6%** |
| 2017 | 78.2% | 4.4% | 17.5% | 21.8% |
| David Fenlon | | | | |
| **2018** | **77.0%** | **14.5%** | **8.5%** | **23.0%** |
| 2017 | 85.4% | 3.9% | 10.6% | 14.6% |
| Peter Osborne | | | | |
| **2018** | **67.7%** | **13.7%** | **18.6%** | **32.3%** |
| 2017 | 74.4% | 5.8% | 19.8% | 25.6% |
| Lesley Braun[4] | | | | |
| 2017 | 74.1% | 4.0% | 21.9% | 25.9% |
| Nathan Cheong[4] | | | | |
| 2017 | 77.3% | 4.0% | 18.7% | 22.7% |
| Cecile Cooper[4] | | | | |
| 2017 | 77.6% | 4.1% | 18.3% | 22.4% |
| **Former Executive Director** | | | | |
| Christine Holgate[5] | | | | |
| 2017 | 133.1% | 8.1% | -41.2% | -33.1% |
| **Total** | | | | |
| **2018** | **68.1%** | **13.2%** | **18.7%** | **31.9%** |
| 2017 | 77.7% | 4.5% | 17.7% | 22.3% |

1. Non-performance related remuneration includes the accounting expense from all of the columns in the 'Statutory Remuneration Table' other than 'STI and Profit Share' and the LTI 'Performance Rights'.
2. Performance Rights includes the LTI plan and represents the FY18 accounting expense of the FY18 portion of the rights granted in FY16, FY17 and FY18.
3. Performance Rights includes the Staff Share Plan and represents the FY18 accounting expense of the FY18 portion of the rights granted in FY18.
4. Lesley Braun, Nathan Cheong and Cecile Cooper were Senior Executives during FY17. Lesley Braun and Cecile Cooper remained members of the Executive Team in FY18.
5. Christine Holgate resigned 29 September 2017.

## Short-term Incentives

The following tables show the details of the STI cash bonuses awarded as remuneration to Executive Directors for the financial year ended 30 June 2018.

| | STI[1,2] | | | |
|---|---|---|---|---|
| | INCLUDED IN REMUNERATION[3] | PERSONAL MULTIPLIER | % OF STI AWARD AS A MAXIMUM STI AWARD | % OF MAXIMUM STI AWARD FORFEITED[4] |
| **Executive Directors** | | | | |
| Marcus Blackmore | 18,128 | 1.0 | 15 | 85 |
| Richard Henfrey | 172,518 | 0.8 | 19 | 81 |
| **Senior Executives** | | | | |
| Aaron Canning | 82,012 | 1.0 | 15 | 85 |
| David Fenlon | 69,349 | 0.8 | 12 | 88 |
| Peter Osborne | 58,984 | 0.8 | 12 | 88 |

1. The awards are paid according to the table on page 62.
2. The maximum potential award was not achieved in respect of Group financial measure being Group NPAT achievement over prior year and Net Sales achievement of prior year. Senior Executives have the ability to earn a personal multiplier on the achievement of individual objectives. The maximum multiplier is 1.25.
3. Amounts included in remuneration for the financial year represent the amount related to the financial year based on achievement of personal goals and satisfaction of performance criteria. The Committee approved these amounts on 7 August 2018.
4. Amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

## Share-based Payments

The table below outlines the rights over ordinary shares in the Company that were granted as compensation to Executive Directors and Senior Executives during FY18 and FY17. The fair value of awards is calculated in accordance with AASB 2 Share-based Payments.

### (a) LTI Plan

| NAME | GRANT | | | | | | VESTED | | | | EXERCISED[6] | | END OF HOLDING LOCK | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | DATE | NUMBER OF RIGHTS | FAIR VALUE PER RIGHT $ | TOTAL FAIR VALUE[1] $ | SHARE PRICE $ | MAXIMUM VALUE[2] $ | DATE | NUMBER OF RIGHTS[3] | % OF NUMBER GRANTED | VALUE[4] $ | NUMBER OF RIGHTS | VALUE[5] | DATE | VALUE OF RIGHTS NOT VESTED $ |
| **Executive Director** | | | | | | | | | | | | | | |
| Richard Henfrey | 7/11/14 | 8,012 | 25.22 | 202,063 | 32.22 | 258,147 | - | - | - | - | 8,012 | 877,314 | 08/17 | - |
| | 24/11/15 | 2,452 | 147.49 | 361,645 | 179.50 | 440,134 | 30/6/18 | 1,912 | 78% | 282,001 | - | - | 08/18 | - |
| | 17/11/16 | 3,045 | 99.19 | 302,034 | 113.90 | 346,825 | - | - | - | - | - | - | 08/19 | 346,825 |
| | 17/11/17 | 12,852 | 144.39 | 1,855,700 | 162.13 | 2,083,695 | - | - | - | - | - | - | 08/20 | 2,083,695 |
| **Senior Executives** | | | | | | | | | | | | | | |
| Aaron Canning | 10/12/14 | 5,143 | 28.92 | 148,736 | 32.65 | 167,919 | - | - | - | - | 5,143 | 563,159 | 08/17 | - |
| | 24/11/15 | 2,507 | 147.49 | 369,757 | 179.50 | 450,007 | 30/6/18 | 1,954 | 78% | 288,195 | - | - | 08/18 | - |
| | 17/11/16 | 3,383 | 99.19 | 335,560 | 113.90 | 385,323 | - | - | - | - | - | - | 08/19 | 385,323 |
| | 17/11/17 | 3,824 | 144.39 | 552,147 | 162.13 | 619,985 | - | - | - | - | - | - | 08/20 | 619,985 |
| David Fenlon | 7/11/14 | 8,568 | 25.22 | 216,085 | 32.22 | 276,061 | - | - | - | - | 8,568 | 938,196 | 08/17 | - |
| | 17/11/16 | 3,045 | 99.19 | 302,034 | 113.90 | 346,825 | - | - | - | - | - | - | 08/19 | 346,825 |
| | 17/11/17 | 3,716 | 144.39 | 536,553 | 162.13 | 602,475 | - | - | - | - | - | - | 08/20 | 602,475 |
| Peter Osborne | 7/11/14 | 6,528 | 25.22 | 164,636 | 32.22 | 210,332 | - | - | - | - | 6,528 | 714,816 | 08/17 | - |
| | 24/11/15 | 1,986 | 147.49 | 292,915 | 179.50 | 356,487 | 30/6/18 | 1,550 | 78% | 228,610 | - | - | 08/18 | - |
| | 17/11/16 | 2,352 | 99.19 | 233,295 | 113.90 | 267,892 | - | - | - | - | - | - | 08/19 | 267,892 |
| | 17/11/17 | 2,935 | 144.39 | 423,785 | 162.13 | 475,851 | - | - | - | - | - | - | 08/20 | 475,851 |
| **Former Executive Director** | | | | | | | | | | | | | | |
| Christine Holgate | 7/11/14 | 34,436 | 25.22 | 868,476 | 32.22 | 1,109,528 | - | - | - | - | 34,436 | 3,770,742 | 08/17 | - |

1. The total value of rights granted in the year is the fair value of the rights calculated at the time of grant. This amount is allocated to remuneration over the vesting period (i.e. FY18 grant over 1 July 2017 to 30 June 2020).
2. Disclosure of maximum value is required under Section 300A of the Corporations Act 2001. The value disclosed represents the underlying value of shares at the time of grant multiplied by the number of rights granted to each individual. The minimum value of rights awarded is zero if performance conditions are not achieved.
3. The number of rights vested is equal to the number of rights exercised and the number of shares issued; vesting occurs on 30 June and shares are issued in September following audit clearance of the Group's results and Board approval.
4. Value of rights vested is equal to the fair value per right multiplied by the number of rights vested
5. Value of rights at exercise is equal to the number of rights exercised multiplied by the share price at exercise date.
6. Rights were exercised under the FY15 plan in August 2017.

### (b) Staff Share Plan

| | GRANT | | | | VESTED | | | EXERCISED | |
|---|---|---|---|---|---|---|---|---|---|
| NAME | DATE | NUMBER OF RIGHTS | FAIR VALUE PER RIGHT $ | TOTAL FAIR VALUE[1] $ | DATE | NUMBER OF RIGHTS[2] | % OF NUMBER GRANTED | NUMBER OF RIGHTS | VALUE $ |
| **Executive Director** | | | | | | | | | |
| Richard Henfrey | 31/7/16 | 31 | 152.58 | 4,730 | 31/7/17 | 31 | 100% | 31 | 2,744 |
| **Senior Executives** | | | | | | | | | |
| Aaron Canning | 31/7/16 | 31 | 152.58 | 4,730 | 31/7/17 | 31 | 100% | 31 | 2,744 |
| | 31/7/17 | 25 | 86.21 | 2,155 | 31/7/18 | - | - | - | - |
| Peter Osborne | 31/7/17 | 25 | 86.21 | 2,155 | 31/7/18 | - | - | - | - |

1. The total value of rights granted in the year is the fair value of the rights calculated at the time of grant. This amount is allocated to remuneration over the vesting period (i.e. FY18 grant over 1 July 2017 to 31 July 2018).
2. Rights were exercised under the FY15 plan in August 2017.

# 7.

## EMPLOYMENT CONTRACTS

The remuneration and other terms of employment are covered in employment contracts. No contract is for a fixed term.

### Termination

Executive Directors' and Senior Executives' contracts can be terminated by Blackmores or the Senior Executive providing notice periods as shown in the following table.

<table>
<tr><th>Name</th><th colspan="2">Notice periods/Termination payment</th></tr>
<tr><td>Richard Henfrey[1]</td><td colspan="2">Six months' notice (or payment in lieu) including redundancy.<br>May be terminated immediately for serious misconduct.</td></tr>
<tr><td rowspan="6">Executive Director and Senior Executives[2]</td><td colspan="2">Three months' notice (or payment in lieu).<br>May be terminated immediately for serious misconduct.</td></tr>
<tr><td colspan="2">Redundancy Payments</td></tr>
<tr><td>Years of continuous service</td><td>Notice periods/Termination payments.</td></tr>
<tr><td>Up to one year</td><td>Two weeks' pay.</td></tr>
<tr><td>Between one and 10 years</td><td>Two weeks' pay plus an additional three weeks of pay for each completed year of service.</td></tr>
<tr><td>10 years or more</td><td>29 weeks' pay plus an additional three weeks of pay for each completed year of service following 10 years capped at a maximum of 52 weeks of pay.</td></tr>
</table>

1. For the purposes of calculating the amount payable for Senior Executives, one week of pay is the average amount received by the individual as wages or salary over the four weeks of employment immediately preceding termination of employment.
2. David Fenlon has six months' notice (or payment in lieu).

# 8.

## NON-EXECUTIVE DIRECTOR REMUNERATION

Non-Executive Directors receive fixed annual fees comprising a Board fee, Committee fee and Committee Chair fee as applicable. No incentive-based payments are awarded to Non-Executive Directors.

Blackmores makes superannuation contributions on behalf of Non-Executive Directors in accordance with statutory obligations and each Non-Executive Director may sacrifice their fees in return for additional superannuation contributions paid by Blackmores. Retirement allowances were accrued until 1 October 2003 for Non-Executive Directors appointed prior to this date. For Directors appointed prior to 1 October 2003, a retirement allowance applies of $15,333 per annum, which accrues each year but is capped after nine years of service at $138,000. No further retirement allowances have accrued to these individuals. Non-Executive Directors appointed after 1 October 2003 do not receive a retirement allowance.

Shareholders at a meeting held on 29 October 2015 determined the maximum total Non-Executive Director fees payable, including committee fees, to be $1,000,000 per year, to be distributed as the Board determines.

Compensation arrangements for Non-Executive Directors are determined by Blackmores after reviewing published remuneration surveys and market information. As reported in the FY17 report, the Company has grown significantly in size, scope and complexity over recent years. As a result, salary and fee levels were adjusted in a staged approach over several years.

In line with market capitalisation and following a review of relevant external benchmarks, base fees for Non-Executive Directors were increased in FY17 by 25.75% and Committee fees by 0.42% effective 1 April 2017. There was no increase in FY18. Fees are below the 50th percentile of companies of comparable market capitalisation.

# 2018 Remuneration Report

Non-Executive Director fees for FY18 include:

| FEES | 2018 CHAIRMAN[1] $ | 2018 MEMBER $ | 2017[2,3] CHAIRMAN $ | 2017[2,3] MEMBER $ |
|---|---|---|---|---|
| Board | **240,049** | **120,450** | 239,615 | 120,450 |
| Audit and Risk | **16,425** | **9,855** | 16,425 | 9,855 |
| People and Remuneration | **16,425** | **9,855** | 16,425 | 9,855 |
| Nominations | **-** | **-** | - | - |

1. The FY18 Chairman increase relates to the increase in Superannuation Guarantee Levy cap.
2. FY17 Non-Executive Director fees are as at 1 April 2017, and the Chairman's fees as at 1 March 2017.
3. Effective 1 March 2017, the Chairman's fees were set at double Board member fees with no additional Committee fees payable.

The total annual Non-Executive Director remuneration for the Board of six (2017: five) Non-Executive Directors for FY18 was $806,307 (2017: $663,565).

The following table discloses the remuneration of the Non-Executive Directors for the financial year ended 30 June 2018.

| | | SHORT-TERM EMPLOYMENT BENEFITS | POST EMPLOYMENT BENEFITS | |
|---|---|---|---|---|
| | FEES AND ALLOWANCES $ | NON-MONETARY[1] $ | SUPERANNUATION $ | TOTAL $ |
| **Non-Executive Directors** | | | | |
| David Ansell | | | | |
| **2018** | **119,000** | **-** | **11,305** | **130,305** |
| 2017 | 102,002 | 4,827 | 9,689 | 116,518 |
| John Armstrong | | | | |
| **2018** | **119,000** | **-** | **11,305** | **130,305** |
| 2017 | 102,002 | - | 9,689 | 111,691 |
| Stephen Chapman[2] | | | | |
| **2018** | **220,000** | **-** | **19,670** | **239,670** |
| 2017 | 172,631 | - | 16,421 | 189,052 |
| Jackie McArthur[3] | | | | |
| **2018** | **20,493** | **-** | **1,929** | **22,422** |
| 2017 | - | - | - | - |
| Helen Nash | | | | |
| **2018** | **125,000** | **-** | **11,875** | **136,875** |
| 2017 | 107,983 | - | 10,257 | 118,240 |
| Brent Wallace | | | | |
| **2018** | **134,000** | **-** | **12,730** | **146,730** |
| 2017 | 116,954 | - | 11,110 | 128,064 |
| **Total** | | | | |
| **2018** | **737,493** | **-** | **68,814** | **806,307** |
| 2017 | 601,572 | 4,827 | 57,166 | 663,565 |

1. Non-monetary includes benefits and any applicable fringe benefits tax.
2. Stephen Chapman was in the role of Chairman from 1 March 2017.
3. Jackie McArthur joined as a Non-Executive Director on 24 April 2018.
4. There were no increases to the Non-Executive Director fees in FY18 other than an increase in superannuation guarantee levy increase cap.

# 9.

## NON-EXECUTIVE DIRECTOR AND SENIOR EXECUTIVE TRANSACTIONS

### EQUITY HOLDINGS

During FY18 and FY17 there were no share options in existence. There have been no share options issued since the end of the financial year.

### SHARES

The table below outlines the fully paid ordinary shares of Blackmores Limited held by KMP:

### FULLY PAID ORDINARY SHARES OF BLACKMORES LIMITED

| | BALANCE AT 1/7/17 | RECEIVED ON SETTLEMENT OF RIGHTS | NET CHANGE OTHER[1] | BALANCE AT 30/6/18 |
|---|---|---|---|---|
| | NUMBER | NUMBER | NUMBER | NUMBER |
| **Non-Executive Directors** | | | | |
| David Ansell | 1,000 | - | - | 1,000 |
| John Armstrong | 800 | - | - | 800 |
| Stephen Chapman | 20,028 | - | - | 20,028 |
| Jackie McArthur | - | - | - | - |
| Helen Nash | 1,487 | - | - | 1,487 |
| Brent Wallace | 12,302 | - | - | 12,302 |
| **Executive Directors** | | | | |
| Marcus Blackmore | 4,219,835 | - | (218,000) | 4,001,835 |
| Richard Henfrey | 7,641 | 8,043 | (3,748) | 11,936 |
| **Senior Executives** | | | | |
| Aaron Canning | 15,613 | 5,174 | 73 | 20,860 |
| David Fenlon | - | 8,568 | (8,369) | 199 |
| Peter Osborne | 590 | 6,528 | 45 | 7,163 |
| **Former Executive Director** | | | | |
| Christine Holgate[2] | 46,002 | 34,436 | - | 80,438 |
| **Total** | **4,325,298** | **62,749** | **(229,999)** | **4,158,048** |

1. Includes shares issued under the Company's Staff Share Plans.
2. Christine Holgate resigned on 29 September 2017 and her share balance reflects holdings on date of resignation.

### RIGHTS TO SHARES

The table below outlines the rights to fully paid ordinary shares of Blackmores Limited held by KMP:

| | BALANCE AS AT 1/7/17 | GRANTED AS COMPEN-SATION | EXERCISED | NET OTHER CHANGE | BALANCE AS AT 30/6/18 | BALANCE VESTED AT 30/6/18 | VESTED BUT NOT EXERCISABLE | VESTED AND EXERCISABLE | RIGHTS VESTED DURING YEAR |
|---|---|---|---|---|---|---|---|---|---|
| | NUMBER | NUMBER | NUMBER | NUMBER | NUMBER | NUMBER | NUMBER | NUMBER | NUMBER |
| **Executive Director** | | | | | | | | | |
| Richard Henfrey | 13,540 | 12,852 | (8,043) | (540) | 17,809 | 1,912 | 1,912 | - | 8,043 |
| **Senior Executives** | | | | | | | | | |
| Aaron Canning | 11,064 | 3,849 | (5,174) | (553) | 9,186 | 1,954 | 1,954 | - | 5,174 |
| David Fenlon | 11,613 | 3,716 | (8,568) | - | 6,761 | - | - | - | 8,568 |
| Peter Osborne | 10,866 | 2,960 | (6,528) | (436) | 6,862 | 1,550 | 1,550 | - | 6,528 |
| **Former Executive Director** | | | | | | | | | |
| Christine Holgate[1] | 34,436 | - | (34,436) | - | - | - | - | - | 34,436 |
| **Total** | **81,519** | **23,377** | **(62,749)** | **(1,529)** | **40,618** | **5,416** | **5,416** | **-** | **62,749** |

1. Christine Holgate resigned 29 September 2017.

## LOAN DISCLOSURES

There were no loan balances exceeding $100,000 due from KMP during or at the end of the financial year (2017: $nil).

## OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Transactions entered into during the year with KMP of Blackmores Limited and the Group are on the same terms and conditions as employees or customers dealing on an arms-length basis which includes:

- the receipt of dividends on their shareholdings, whether held privately or through related entities or through the employee share plans in the same manner as all ordinary shareholders
- terms and conditions of employment
- purchases of goods and services
- expense reimbursement.

No interest was paid to or received from KMP.

Signed in accordance with a Resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

On behalf of the Directors

Steve Chapman

**Stephen Chapman**
**Chairman**

Dated in Sydney, 28 August 2018

## "Make people happy. Be the employer of choice." Marcus Blackmore

**Influenced by my father, I have long held the belief that the wellbeing of our employees extends beyond their financial security. The provision of a range of staff benefits and a healthy workplace underpin our approach to employment across all our markets.**

### FINANCIAL WELLBEING

At Blackmores, we have developed a suite of ways to support employees at various stages of their employment or place in life. This includes 'no cost' superannuation, financial support when sick, and share acquisition plans.

Insurance plans include a salary continuance program and automatic cover for death and total and permanent disablement for eligible employees.

The provision of staff share acquisition plans in our Company encourages long-term thinking and high engagement.

All permanent employees are eligible to participate in Blackmores' Profit Share Scheme whereby up to 10% of the Group's profits are shared by staff twice a year.

### FAMILY FRIENDLY

A flexible and family-friendly workplace including paid parental leave (12 weeks) and paid short paternity leave (two weeks) for eligible permanent staff across Australia and New Zealand.

The opportunity to explore flexible working, job-share arrangements and career breaks of up to 12 months.

An Employee Assistance Program (EAP) for employees and their immediate family to obtain independent, professional, confidential counselling to assist with personal problems and difficulties.

### A HEALTHY ENVIRONMENT

Our worksites across the region are carefully planned and fitted out to encourage collaboration, productive work practices with areas for social interaction and heathy activities.

A subsidised café at the Blackmores Campus in Warriewood features a wide range of nutritious meals and refreshments for staff.

The Wellness Centre is at the heart of the Blackmores Campus and incorporates treatment rooms for massage and naturopathy, a yoga and pilates area, a staffed gym and 20 metre lap pool.

Employees receive substantial discounts on all Blackmores Group products and access to naturopathic consultations.

### ALIGNMENT TO OUR VALUES

Permanent staff are entitled to one Community Day each year to take a day out of the office to participate in volunteer work with their favourite charitable community organisation.

Employees are encouraged to participate in a charitable scheme whereby 0.5% of their taxable pay is matched by Blackmores and paid to their chosen registered charity.

Marcus C. Blackmore

Marcus C. Blackmore AM

# Auditor's Independence Declaration

Deloitte Touche Tohmatsu
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The Board of Directors
Blackmores Limited
20 Jubilee Avenue
Warriewood NSW 2102

28 August 2018

Dear Board members

**Blackmores 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 Blackmores Limited.

As lead audit partner for the audit of the financial statements of Blackmores Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delaney

**X Delaney**
Partner
Chartered Accountants

# Independent Auditor's Report

Deloitte Touche Tohmatsu
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## Independent Auditor's Report to the Members of Blackmores Limited

### Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Blackmores Limited (the "Company") and its subsidiaries (the "Group") which comprises the Consolidated Statement of Financial Position as at 30 June 2018, the Consolidated Statement of Profit or Loss and Other 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 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 30 June 2018 and of its financial performance for the year then ended; and

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

### Basis for Opinion

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

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

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

### Key Audit Matters

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

# Independent Auditor's Report

Deloitte.

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Promotional and other rebates**<br>For the year ended 30 June 2018 the Group recognised promotional and other rebates of $145.5m which have been charged against sales revenue as disclosed in Note 2.1.<br><br>Accruals for promotional and other rebates as at 30 June 2018 are included within 'Other creditors and accruals' in Note 2.4.5.<br><br>Recognition of rebate accruals at balance date requires management to exercise significant judgement in respect to the amount of the required accruals which are based on customers' sales volumes for the period as well as growth and/or contributions by customers towards promotional activities (known as case deals). | Our audit procedures included, but were not limited to:<br><br>• Understanding and testing key controls over the recording of promotional and other rebate accruals;<br>• Challenging management's assumptions and judgements for recording the amount of the promotional and other rebate accruals at balance date;<br>• Testing on a sample basis, the promotional and other rebate accruals to contractual evidence with customers, focussing on the period in which the expense was recorded and the appropriateness of the value of the accrual at balance date by reference to sales volumes, growth and/or contributions by customers towards promotional activities;<br>• Reviewing claim invoices and credit notes issued subsequent to year end in order to assess the accuracy of the promotional and other rebate accrual compared to actual rebates issued; and<br>• Recalculating the promotional and other rebates accrual to test the accuracy of the calculation.<br><br>We also assessed the appropriateness of the disclosures in Notes 2.1 and 2.4.5 to the financial statements. |
| **Inventory provisioning**<br><br>As at 30 June 2018 the Group has a provision of $11.6m, against total inventories of $104.0m as disclosed in Note 2.4.4.<br><br>Significant judgement is required in estimating the value of slow moving and potentially obsolete items, some of which have a limited shelf life.<br><br>Furthermore, there is uncertainty over changes in consumer preferences and spending patterns, which are primarily driven by wider trends in the wellness sector which may impact inventory provisioning requirements.<br><br>There is a recoverability risk associated with new product launches and significant judgement is required in forecasting demand, including the possible change in demand between the time the inventory order is placed with the supplier and the ultimate date of sale. | Our audit procedures included, but were not limited to:<br><br>• Understanding and testing key controls over the inventory provision;<br>• Testing, on a sample basis, the accuracy of the inventory ageing;<br>• Challenging management's assumptions and judgements regarding the slow moving inventory provision;<br>• Assessing historical accuracy of inventory provisioning with reference to inventory write-offs during the year;<br>• Using data analytical techniques to assess the inventory provision by comparing inventory turnover for each stock keeping unit (SKU) based on historical sales data against its remaining shelf life; and<br>• Based on the forecasted sales assessed the months covered for 'at risk' inventory items to evaluate if appropriate provisioning is recognised.<br><br>We also assessed the appropriateness of the disclosures in Note 2.4.4 to the financial statements. |

*Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

# Independent Auditor’s Report

Deloitte.

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

*Responsibilities of the Directors for the Financial Report*

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or 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’s audit. We remain solely responsible for our audit opinion.

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

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

# Independent Auditor's Report

**Deloitte.**

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 56 to 73 of the Director's Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Blackmores Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delaney

X Delaney
Partner
Chartered Accountants
Parramatta, 28 August 2018

# Directors' Declaration

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the Directors' opinion, the attached Financial Statements are in compliance with International Financial Reporting Standards, as stated in note 1.2 to the Financial Statements;

(c) in the Directors' opinion, the attached Financial Statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and

(d) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Corporations Legislative Instrument 2016/785. The nature of the deed of cross guarantee is such that each company that is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 6.2 to the Financial Statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Steve Chapman

**Stephen Chapman**
**Director**

Signed in Sydney on 28 August 2018

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

| | NOTES | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Revenue** | | **601,136** | 552,160 |
| Other income | | **718** | 545 |
| **Revenue and other income** | 2.1 | **601,854** | 552,705 |
| Raw materials and consumables used | | **232,374** | 237,495 |
| Employee benefits expenses | 2.3 | **137,135** | 120,209 |
| Selling and marketing expenses | | **59,229** | 51,306 |
| Depreciation and amortisation expenses | | **8,940** | 8,411 |
| Operating lease rental expenses | | **9,306** | 9,027 |
| Professional and consulting expenses | | **11,647** | 8,923 |
| Repairs and maintenance expenses | | **7,014** | 5,172 |
| Freight expenses | | **13,546** | 12,726 |
| Bank charges | | **1,141** | 1,300 |
| Research expenses | | **2,035** | 1,171 |
| Licences and registrations | | **1,872** | 1,267 |
| Impairment of financial assets | 2.4.3 | **5,686** | 128 |
| Other expenses | | **10,317** | 9,339 |
| **Total expenses** | | **500,242** | 466,474 |
| **Earnings before interest and tax** | | **101,612** | 86,231 |
| Interest revenue | | **416** | 384 |
| Interest expense | | **(4,346)** | (4,564) |
| **Net interest expense** | | **(3,930)** | (4,180) |
| **Profit before tax** | | **97,682** | 82,051 |
| Income tax expense | 2.5.1 | **(28,459)** | (24,023) |
| **Profit after tax** | | **69,223** | 58,028 |
| | | | |
| **Profit/(loss) attributable to:** | | | |
| Owners of the parent | | **70,005** | 59,013 |
| Non-controlling interests | | **(782)** | (985) |
| | | **69,223** | 58,028 |
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange differences arising on translation of foreign controlled entities | | **2,625** | (1,922) |
| Net gain/(loss) on hedging instruments entered into for cash flow hedges (net of tax) | | **603** | (39) |
| Other comprehensive expense for the period (net of tax) | | **3,228** | (1,961) |
| | | | |
| **Total comprehensive income for the year** | | **72,451** | 56,067 |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent | | **73,274** | 57,119 |
| Non-controlling interests | | **(823)** | (1,052) |
| | | **72,451** | 56,067 |
| **EARNINGS PER SHARE** | | | |
| – Basic earnings per share (cents) | 4.5.1 | **406.4** | 342.6 |
| – Diluted earnings per share (cents) | 4.5.1 | **405.7** | 340.1 |

Notes to the Consolidated Financial Statements are included on pages 84 to 125.

# Consolidated Statement of Financial Position

AS AT 30 JUNE 2018

| | NOTES | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 2.4.1 | **36,468** | 34,251 |
| Receivables | 2.4.3 | **150,788** | 132,146 |
| Inventories | 2.4.4 | **103,965** | 84,794 |
| Other assets | | **10,811** | 7,463 |
| Derivative assets | | **475** | 8 |
| **Total current assets** | | **302,507** | 258,662 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 3.1 | **76,261** | 74,207 |
| Investment property | 3.2 | **2,160** | 2,160 |
| Goodwill and intangible assets | 3.3 | **66,212** | 61,754 |
| Deferred tax assets | 2.5.2 | **12,590** | 9,960 |
| Other financial assets | | **1,520** | 1,320 |
| Amounts advanced to related parties | | **3,600** | 4,111 |
| **Total non-current assets** | | **162,343** | 153,512 |
| **Total assets** | | **464,850** | 412,174 |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 2.4.5 | **157,868** | 124,365 |
| Current tax liability | | **4,246** | 1,811 |
| Provisions | 2.6 | **8,065** | 11,549 |
| Other liabilities | | **4,085** | 4,346 |
| Derivative liabilities | | **203** | 485 |
| **Total current liabilities** | | **174,467** | 142,556 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing liabilities | 4.3 | **86,000** | 78,968 |
| Deferred tax liabilities | 2.5.2 | **9,341** | 10,224 |
| Provisions | 2.6 | **1,229** | 1,372 |
| Other liabilities | | **483** | 235 |
| **Total non-current liabilities** | | **97,053** | 90,799 |
| **Total liabilities** | | **271,520** | 233,355 |
| **Net assets** | | **193,330** | 178,819 |
| **EQUITY** | | | |
| CAPITAL AND RESERVES | | | |
| Issued capital | 4.4 | **37,753** | 37,753 |
| Reserves | | **5,926** | 4,085 |
| Retained earnings | | **149,196** | 135,703 |
| **Equity attributable to shareholders of Blackmores Limited** | | **192,875** | 177,541 |
| Equity attributable to non-controlling interests | | **455** | 1,278 |
| **Total equity** | | **193,330** | 178,819 |

Notes to the Consolidated Financial Statements are included on pages 84 to 125.

# Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

| | NOTES | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers[1] | | **666,548** | 623,376 |
| Payments to suppliers and employees | | **(576,417)** | (528,066) |
| **Cash generated from operations** | | **90,131** | 95,310 |
| | | | |
| Interest and other costs of finance paid | | **(5,634)** | (5,897) |
| Income taxes paid | | **(26,467)** | (43,779) |
| **Net cash flows from operating activities** | 2.4.2 | **58,030** | 45,634 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **417** | 384 |
| Proceeds from disposal of property, plant and equipment | | **29** | 30 |
| Payments for property, plant and equipment | 3.1 | **(10,773)** | (14,498) |
| Payments for intangible assets | 3.3 | **(5,055)** | (69) |
| Dividends received | | **87** | 92 |
| Amounts received from/(advanced) to related parties | | **511** | (151) |
| **Net cash used in investing activities** | | **(14,784)** | (14,212) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from bank borrowings | | **386,000** | 359,533 |
| Repayments of bank borrowings | | **(378,968)** | (335,806) |
| Proceeds from other borrowings | | **379** | 1,100 |
| Dividends paid | | **(49,957)** | (58,568) |
| **Net cash used in financing activities** | | **(42,546)** | (33,741) |
| | | | |
| **Net decrease in cash and cash equivalents** | | **700** | (2,319) |
| **Cash and cash equivalents at the beginning of the year** | 2.4.1 | **34,251** | 37,653 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | **1,517** | (1,083) |
| **Cash and cash equivalents at the end of the year** | 2.4.1 | **36,468** | 34,251 |

Notes to the Consolidated Financial Statements are included on pages 84 to 125.

1. Net of promotional and other rebates.

# Consolidated Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

| | ISSUED CAPITAL | EQUITY-SETTLED EMPLOYEE BENEFITS RESERVE | CASH FLOW HEDGING RESERVE | FOREIGN CURRENCY TRANSLATION RESERVE | RETAINED EARNINGS | ATTRIBUTABLE TO OWNERS OF BLACKMORES LTD | NON-CONTROLLING INTEREST | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance as at 1 July 2016** | 37,753 | 4,440 | (376) | 1,188 | 135,258 | 178,263 | 2,330 | 180,593 |
| Profit/(loss) for the year | - | - | - | - | 59,013 | 59,013 | (985) | 58,028 |
| Other comprehensive income/(expense) for the year (net of tax) | - | - | (39) | (1,855) | - | (1,894) | (67) | (1,961) |
| Total comprehensive income for the year | - | - | (39) | (1,855) | 59,013 | 57,119 | (1,052) | 56,067 |
| Dividends paid | - | - | - | - | (58,568) | (58,568) | - | (58,568) |
| Share-based payments expense | - | 727 | - | - | - | 727 | - | 727 |
| **Balance as at 30 June 2017** | 37,753 | 5,167 | (415) | (667) | 135,703 | 177,541 | 1,278 | 178,819 |
| **Balance as at 1 July 2017** | **37,753** | **5,167** | **(415)** | **(667)** | **135,703** | **177,541** | **1,278** | **178,819** |
| Profit/(loss) for the year | **-** | **-** | **-** | **-** | **70,005** | **70,005** | **(782)** | **69,223** |
| Other comprehensive income/(expense) for the year (net of tax) | **-** | **-** | **603** | **2,666** | **-** | **3,269** | **(41)** | **3,228** |
| Total comprehensive income for the year | **-** | **-** | **603** | **2,666** | **70,005** | **73,274** | **(823)** | **72,451** |
| Dividends paid | **-** | **-** | **-** | **-** | **(49,957)** | **(49,957)** | **-** | **(49,957)** |
| Share-based payments expense | **-** | **1,259** | **-** | **-** | **-** | **1,259** | **-** | **1,259** |
| Issue of shares under employee long-term incentive plans (net of on market purchases and tax) | **-** | **(2,687)** | **-** | **-** | **(6,555)** | **(9,242)** | **-** | **(9,242)** |
| **Balance as at 30 June 2018** | **37,753** | **3,739** | **188** | **1,999** | **149,196** | **192,875** | **455** | **193,330** |

Notes to the Consolidated Financial Statements are included on pages 84 to 125.

# NOTES

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FOR THE FINANCIAL YEAR ENDED
30 JUNE 2018

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# 01 GENERAL INFORMATION

Blackmores Limited (the Company) is a public company listed on the Australian Securities Exchange (trading under the symbol 'BKL'), incorporated in Australia and operating across Australia, New Zealand and Asia.

Blackmores Limited's registered office and its principal place of business is as follows:

20 Jubilee Avenue
Warriewood
NSW 2102
Telephone +61 2 9910 5000

The Group's principal activity is the development, sales and marketing of health products for humans and animals, including vitamins, and herbal and mineral nutritional supplements.

## 1.1 REPORTING ENTITY

Blackmores Limited (the Company) is a company domiciled in Australia. The Consolidated Financial Report (Financial Report) of Blackmores as at and for the twelve months ended 30 June 2018 comprises Blackmores and its subsidiaries (the Group).

The Consolidated Annual Financial Report of the Group as at and for the year ended 30 June 2018 is available upon request from the registered office of Blackmores at 20 Jubilee Avenue, Warriewood, NSW 2102 or online at blackmores.com.au.

## 1.2 STATEMENT OF COMPLIANCE

These Financial Statements are General Purpose Financial Statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations and comply with other requirements of the law.

The Financial Statements comprise the Consolidated Financial Statements of the Group. For the purposes of preparing the Consolidated Financial Statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the Financial Statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The Financial Statements were authorised for issue by the Directors on 28 August 2018.

## 1.3 BASIS OF PREPARATION

The Consolidated Financial Statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the following accounting policies. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation in the preparation of the Consolidated Financial Statements are consistent with those adopted and disclosed in the Consolidated Financial Statements for the year ended 30 June 2017, unless otherwise stated.

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191, and in accordance with that Instrument amounts in the Financial Statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

## 1.3 BASIS OF PREPARATION (CONT.)

### Accounting policies

#### Goods and services tax

Revenues, expenses and assets are recognised excluding goods and services tax (GST), or equivalent. The net amount of GST recoverable from, or payable to, the taxation authorities is included within receivables or payables. Operating cash flows are included in the Consolidated Statement of Cash Flows inclusive of GST. GST in relation to investing or financing activities which is recoverable from, or payable to, the taxation authorities is classified within operating cash flows.

#### Foreign currencies

Individual controlled entities

The individual Financial Statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Consolidated Financial Statements, the financial results and financial position of each Group entity are expressed in Australian Dollars ($), which is the functional currency of the Company, and the presentation currency for the Consolidated Financial Statements.

Foreign currency transactions

In preparing the Financial Statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign operations

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

## 1.4 BASIS OF CONSOLIDATION

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

# 01 GENERAL INFORMATION

## 1.5 APPLICATION OF NEW AND REVISED STANDARDS

(i) AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers establishes a principle-based approach for goods, services and construction contracts which requires identification of discrete performance obligations within a transaction and an associated transaction price allocation to these obligations. Revenue is recognised only when the performance obligations are satisfied and the control of goods or services is transferred, typically at the point of sale.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group will apply AASB 15 in the financial year beginning 1 July 2018. An initial assessment has been performed on existing revenue streams. Based upon this assessment, it is not expected that AASB 15 will have a material impact to the Group's Consolidated Statement of Profit or Loss. The Group is yet to conclude which transition method will be applied.

(ii) AASB 9 Financial Instruments

AASB 9 Financial Instruments is a new standard which replaces AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. The Group will apply AASB 9 in the financial year beginning 1 July 2018. An assessment has been performed and the impact of the credit loss model is not expected to be material to the Group. The Group does not hold any investments in debt securities at the end of the reporting period and, as a result, does not expect to be impacted by the introduction of the new measurement category.

(iii) AASB 16 Leases

AASB 16 Leases will replace existing accounting requirements for leases under AASB 117 Leases. Under current requirements, leases are classified based on their nature as either finance leases, which are recognised on the Consolidated Statement of Financial Position, or operating leases, which are not recognised on the Consolidated Statement of Financial Position. The Group's accounting for operating leases as a lessee will result in the recognition of a right-of-use (ROU) asset and an associated lease liability on the Consolidated Statement of Financial Position. The lease liability represents the present value of future lease payments, with the exception of short-term leases. An interest expense will be recognised on the lease liabilities and a depreciation charge will be recognised for the ROU assets. There will also be additional disclosure requirements under the new standard. The Group's accounting for leases as a lessor remains unchanged under AASB 16. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group will apply AASB 16 in the financial year beginning 1 July 2019.

As at the end of the reporting period, the Group has non-cancellable undiscounted operating lease commitments of $16.6 million as disclosed in note 3.4. These commitments predominantly relate to its retail premises, warehousing facilities, distribution centres, and support offices, which will require recognition of ROU assets and associated lease liabilities. The Group is currently assessing the impact of the new requirements on the Group's Consolidated Financial Statements; however the impact is expected to materially 'gross-up' the Group's Consolidated Statement of Financial Position, impacting key financial ratios. As the assessment develops further, quantitative and qualitative disclosure will be provided.

| | EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER | EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING |
|---|---|---|
| **1.5.1 Standards and interpretations in issue, not yet adopted** | | |
| AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards | **1-Jan-18** | 30-Jun-19 |
| AASB 9 'Financial Instruments' | **1-Jan-18** | 30-Jun-19 |
| AASB 16 'Leases' | **1-Jan-19** | 30-Jun-20 |
| AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions | **1-Jan-18** | 30-Jun-19 |
| **1.5.2 Standards and interpretations adopted** | | |
| AASB 2016-2 Amendments to Australian Accounting standards – Disclosure initiative: Amendments to AASB 107 | **1-Jan-17** | 30-Jun-18 |


BLACKMORES
THIS WAY UP

# 02 OUR OPERATIONS

Blackmores is the leading natural healthcare company across the Asia-Pacific region. Blackmores' operations include product innovation and formulation, sourcing of the highest quality ingredients, quality programs to ensure compliance with standards of good manufacturing and the marketing, sales and distribution of products to customers and consumers.

## 2.1 REVENUE AND OTHER INCOME

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Sales (net of discounts) | **746,681** | 692,790 |
| Promotional and other rebates | **(145,545)** | (140,630) |
| **Revenue** | **601,136** | 552,160 |
| **Other income** | **718** | 545 |
| **Revenue and other income** | **601,854** | 552,705 |

### Accounting policies

**Revenue**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for discounts, estimated customer returns, and promotional and other rebates.

**Sale of goods**

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, and when the amount of revenue can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title is passed.

**Sale of goods on consignment**

Revenue from the sale of goods on consignment is recognised upon the sale of the goods by the consignee. The risks and rewards of ownership remains with Blackmores until such time as the goods are sold by the consignee.

**Discounts, promotional and other rebates**

The amount of revenue recognised for a transaction is net of any discounts, promotional and other rebates, which include growth rebates, and/or contributions to customers towards promotional activities (known as case deals).

### Key estimates and judgements

**Promotional and other rebates**

Recognition of rebate accruals at balance date requires management to exercise significant judgement with respect to the amount of required accruals, which are based on customers' sales volumes for the period as well as growth and/or contributions to customers towards promotional activities, known as case deals.

For the year ended 30 June 2018, the Group recognised promotional and other rebates of $145,500 thousand (2017: $140,600 thousand) which have been charged against sales revenue as disclosed in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

Accruals for promotional and other rebates as at 30 June 2018 are included within other creditors and accruals in note 2.4.5.

## 2.2 SEGMENT INFORMATION

Information reported to the Group's Chief Operating Decision Maker for the purpose of resource allocation and assessment of segment performance is largely focused on geographical regions. The reportable segments under AASB 8 are as follows:

**ANZ**
Comprising the sales of the Blackmores and Pure Animal Wellbeing brands across Australia and New Zealand, also including the benefit of sales made to customers which are ultimately intended for Asian markets.

**CHINA**
Comprising the sales of the Blackmores and Pure Animal Wellbeing brands in China (in country) and China Export Division.

**BIOCEUTICALS GROUP**
Comprising the BioCeuticals practitioner brands, Isowhey, Wheyless, Oriental Botanicals and Fusion Health brands.

**OTHER ASIA**
Comprising the Blackmores and Pure Animal Wellbeing brands in Thailand, Malaysia, Singapore, Hong Kong, Taiwan, Korea, Indonesia, Vietnam, Cambodia and Kazakhstan.

**OTHER**
Comprises Bemore Partnership.

**CORPORATE COSTS**
Costs which cannot be reliably allocated to a specific segment, or which have been incurred for long-term growth opportunities.

### 2.2.1 Revenue by segment

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| ANZ | **266,394** | 269,786 |
| China | **143,287** | 117,074 |
| BioCeuticals Group | **108,533** | 95,911 |
| Other Asia | **82,394** | 68,411 |
| Other | **528** | 978 |
| | **601,136** | 552,160 |

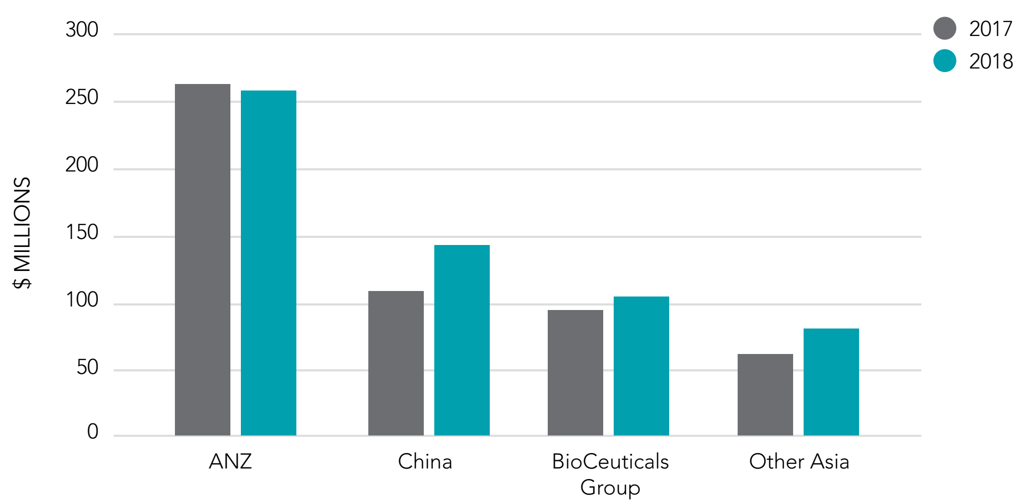
The Group has one customer who contributed more than 10% of the Group's revenue in the year (2017: one).

Included in revenue of the Group is revenue of $141,202 thousand (2017: $126,754 thousand) which arose from sales to the Group's largest customer. This customer serves both the ANZ and BioCeuticals Group segments.

### 2.2.2 EBIT by segment

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| ANZ | **61,562** | 62,912 |
| China | **35,627** | 27,904 |
| BioCeuticals Group | **16,339** | 14,316 |
| Other Asia | **2,353** | 895 |
| Other | **571** | (6,965) |
| Corporate costs | **(14,840)** | (12,831) |
| | **101,612** | 86,231 |

### 2.2.3 Revenue history by segment



# 02 OUR OPERATIONS

## 2.3 PROFIT FOR THE YEAR

| PROFIT FOR THE YEAR HAS BEEN ARRIVED AT AFTER CHARGING: | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Employee benefits expense** | | |
| Post-employment benefits: | | |
| Defined contribution plans | **7,184** | 6,632 |
| | | |
| Share-based payments: | | |
| Equity-settled share-based payments | **1,259** | 727 |
| Cash-settled share-based payments | **397** | 614 |
| | | |
| Other employee expenses | **128,295** | 112,130 |
| | | |
| Provision for stock obsolescence | **7,662** | 17,917 |
| | | |
| Net foreign exchange losses | **943** | 1,816 |

## 2.4 WORKING CAPITAL

### 2.4.1 Cash and cash equivalents

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Cash and bank balances | **36,468** | 34,251 |

### Accounting policy

Cash and cash equivalents comprise cash on hand, cash at bank, call deposits and overdrafts with an original maturity of three months or less.

# 2.4 WORKING CAPITAL (CONT.)

## 2.4.2 Reconciliation of profit after tax to net cash flows from operating activities

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Profit after tax | **69,223** | 58,028 |
| | | |
| **Non-cash expenses** | | |
| Depreciation and amortisation | **8,940** | 8,411 |
| Net loss on disposal of property, plant and equipment | **357** | 30 |
| | | |
| **Non-cash income** | | |
| Revaluation of investments | **(130)** | (724) |
| | | |
| **Investing cash flow items** | | |
| Interest revenue | **(417)** | (384) |
| Dividend income | **(87)** | (92) |
| Proceeds from disposal of property, plant and equipment | **(29)** | (30) |
| | | |
| **(Increase)/decrease in assets** | | |
| Receivables | **(18,642)** | 2,490 |
| Inventories | **(19,171)** | 31,692 |
| Other current assets | **(3,348)** | (1,622) |
| Deferred tax assets | **(2,630)** | 2,297 |
| Amounts advanced to related parties | **511** | (151) |
| | | |
| **Increase/(decrease) in liabilities** | | |
| Trade and other payables | **33,503** | (36,113) |
| Current tax liability | **2,435** | (22,393) |
| Current provisions | **(3,484)** | 3,961 |
| Other current liabilities | **(261)** | 4,822 |
| Non-current provisions | **(143)** | 238 |
| Other non-current liabilities | **248** | (3,420) |
| Deferred tax liabilities | **(883)** | (31) |
| | | |
| **Increase/(decrease) in equity** | | |
| Foreign exchange translation of controlled entities | **2,625** | (1,922) |
| Equity-settled share-based payments expense | **1,259** | 727 |
| Payment for on market share purchase | **(12,293)** | - |
| Gain/(loss) recognised on cash flow hedges, net of tax | **603** | (39) |
| Other | **(156)** | (141) |
| **Net cash inflows from operating activities** | **58,030** | 45,634 |

# 02 OUR OPERATIONS

## 2.4 WORKING CAPITAL (CONT.)

### 2.4.3 Receivables

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Trade receivables | **153,208** | 131,583 |
| Allowance for doubtful debts | **(6,173)** | (1,059) |
| Allowance for claims | **(1,249)** | (1,061) |
| Other debtors | **2,405** | 1,033 |
| Goods and services tax recoverable | **2,597** | 1,650 |
| | **150,788** | 132,146 |
| **Ageing of trade receivables past due, not impaired** | | |
| 0-30 days past due date | **22,245** | 26,698 |
| 31-60 days past due date | **1,484** | 8,035 |
| 61-90 days past due date | **440** | 254 |
| >90 days past due date | **3,265** | 1,704 |
| | **27,434** | 36,691 |
| **Ageing of impaired trade receivables** | | |
| 0-30 days past due date | **18** | 14 |
| 31-60 days past due date | **12** | 198 |
| 61-90 days past due date | **18** | 14 |
| >90 days past due date | **7,370** | 925 |
| | **7,418** | 1,151 |
| **Allowance for doubtful debts** | | |
| Balance at the beginning of the financial year | **1,059** | 1,218 |
| Increase to provision | **5,686** | 128 |
| Amounts written off as uncollectable | **(572)** | (287) |
| Balance at the end of the financial year | **6,173** | 1,059 |

As at 30 June 2018, the Group has two customers (2017: three customers) each comprising amounts greater than 5% (2017: 5%) of the total trade receivables balance. These customers owe the Group more than $52,000 thousand (2017: $51,000 thousand) and accounted for approximately 35% (2017: 39%) of all receivables owing.

### Accounting policy

Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. They generally have terms of up to 60 days.

Refer note 5.5 for more information on how the Group manages credit risk.

Customers who wish to trade on credit terms are subject to extensive credit verification procedures. Receivables balances are monitored closely and management takes appropriate steps if a receivable becomes overdue and/or impaired.

# 2.4 WORKING CAPITAL (CONT.)

## 2.4.4 Inventories

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Ingredients | **21,274** | 13,524 |
| Raw materials | **30,759** | 27,784 |
| Finished goods | **51,932** | 43,486 |
| | **103,965** | 84,794 |

The provision at balance date to cover inventory write downs is $11,611 thousand (2017: $14,141 thousand) and is included in the balance above.

### Accounting policy

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate proportion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

### Key estimates and judgements

Management must exercise judgement regarding the provision for inventory write downs. Management assesses slow moving or obsolete inventory on a regular basis and a provision is raised to write down inventory to its net realisable value. Significant judgement is required in estimating the value of slow moving and potentially obsolete inventory as many items have a limited shelf life. Furthermore, there is uncertainty over changes in consumer preferences and spending patterns, which are primarily driven by wider trends in the wellness sector. This could have an impact on the level of inventory provision required. In addition, there is a recoverability risk associated with new product launches regarding forecasting of demand, including the possible change in demand between the time the inventory order is placed with the supplier and the ultimate date of sale of the inventory to the customer.

## 2.4.5 Trade and other payables

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Trade payables[1] | **98,723** | 75,820 |
| Other creditors and accruals | **56,144** | 44,937 |
| Goods and services tax (GST) payable | **3,001** | 3,608 |
| | **157,868** | 124,365 |

1. The average credit period on purchases ranges from 30 to 90 days from the end of the month of invoice. The Group has financial risk management policies in place to ensure all payables are paid within the credit time frame.

### Accounting policy

Refer to note 5, Our Financial Risk Management.

# 02 OUR OPERATIONS

## 2.5 INCOME TAXES

### 2.5.1 Income tax recognised in profit or loss

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Current tax** | | |
| Current tax expense in respect of the current year | **25,257** | 27,239 |
| Current year adjustments in relation to prior years' current tax | **(171)** | (968) |
| | | |
| **Deferred tax** | | |
| Benefit relating to the origination and reversal of temporary differences | **3,242** | (3,092) |
| Current year adjustments in relation to prior years' deferred tax | **131** | 844 |
| **Total income tax expense** | **28,459** | 24,023 |
| | | |
| **Reconciliation of prima facie income tax expense to income tax expense recognised in profit or loss** | | |
| Profit before tax | **97,682** | 82,051 |
| Income tax expense calculated at 30% | **29,305** | 24,615 |
| | | |
| **Tax effect of reconciling items** | | |
| Non-deductible expenses | **473** | 288 |
| Tax concessions | **(229)** | (290) |
| Withholding tax on intercompany dividend | **-** | 155 |
| Tax losses recognised | **(1,089)** | (4) |
| Tax losses not recognised | **4** | 1,086 |
| Rate differential on overseas operations | **(101)** | (1,541) |
| Other | **136** | (162) |
| | **28,499** | 24,147 |
| Over-provision of income tax in previous year | **(40)** | (124) |
| Income tax expense recognised in profit or loss | **28,459** | 24,023 |

The tax rate used for the 2018 and 2017 reconciliations is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

### Accounting policy

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 previous years.

# 2.5 INCOME TAXES (CONT.)

## 2.5.2 Deferred tax balances

**Deferred tax balances arise from the following:**

| | OPENING BALANCE $'000 | MOVEMENT $'000 | FILING DIFFERENCES $'000 | CLOSING BALANCE $'000 |
|---|---|---|---|---|
| **Temporary differences 2018** | | | | |
| Property, plant and equipment | **(32)** | **(132)** | **(358)** | **(522)** |
| Prepayments and other | **103** | **(129)** | **-** | **(26)** |
| Provisions | **3,537** | **2,493** | **212** | **6,242** |
| Accruals | **3,305** | **34** | **181** | **3,520** |
| Cash flow hedges[1] | **146** | **140** | **-** | **286** |
| Foreign currency monetary items | **(542)** | **(12)** | **13** | **(541)** |
| Capitalised expenses | **(20)** | **(17)** | **23** | **(14)** |
| Indefinite life intangible assets | **(9,339)** | **-** | **-** | **(9,339)** |
| Carried forward tax losses[2] | **-** | **1,788** | **-** | **1,788** |
| Other | **2,578** | **(783)** | **60** | **1,855** |
| | **(264)** | **3,382** | **131** | **3,249** |

1. Cash flow hedges movement was recognised in other comprehensive income.
2. Unutilised tax losses were recognised as deferred tax assets during 2018. The recognition was dependent on future taxable profits of the relevant entities in excess of the profits arising from the reversal of existing taxable temporary differences. The likelihood of sufficient future taxable profits is supported by historic increases in sales and operating profits of the relevant entities and further projected increases prior to expiry of the losses.

| | OPENING BALANCE $'000 | MOVEMENT $'000 | FILING DIFFERENCES $'000 | CLOSING BALANCE $'000 |
|---|---|---|---|---|
| **Temporary differences 2017** | | | | |
| Property, plant and equipment | (69) | 16 | 21 | (32) |
| Prepayments and other | (62) | 165 | - | 103 |
| Provisions | 3,820 | (10) | (273) | 3,537 |
| Accruals | 6,638 | (3,595) | 262 | 3,305 |
| Cash flow hedges[1] | 163 | (17) | - | 146 |
| Foreign currency monetary items | (351) | (191) | - | (542) |
| Capitalised expenses | (4) | (20) | 4 | (20) |
| Indefinite life intangible assets | (9,339) | - | - | (9,339) |
| Other | 1,205 | 543 | 830 | 2,578 |
| | 2,002 | (3,109) | 844 | (264) |

1. Cash flow hedges movement was recognised in other comprehensive income.

**Presented in the Consolidated Statement of Financial Position as follows:**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Deferred tax asset | **12,590** | 9,960 |
| Deferred tax liability | **(9,341)** | (10,224) |
| | **3,249** | (264) |

# 02 OUR OPERATIONS

## 2.5 INCOME TAXES (CONT.)

### 2.5.3 Unrecognised deferred tax assets

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| The following tax losses have not been brought to account as deferred tax assets: | | |
| Capital (no expiry date) | **1,230** | 1,230 |
| Revenue (expiry: 2018-2027) | **327** | 1,035 |
| | **1,557** | 2,265 |

### Accounting policy

Deferred tax arises when there are temporary differences between the carrying amount of assets and liabilities and the corresponding tax base of those items. Deferred taxes are not recognised for temporary differences relating to:

- the initial recognition of assets and liabilities that are not a business combination that affects neither taxable income nor accounting profit;
- the initial recognition of goodwill; and
- investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable amounts will be available against which the assets can be utilised. During the year ended 30 June 2018, tax losses of $658 thousand and $1,130 thousand were recognised with respect to Blackmores Korea and Kalbe Blackmores Nutrition, respectively.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted by reporting date.

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.

## 2.6 PROVISIONS

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Current** | | |
| Employee benefits | **7,917** | 8,566 |
| Other | **-** | 2,835 |
| Directors' retirement | **148** | 148 |
| | **8,065** | 11,549 |
| **Non-current** | | |
| Employee benefits | **1,229** | 1,372 |

### Accounting policy

Provisions are recognised when the Group has:

- a present obligation (legal or constructive) as a result of a past event and
- it is probable that the Group will be required to settle the obligation, and
- when a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision 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 (where the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group.

## 2.7 REMUNERATION STRUCTURE

### 2.7.1 Key management personnel compensation

The aggregate compensation made to Key Management Personnel of the Group and Company is set out below:

| | 2018 $ | 2017 $ |
|---|---|---|
| Short-term employee benefits | **4,693,176** | 4,824,831 |
| Post-employment benefits | **156,313** | 227,479 |
| Other long-term benefits | **22,051** | 63,945 |
| Share-based payments | **935,849** | 960,764 |
| | **5,807,389** | 6,077,019 |

The compensation of each member of the Key Management Personnel of the Group and a discussion of the compensation policies of the Company are detailed in the Directors' Report and Remuneration Report which accompany these Consolidated Financial Statements.

# 02 OUR OPERATIONS

## 2.7 REMUNERATION STRUCTURE (CONT.)

### Accounting policy

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. 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 and holding lock periods, based on the Group's estimate of equity instruments that will eventually vest with a corresponding increase in equity. The inputs used to value the shares granted during the year included a risk free rate of 2.6%, expected volatility of 43.4% and a dividend yield of 3.8%. 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 over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve. For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

### 2.7.2 Share-based payments

**Executive and Employee Share Option Plan**

The Executive Performance Share Plan was approved at the Blackmores Annual General Meeting in October 2017. Participation is open to Senior Executives determined to be eligible by the Board. Under this plan, rights to acquire shares in the Company are granted annually to eligible Senior Executives at no cost and vest provided specific performance hurdles are met.

The fair value of rights granted is calculated in accordance with AASB 2 'Share-based Payments'. Under the Company Executive Performance Share Plan, during the year the Company granted entitlements to an allocation of ordinary shares provided specific performance objectives and hurdles are met over the three-year period commencing 1 July 2017 to the year ending 30 June 2020. If the performance and employment vesting conditions are met, the minimum number of rights that could be vested under the entitlement is 6,724 (2017: 6,481) and the maximum number of rights that could be vested is 49,487 (2017: 51,851). Several grant dates applied to these rights; as a result, the following fair values applied to the number of rights listed below.

The following share-based payment arrangements were in existence during the current and prior reporting periods:

| | NUMBER OF RIGHTS | GRANT DATE | EXPIRY DATE | EXERCISE PRICE | FAIR VALUE AT GRANT DATE |
|---|---|---|---|---|---|
| **Share rights series** | | | | | |
| **Grants in the 2018 year** | | | | | |
| Granted | **49,487** | **17-Nov-17** | **30-Jun-20** | **N/A** | **144.39** |
| **Grants in the 2017 year** | | | | | |
| Granted | 51,851 | 17-Nov-16 | 30-Jun-19 | N/A | 99.19 |

The following reconciles the share-based arrangements outstanding at the beginning and end of the year:

| | 2018 NUMBER OF RIGHTS | 2018 WEIGHTED AVERAGE EXERCISE PRICE | 2017 NUMBER OF RIGHTS | 2017 WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|---|---|
| Balance at the beginning of the year | **175,463** | | 157,999 | |
| Granted | **49,487** | | 51,851 | |
| Forfeited | **(10,722)** | | (34,387) | |
| Exercised | **(114,756)** | **N/A** | - | N/A |
| Expired | **-** | | - | |
| Balance at the end of the year | **99,472** | | 175,463 | |
| Exercisable at the end of the year | **99,472** | | 175,463 | |

Share rights are vested at 30 June three years after grant and shares are subsequently issued in September of that year following audit clearance of the Group's result and Board approval. The issue price for share rights granted in the 2018 financial year will be determined in September 2020.

## 2.7 REMUNERATION STRUCTURE (CONT.)

The allocation is based on a percentage of the Senior Executives' and Senior Managers' base remuneration and the allocation varies depending on the actual EPS growth delivered for the relevant year as follows:

### 2018 rate of EPS growth

Percentage of participant's base remuneration

| | | CHIEF EXECUTIVE OFFICER | SENIOR EXECUTIVES | OTHER SENIOR COMPANY MANAGEMENT |
|---|---|---|---|---|
| 5.0% | | **25.0** | **10.0** | **5.0** |
| 5.0% to 10.0% | pro-rata between | **25.0 to 50.0** | **10.0 to 20.0** | **5.0 to 10.0** |
| 10.0% | | **50.0** | **20.0** | **10.0** |
| 10.0% to 25.0% | pro-rata between | **50.0 to 150.0** | **20.0 to 80.0** | **10.0 to 40.0** |
| 25.00% | | **150.0** | **80.0** | **40.0** |
| Greater than 25.0% | | **150.0** | **80.0** | **40.0** |

### 2017 rate of EPS growth

Percentage of participant's base remuneration

| | | CHIEF EXECUTIVE OFFICER | SENIOR EXECUTIVES | OTHER SENIOR COMPANY MANAGEMENT |
|---|---|---|---|---|
| 5.0% | | 25.0 | 10.0 | 5.0 |
| 5.0% to 10.0% | pro-rata between | 25.0 to 50.0 | 10.0 to 20.0 | 5.0 to 10.0 |
| 10.0% | | 50.0 | 20.0 | 10.0 |
| 10.0% to 25.0% | pro-rata between | 50.0 to 200.0 | 20.0 to 80.0 | 10.0 to 40.0 |
| 25.00% | | 200.0 | 80.0 | 40.0 |
| Greater than 25.0% | | 200.0 | 80.0 | 40.0 |

### Share-based conditions

The number of shares to be issued to a Senior Executive is determined by dividing the percentage amount of base remuneration calculated in accordance with the above by:

- the weighted average price of the shares for the five day trading period commencing seven days after Blackmores' results in respect of the prior financial year are announced to the ASX, less
- the amount of any final dividend per share declared as payable for the prior financial year.

### Staff share acquisition plan

The Group has established two staff share acquisition plans.

The first plan is open to all eligible employees including Senior Executives and enables them to purchase up to $1,000 of Blackmores' shares tax free (subject to taxable income thresholds) each year with money that would have otherwise been paid as profit share. 812 shares were issued during the year ended 30 June 2018 (2017: 651 shares). In July 2018, 511 shares (2017: 726 shares) will be issued to employees, including Senior Executives, for profit share entitlement that would otherwise have been paid in cash during the year ended 30 June 2018.

The second plan, established in the 2017 financial year is open to all eligible employees including Senior Executives and enables them to purchase up to $10,000 of Blackmores' shares each year out of after tax pay. For every three purchased shares acquired using the employees' contributions, subject to employment vesting conditions and capping applied under the plan, the Company will provide one extra share. The vesting date for the year ended 30 June 2018 is 31 July 2018. The maximum cost of the shares provided by the Company for the 2018 financial year has been set at $500,000.

#### Options plan

At 1 July 2017 and at 1 July 2016 there were no share options outstanding. None were issued during the years ended 30 June 2018 (2017: nil) and as at 30 June 2018 (2017: nil) there were no unexercised share options.

The compensation of each member of the Key Management Personnel of the Group and a discussion of the compensation policies of the Company are detailed in the Remuneration Report on pages 56 to 73.

# 03 OUR INVESTMENTS

The Blackmores Group carries investments in property, plant and equipment, investment property, and goodwill and intangible assets.

## 3.1 PROPERTY, PLANT AND EQUIPMENT

| | FREEHOLD LAND AND BUILDINGS[1] $'000 | PLANT AND EQUIPMENT $'000 | LEASEHOLD IMPROVEMENTS $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Year-ended 30 June 2017** | | | | |
| Cost | 49,847 | 69,726 | 4,597 | 124,170 |
| Accumulated depreciation | (7,791) | (40,775) | (1,397) | (49,963) |
| **Net book value** | 42,056 | 28,951 | 3,200 | 74,207 |
| **Movement** | | | | |
| Net book value at the beginning of the year | 42,971 | 23,523 | 1,132 | 67,626 |
| Additions | 16 | 11,516 | 2,966 | 14,498 |
| Disposals and write offs | - | (38) | (21) | (59) |
| Depreciation | (931) | (6,093) | (877) | (7,901) |
| Other (including foreign exchange movements) | - | 43 | - | 43 |
| Net book value at the end of the year | 42,056 | 28,951 | 3,200 | 74,207 |
| **Assets under construction included above:** | - | 6,341 | 94 | 6,435 |
| **Year-ended 30 June 2018** | | | | |
| Cost | **49,847** | **78,206** | **4,519** | **132,572** |
| Accumulated depreciation | **(8,730)** | **(45,740)** | **(1,841)** | **(56,311)** |
| **Net book value** | **41,117** | **32,466** | **2,678** | **76,261** |
| **Movement** | | | | |
| Net book value at the beginning of the year | **42,056** | **28,951** | **3,200** | **74,207** |
| Additions | **-** | **10,142** | **631** | **10,773** |
| Disposals and write offs | **-** | **(119)** | **(268)** | **(387)** |
| Depreciation | **(939)** | **(6,472)** | **(959)** | **(8,370)** |
| Other (including foreign exchange movements) | **-** | **(36)** | **74** | **38** |
| Net book value at the end of the year | **41,117** | **32,466** | **2,678** | **76,261** |
| **Assets under construction included above:** | **-** | **3,382** | **-** | **3,382** |

1. Freehold land and buildings includes $12,848 thousand of non depreciable land.

## 3.1 PROPERTY, PLANT AND EQUIPMENT (CONT.)

### Accounting policies

#### Carrying value

The Group's property, plant and equipment are measured at cost less accumulated depreciation/amortisation and accumulated impairment losses. The cost of property in the course of construction includes borrowing, holding and development costs until the asset is complete.

#### Depreciation

Assets are depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are amortised over the shorter of the remaining period of the individual leases or the estimated useful life of the improvement to the Group. Useful lives are reassessed each period.

Freehold land and buildings in the course of construction are not depreciated. The expected useful lives are as follows:

| | |
|---|---|
| Buildings | 25-40 years |
| Plant and equipment | 3-20 years |
| Leasehold improvements | 3-13 years |

#### Proceeds from sale of assets

The gross proceeds from asset sales are recognised at the date that an unconditional contract of sale is exchanged with the purchaser. The net gain/(loss) is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

#### Impairment

Property, plant and equipment are tested for impairment in accordance with the policy for impairment of non-financial assets disclosed in note 3.3.

## 3.2 INVESTMENT PROPERTY

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Cost | **2,160** | 2,160 |

Investment property relates to land at 15 Jubilee Avenue, Warriewood, NSW 2102, which was acquired during the financial year ended 30 June 2010.

### Accounting policies

Investment property is defined as property held to earn rental income and/or for capital appreciation. It is measured initially at its cost, including transaction costs such as legal fees and property transfer taxes. Subsequent to initial recognition, the investment property continues to be measured at cost. Depreciation is not charged on Blackmores' investment property as it relates to non-depreciable land. The investment property is tested annually for impairment. No impairment losses have been recognised on the investment property and the Directors are confident that the carrying amount of the investment property will be recovered in full. Investment property is derecognised upon disposal with any resulting gain or loss being recognised in profit or loss in the period in which the property is derecognised.

# 03 OUR INVESTMENTS

## 3.3 GOODWILL AND INTANGIBLE ASSETS

| | GOODWILL $'000 | BRANDS $'000 | OTHER INDEFINITE LIFE INTANGIBLE ASSETS[1] $'000 | OTHER INTANGIBLE ASSETS[2] $'000 | TOTAL |
|---|---|---|---|---|---|
| **Year-ended 30 June 2017** | | | | | |
| Cost | 29,461 | 28,613 | 2,613 | 4,598 | 65,285 |
| Accumulated amortisation | - | - | - | (3,531) | (3,531) |
| **Net carrying amount** | 29,461 | 28,613 | 2,613 | 1,067 | 61,754 |
| | | | | | |
| **Net carrying amount at the beginning of the year** | 29,371 | 28,613 | 2,613 | 1,510 | 62,107 |
| Adjustment to provisional accounting | 90 | - | - | - | 90 |
| Additions | - | - | - | 69 | 69 |
| Amortisation | - | - | - | (510) | (510) |
| Other (including foreign exchange revaluation) | - | - | - | (2) | (2) |
| Net carrying amount at the end of the year | 29,461 | 28,613 | 2,613 | 1,067 | 61,754 |
| | | | | | |
| Allocated to cash generating unit | | | | | |
| BioCeuticals | 20,849 | 15,313 | 264 | 680 | 37,106 |
| Global Therapeutics | 7,597 | 13,300 | 1,160 | - | 22,057 |
| Pure Animal Wellbeing | 1,015 | - | 1,189 | - | 2,204 |
| Unallocated | - | - | - | 387 | 387 |
| | 29,461 | 28,613 | 2,613 | 1,067 | 61,754 |
| | | | | | |
| **Year-ended 30 June 2018** | | | | | |
| Cost | **29,461** | **28,613** | **5,490** | **6,674** | **70,238** |
| Accumulated amortisation | **-** | **-** | **-** | **(4,026)** | **(4,026)** |
| **Net carrying amount** | **29,461** | **28,613** | **5,490** | **2,648** | **66,212** |
| | | | | | |
| **Net carrying amount at the beginning of the year** | **29,461** | **28,613** | **2,613** | **1,067** | **61,754** |
| Additions | **-** | **-** | **2,877** | **2,178** | **5,055** |
| Amortisation | **-** | **-** | **-** | **(571)** | **(571)** |
| Other (including foreign exchange revaluation) | **-** | **-** | **-** | **(26)** | **(26)** |
| **Net carrying amount at the end of the year** | **29,461** | **28,613** | **5,490** | **2,648** | **66,212** |
| | | | | | |
| Allocated to cash generating unit | | | | | |
| BioCeuticals | **20,849** | **15,313** | **264** | **680** | **37,106** |
| Global Therapeutics | **7,597** | **13,300** | **1,160** | **-** | **22,057** |
| Pure Animal Wellbeing | **1,015** | **-** | **1,189** | **-** | **2,204** |
| Unallocated | **-** | **-** | **2,877** | **1,968** | **4,845** |
| | **29,461** | **28,613** | **5,490** | **2,648** | **66,212** |

1. Other indefinite life intangible assets relates to registrations, trademarks, and formulations.
2. Other intangible assets relates to patents, capitalised website costs and royalty streams.

# 3.3 GOODWILL AND INTANGIBLE ASSETS (CONT.)

## Accounting policies

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net identifiable assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

### Intangible assets

Intangible assets are measured at cost less accumulated amortisation and impairment losses (if any).

Where acquired in a business combination, cost represents the fair value at the date of acquisition. Intangible assets with finite lives are amortised on a straight-line basis over their estimated useful lives.

An internally-generated intangible asset arising from development is only recognised once the feasibility, intention and ability to complete the intangible asset can be demonstrated. Any expenditure on research activities is recognised as an expense when incurred.

Useful lives are reassessed each period. The useful lives of intangible assets have been assessed as follows:

| | |
|---|---|
| Patents | 20 years |
| Royalty stream | 5 years |
| Capitalised website development | 3 years |

### Impairment

Intangible assets are tested for impairment in accordance with the policy for impairment of non-financial assets disclosed in this note.

### Impairment of non-financial assets

The carrying amounts of the Group's property, plant and equipment (refer to note 3.1), goodwill and intangible assets (refer to note 3.3) are reviewed for impairment as follows:

**Property, plant and equipment and finite life intangibles** – when there is an indication that the asset may be impaired (assessed at least each reporting date) or when there is an indication that a previously recognised impairment may have changed.

**Goodwill and indefinite life intangibles** – at least annually and when there is an indication that the asset may be impaired.

### Calculation of recoverable amount

In assessing impairment, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of an asset is the greater of its value in use (VIU) and its fair value less costs to dispose (FVLCTD). For an asset that does not generate largely independent cash inflows, the recoverable amount is assessed at the cash generating unit (CGU) level, which is the smallest group of assets generating cash inflows independent of other CGUs that benefit from the use of the respective asset. Goodwill is allocated to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments and grouped at the lowest levels for which goodwill is monitored for internal management purposes.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Statement of Profit or Loss.

Impairment losses recognised in respect of a CGU will be allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU on a pro-rata basis to their carrying amounts.

### Reversal of impairment

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

# 03 OUR INVESTMENTS

## 3.3 GOODWILL AND INTANGIBLE ASSETS (CONT.)

### Critical judgements and estimates

The ranges of rates used in determining recoverable amounts are set out below:

| | 2018 % | 2017 % |
|---|---|---|
| Long-term growth rate | **2.0** | 2.0 |
| Post-tax discount rate | **8.4** | 8.0 |

The Group believes that any reasonably possible change in the key assumptions applied would not cause the carrying value of assets to exceed their recoverable amount and result in a material impairment based on current economic conditions and CGU performance.

The key assumptions used in the "value in use" calculation were applied consistently across all CGUs

The recoverable amounts of these cash-generating units are determined on a value in use calculation. This calculation uses cash flow projections based on the five-year plan approved by management and endorsed by the Board, and also uses a terminal value calculation. Budgeted sales growth is expected to be in line with sales growth in the category. Budgeted margins are expected to remain consistent.

Cash flow projections are based on estimated growth in EBITDA (net of tax) and estimated working capital changes. The cash flows beyond that five-year period have been extrapolated using a steady 2% per annum growth rate, which is the projected long-term inflation rate. The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

## 3.4 COMMITMENTS FOR EXPENDITURE

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Catalent Transaction**[1] | | |
| Not longer than 1 year | - | - |
| Longer than 1 year and not longer than 5 years | 43,200 | - |
| Longer than 5 years | - | - |
| | 43,200 | - |
| **Operating leases**[2] | | |
| Not longer than 1 year | 6,286 | 4,642 |
| Longer than 1 year and not longer than 5 years | 10,212 | 8,374 |
| Longer than 5 years | 95 | - |
| | 16,593 | 13,016 |
| **Plant and equipment** | | |
| Not longer than 1 year | 3,152 | 8,190 |
| | 3,152 | 8,190 |
| **Promotional services** | | |
| Not longer than 1 year | 2,558 | 3,416 |
| Longer than 1 year and not longer than 5 years | - | 2,760 |
| Longer than 5 years | - | - |
| | 2,558 | 6,176 |
| **Sponsorship** | | |
| Not longer than 1 year | 131 | 748 |
| Longer than 1 year and not longer than 5 years | - | 137 |
| Longer than 5 years | - | - |
| | 131 | 885 |
| **Research and development contracts** | | |
| Not longer than 1 year | 1,414 | 320 |
| Longer than 1 year and not longer than 5 years | 4,035 | 4,020 |
| Longer than 5 years | 600 | 1,200 |
| | 6,049 | 5,540 |

1. Blackmores Limited is committed to the acquisition of Catalent Australia on or before 31 October 2019.
2. Operating leases relate to business premises and the Group's motor vehicle fleet with lease terms of between three and six years. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

# 04 OUR FINANCING

The Group manages its capital to ensure that each entity in the Group will be able to continue as a going concern while maximising the return to stakeholders through optimisation of the debt and equity balance. The Group's capital management strategy remains unchanged since 2017.

## 4.1 CAPITAL MANAGEMENT

The capital structure of the Group consists of net debt and equity.

The Group operates globally, primarily through the Company and subsidiary companies established in the markets in which the Group trades. None of the entities within the Group is subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand the Group's production and distribution assets, as well as make the routine outflows of tax, dividends and repayment of maturing debt. The Group's policy is to borrow centrally, using a variety of capital market issues and borrowing facilities to meet anticipated funding requirements.

The Group's Audit and Risk Committee reviews the capital structure of the Group on a semi-annual basis. Based upon recommendations of the Committee, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or redemption of existing debt with third parties and, if appropriate, related parties.

### Gearing ratio

The gearing ratio at the end of the financial year was as follows:

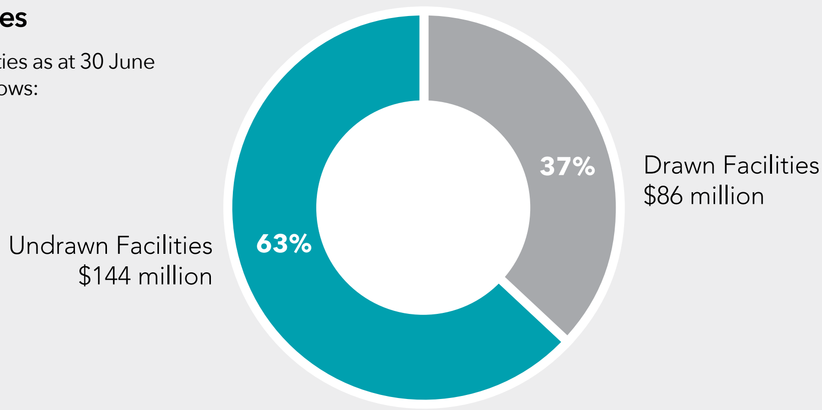
| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Debt | **86,000** | 78,968 |
| Cash and cash equivalents | **(36,468)** | (34,251) |
| Net debt | **49,532** | 44,717 |
| Shareholders' equity | **192,875** | 177,541 |
| **Total capital** | **242,407** | 222,258 |
| | | |
| Gearing ratio (Net debt as a % of total capital) | **20.4%** | 20.1% |

## 4.2 FINANCING FACILITIES

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Unsecured bank overdraft facility, reviewed annually and payable at call | **-** | - |
| Unsecured revolving term debt facility under Common Terms Deed | **86,000** | 78,968 |
| | **86,000** | 78,968 |
| Unrestricted access was available to the Group at the reporting date to the following unused lines of credit: | | |
| Bank loan facilities | **134,000** | 152,933 |
| Bank overdrafts and bank bill facility | **10,000** | 10,000 |
| | **144,000** | 162,933 |

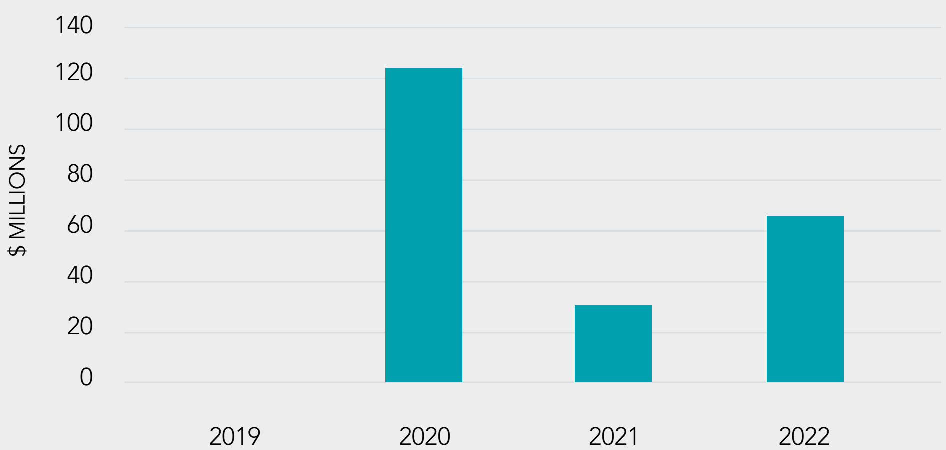
### Debt facilities

Total debt facilities as at 30 June 2018 are as follows:




### Maturity profile

The maturity profile of existing bank loan facilities by financial year is as follows:




Bank loan facilities may be drawn at any time, subject to the terms of the lending agreements. The bank overdraft facilities may be drawn at any time. The above facilities are subject to certain financial covenants and undertakings. No covenants have been breached during the financial year (2017: nil).

# 04 OUR FINANCING

## 4.3 INTEREST-BEARING LIABILITIES

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Non-current** | | |
| Unsecured at amortised cost | | |
| Bank loan | **86,000** | 78,968 |

**Funding activities**

On 9 November 2017, Blackmores Limited entered into a $30 million revolving facility with Westpac Banking Corporation with a maturity date of 1 January 2022. The funds are available for general corporate purposes.

### 4.3.1 Reconciliation of liabilities arising from financing activities

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Interest-bearing liabilities** | | |
| Balance at the start of the year | **78,968** | 55,446 |
| Net cash inflow | **7,032** | 23,727 |
| Foreign exchange translation | **-** | (205) |
| Balance at the end of the year | **86,000** | 78,968 |

### Accounting policies

All bank loans are initially recognised at the fair value of the consideration received, less directly attributable transaction costs.

After initial recognition, interest bearing loans are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

## 4.4 ISSUED CAPITAL

| | 2018 NUMBER | 2018 ISSUED CAPITAL $'000 | 2017 NUMBER | 2017 ISSUED CAPITAL $'000 |
|---|---|---|---|---|
| **Fully paid ordinary shares** | | | | |
| Balance at beginning of financial year | **17,225,807** | **37,753** | 17,225,156 | 37,753 |
| Issue of shares under Executive and employee share plans (note 2.7) | **812** | **-** | 651 | - |
| Balance at end of financial year | **17,226,619** | **37,753** | 17,225,807 | 37,753 |

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

**Employee share plans**

Further details of the Group's Executive and employee share plans are contained in note 2.7 to the Consolidated Financial Statements.

## 4.5 SHAREHOLDER RETURNS

### 4.5.1 Earnings per share

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Profit attributable to shareholders of Blackmores Limited | **70,005** | 59,013 |
| | **Number** | **Number** |
| WANOS[1] used in the calculation of basic EPS[2] | **17,226,563** | 17,225,802 |
| WANOS[1] used in the calculation of diluted EPS[2] | **17,254,843** | 17,351,881 |
| | **Cents** | **Cents** |
| Basic EPS | **406.4** | 342.6 |
| Diluted EPS | **405.7** | 340.1 |

1. Weighted average number of ordinary shares.
2. The variance in the WANOS used in the calculation of the basic EPS and the diluted EPS is attributable to employee share plans.

### 4.5.2 Dividends

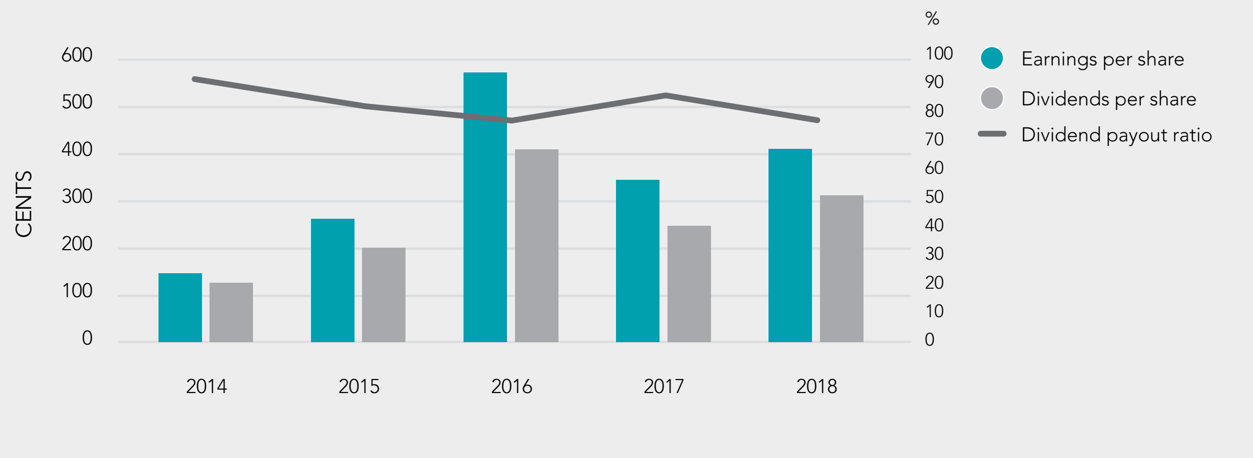
| | 2018 CENTS PER SHARE | TOTAL $'000 | 2017 CENTS PER SHARE | TOTAL $'000 |
|---|---|---|---|---|
| **Recognised amounts** | | | | |
| Fully paid ordinary shares | | | | |
| Final dividend for year ended 30 June 2017 (2017: 30 June 2016) | | | | |
| – fully franked at 30% corporate tax rate | **140** | **24,117** | 210 | 36,174 |
| Interim dividend for year ended 30 June 2018 (2017: 30 June 2017) | | | | |
| – fully franked at 30% corporate tax rate | **150** | **25,840** | 130 | 22,394 |
| | **290** | **49,957** | 340 | 58,568 |
| **Unrecognised amounts** | | | | |
| Fully paid ordinary shares | | | | |
| Final dividend – fully franked at 30% corporate tax rate | **155** | **26,702** | | |

The final dividend in respect of ordinary shares for the year ended 30 June 2018 has not been recognised in these Consolidated Financial Statements because the final dividend was declared subsequent to 30 June 2018.

### 4.5.3 Franking account balance

| | COMPANY | |
|---|---|---|
| | 2018 $'000 | 2017 $'000 |
| Adjusted franking account balance | **32,350** | 28,538 |

### 4.5.4 Shareholder returns history



# 05 OUR FINANCIAL RISK MANAGEMENT

## 5.1 CATEGORIES OF FINANCIAL INSTRUMENTS

| | CLASSIFICATION | NOTE | 2018 $'000 | 2017 $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | Amortised cost | 2.4.1 | **36,468** | 34,251 |
| Loans and receivables | Amortised cost | 2.4.3 | **150,788** | 132,146 |
| Unquoted equity investments | Available-for-sale | 7.7 | **1,355** | 1,165 |
| Derivative financial assets | Fair value through profit or loss | 5.7 | **475** | 8 |
| **Financial liabilities** | | | | |
| Derivative financial liabilities | Fair value through profit or loss | 5.7 | **203** | 485 |
| Interest-bearing borrowings | Amortised cost | 4.3 | **86,000** | 78,968 |
| Trade payables | Amortised cost | 2.4.5 | **157,868** | 124,365 |

### Accounting policies

**Financial instruments**

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### 5.1.1 Financial assets

Non-derivative financial assets are classified into the following specified categories: available-for-sale (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

**Loans and receivables**

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Impairment of financial assets**

Non-derivative financial assets are assessed for indicators of impairment at each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Trade receivables are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments or an increase in the number of delayed payments in the portfolio past the average credit period. For trade receivables, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account

**Derecognition of financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

## 5.1 CATEGORIES OF FINANCIAL INSTRUMENTS (CONT.)

### 5.1.2 Financial liabilities and equity instruments

**Classification as debt or equity**

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

**Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

**Financial liabilities**

Non-derivative financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Derivative financial instruments**

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in notes 5.3 and 5.4 to the Consolidated Financial Statements. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

**Hedge accounting**

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risks, as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. Notes 5.3 and 5.4 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedge reserve in equity are also detailed in the Consolidated Statement of Changes in Equity.

**Cash flow hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the Consolidated Statement of Profit or Loss and Other Comprehensive Income as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

## 5.2 FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group. The Group seeks to minimise the effects of currency risk and interest rate risk by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk and the use of financial derivatives. Compliance with policies and exposure limits is reviewed internally on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

# 05 OUR FINANCIAL RISK MANAGEMENT

## 5.3 FOREIGN CURRENCY RISK MANAGEMENT

| | |
|---|---|
| **Sources of risk** | The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. |
| **Risk management** | Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts. |

The Group's material exposure to foreign currencies includes New Zealand Dollar (NZD), United States Dollar (USD), Euro (EUR) and Canadian Dollar (CAD). Other currencies include Swiss Franc (CHF), British Pound (GBP), Japanese Yen (JPY), Malaysian Ringgit (MYR), Thai Baht (THB), and Taiwan Dollars (TWD); however the exposure to these currencies is immaterial.

| | LIABILITIES 2018 $'000 | LIABILITIES 2017 $'000 | ASSETS 2018 $'000 | ASSETS 2017 $'000 |
|---|---|---|---|---|
| USD | **17,980** | 12,380 | **2,509** | 790 |
| NZD | **4,549** | 2,132 | **912** | - |
| CAD | **836** | 934 | **-** | - |
| EUR | **350** | 248 | **-** | - |
| Other | **198** | 46 | **216** | 2 |

The table above excludes the impact of derivatives.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to Key Management Personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit or equity where the Australian dollar strengthens 10% against the relevant currency. For a 10% weakening of the Australian dollar against the relevant currency, there would be a comparable impact on the profit or equity, and the balances below would be negative.

| | PROFIT / (LOSS) | | | |
|---|---|---|---|---|
| | 10% INCREASE | | 10% DECREASE | |
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| USD impact | **1,406** | 1,117 | **(1,719)** | (1,211) |
| NZD impact | **331** | 194 | **(404)** | (237) |
| CAD impact | **76** | 85 | **(93)** | (104) |
| EUR impact | **32** | 23 | **(39)** | (28) |
| Other | **(2)** | 4 | **2** | (5) |

The following forward foreign exchange contracts were still open at the reporting date, in local currency:

| | NOTIONAL PRINCIPAL AMOUNT | | FAIR VALUE | |
|---|---|---|---|---|
| CURRENCY | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| USD | **10,952** | 10,730 | **547** | (320) |
| MYR | **1,457** | 2,392 | **(45)** | (32) |
| THB | **2,776** | 6,075 | **(5)** | (72) |
| NZD | **4,267** | - | **(82)** | - |
| CAD | **307** | - | **2** | - |

In 2018, there was hedge ineffectiveness of $7 thousand (2017: $182 thousand) which was included within other expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

## 5.4 INTEREST RATE RISK MANAGEMENT

| | |
|---|---|
| **Sources of risk** | The Group is exposed to interest rate risk as it borrows funds on a floating interest rate basis. |
| **Risk management** | The risk is managed by the Group by the use of interest rate swap contracts. |

The following table sets out the Group's exposure to interest rate risk.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Financial liabilities** | | |
| Borrowings | **(86,000)** | (78,968) |
| Interest rate swaps[1] | **75,000** | 75,000 |
| **Net exposure** | **(11,000)** | (3,968) |

1. Represents the notional amount of the interest rate swaps.

The following table details the notional amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

| | AVERAGE CONTRACTED FIXED INTEREST RATE | | NOTIONAL PRINCIPAL AMOUNT | | FAIR VALUE | |
|---|---|---|---|---|---|---|
| | 2018 % | 2017 % | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **Outstanding fixed or floating contracts** | | | | | | |
| Less than 1 year | **1.86** | 0.00 | **35,000** | - | **19** | - |
| 1 to 2 years | **2.16** | 1.86 | **40,000** | 35,000 | **(31)** | (14) |
| 2 to 5 years | **0.00** | 2.16 | **-** | 40,000 | **-** | (150) |
| > 5 years | **0.00** | 0.00 | **-** | - | **-** | - |
| | **2.02** | 2.02 | **75,000** | 75,000 | **12** | (164) |

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian bank bill swap bid rate. All interest rate swap contracts are designated as cash flow hedges.

The Group will settle the difference between fixed and floating interest on a net basis.

All other financial assets and liabilities (in the current and prior financial years) are non-interest-bearing.

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to Key Management Personnel and represents management's assessment of the possible change in interest rates.

For the year ended 30 June 2018, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's net profit would decrease by $575 thousand (2017: $677 thousand) or increase by $575 thousand (2017: $677 thousand) respectively as a result of changes in the interest rates applicable to commercial bank bills.

For the year ended 30 June 2018, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's other equity reserves would increase by $365 thousand or decrease by $369 thousand respectively (2017: increase by $502 thousand or decrease by $683 thousand respectively), mainly as a result of the changes in the fair value of the interest rate swap.

There has been no change to the manner in which the Group manages and measures the risk from the previous year.

### Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The Group entered into no new interest rate swaps during the 2018 financial year (2017: $75,000 thousand), nil matured during the year (2017: $5,000 thousand) and nil were terminated during the 2018 financial year (2017: $15,000 thousand).

# 05 OUR FINANCIAL RISK MANAGEMENT

## 5.5 CREDIT RISK MANAGEMENT

**Sources of risk**

The Group is exposed to counterparty credit risk from trade and other receivables.

**Risk management**

The information used to determine creditworthiness is supplied by independent rating agencies where available and, if not available, the Group uses publicly available financial information, trade references and their own trading record to rate their major customers. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with sound credit ratings assigned by international credit-rating agencies. The carrying amount of financial assets recorded in the Consolidated Financial Statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. The Group's increased exposure to credit risk is commensurate with the continued strong growth of the China segment. The China business has continued to evolve with a relatively high concentration of customers operating in a dynamic and high growth environment. This has resulted in an increased level of payment default risk in comparison to prior years.

There has been no fundamental change to the manner in which the Group manages and measures risk, with the company taking a conservative approach to the collectability of all receivables.

## 5.6 LIQUIDITY RISK MANAGEMENT

**Sources of risk**

Exposure to liquidity risk derives from the Group's operations and from the external interest-bearing liabilities that it holds.

**Risk management**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and through the continual monitoring of forecast and actual cash flows.

### Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

| | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE % | 1 MONTH $'000 | 1-3 MONTHS $'000 | 3 MONTHS TO 1 YEAR $'000 | 1-5 YEARS $'000 | 5 YEARS $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | |
| Trade and other payables | **0.00** | **-** | **157,868** | **-** | **-** | **-** | **157,868** |
| Borrowings | **3.05** | **-** | **-** | **-** | **86,000** | **-** | **86,000** |
| | | **-** | **157,868** | **-** | **86,000** | **-** | **243,868** |
| **2017** | | | | | | | |
| Trade and other payables | 0.00 | - | 124,365 | - | - | - | 124,365 |
| Borrowings | 2.05 | - | - | - | 78,968 | - | 78,968 |
| | | - | 124,365 | - | 78,968 | - | 203,333 |

There has been no change to the Group's exposure to liquidity risks or the manner in which it manages and measures the risk from the previous year.

## 5.6 LIQUIDITY RISK MANAGEMENT (CONT.)

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

| | 1 MONTH $'000 | 1-3 MONTHS $'000 | 3 MONTHS TO 1 YEAR $'000 | 1-5 YEARS $'000 | 5 YEARS $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Net settled | | | | | | |
| Interest rate swaps | **(55)** | **-** | **(97)** | **(25)** | **-** | **(177)** |
| **2017** | | | | | | |
| Net settled | | | | | | |
| Interest rate swaps | (49) | - | (152) | (155) | - | (355) |

## 5.7 FAIR VALUE MEASUREMENTS

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the Consolidated Financial Statements approximate their fair values.

### Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

### Fair value measurements recognised in the Consolidated Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Unquoted equities | Level 3 | **1,355** | 1,165 |
| Foreign exchange derivatives | Level 1 | **449** | - |
| Interest rate derivatives | Level 1 | **26** | 8 |
| | | **1,830** | 1,173 |
| **Financial liabilities** | | | |
| Foreign exchange derivatives | Level 1 | **(60)** | (313) |
| Interest rate derivatives | Level 1 | **(143)** | (172) |
| | | **(203)** | (485) |

# 06 OUR GROUP STRUCTURE

## 6.1 PARENT ENTITY INFORMATION

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Financial position** | | |
| **Assets** | | |
| Current assets | **189,113** | 175,691 |
| Non-current assets | **159,631** | 156,829 |
| **Total assets** | **348,744** | 332,520 |
| **Liabilities** | | |
| Current liabilities | **125,618** | 114,732 |
| Non-current liabilities | **107,448** | 94,669 |
| **Total liabilities** | **233,066** | 209,401 |
| **Equity** | | |
| Issued capital | **37,753** | 37,753 |
| Retained earnings | **74,699** | 81,180 |
| Reserves | **3,225** | 4,186 |
| **Total equity** | **115,677** | 123,119 |
| **Financial performance** | | |
| Profit for the year | **52,191** | 40,938 |
| Other comprehensive income | **603** | (39) |
| **Total comprehensive income** | **52,794** | 40,899 |

### 6.1.1 Commitments for expenditure – parent entity

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Catalent Transaction**[1] | | |
| Longer than 1 year and not longer than 5 years | **43,200** | - |
| | **43,200** | - |
| **Operating leases**[2] | | |
| Not longer than 1 year | **4,373** | 3,478 |
| Longer than 1 year and not longer than 5 years | **8,301** | 7,457 |
| Longer than 5 years | **95** | - |
| | **12,769** | 10,935 |
| **Plant and equipment** | | |
| Not longer than 1 year | **3,152** | 8,190 |
| | **3,152** | 8,190 |
| **Promotional Services** | | |
| Not longer than 1 year | **2,550** | 2,739 |
| Longer than 1 year and not longer than 5 years | **-** | 2,751 |
| | **2,550** | 5,490 |
| **Sponsorship** | | |
| Not longer than 1 year | **-** | 93 |
| | **-** | 93 |
| **Research and Development Contracts** | | |
| Not longer than 1 year | **996** | 320 |
| Longer than 1 year and not longer than 5 years | **3,660** | 4,020 |
| Longer than 5 years | **600** | 1,200 |
| | **5,256** | 5,540 |

1. Blackmores Limited is committed to the acquisition of Catalent Australia on or before 31 October 2019.
2. Operating leases relate to business premises and the Group's motor vehicle fleet with lease terms of between three and six years. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

## 6.1 PARENT ENTITY INFORMATION (CONT.)

### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The Company has provided Letters of Support in relation to Pat Health Ltd, Blackmores International Pte. Ltd and Blackmores (Taiwan) Ltd, all wholly owned subsidiaries of the Group, as well as for Bemore Partnership. The Directors have a reasonable expectation that the Company will have sufficient financial accommodation to enable payment of the subsidiaries' debts as and when they fall due for a period of at least 12 months from the date of signing the local Financial Statements of the abovementioned entities.

## 6.2 SUBSIDIARIES

| NAME OF ENTITY | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST 2018 % | 2017 % | PRINCIPAL ACTIVITY |
|---|---|---|---|---|
| Blackmores Nominees Pty Limited[2] | Australia | 100 | 100 | Management of employee share plans |
| Pat Health Limited | Hong Kong | 100 | 100 | Marketing of natural health products |
| Blackmores Beijing Co., Limited | China | 100 | 100 | Marketing of natural health products |
| Blackmores China Co., Limited | China | 100 | 100 | Marketing of natural health products |
| Blackmores (Taiwan) Limited | Taiwan | 100 | 100 | Marketing of natural health products |
| Pure Animal Wellbeing Pty Limited | Australia | 100 | 100 | Holder of intellectual property for PAW |
| Blackmores (New Zealand) Limited | New Zealand | 100 | 100 | Marketing of natural health products |
| Blackmores (Singapore) Pte Limited | Singapore | 100 | 100 | Marketing of natural health products |
| Blackmores (Malaysia) Sdn Bhd | Malaysia | 100 | 100 | Marketing of natural health products |
| Blackmores Holdings Limited | Thailand | 100 | 100 | Holding company |
| Blackmores Limited | Thailand | 100 | 100 | Marketing of natural health products |
| Blackmores Korea Limited | Korea | 100 | 100 | Marketing of natural health products |
| Blackmores International Pte. Limited | Singapore | 100 | 100 | Regional head office |
| PT Kalbe Blackmores Nutrition[1] | Indonesia | 50 | 50 | Marketing of natural health products |
| FIT-BioCeuticals Limited | Australia | 100 | 100 | Marketing of natural health products |
| FIT BioCeuticals (NZ) Limited[2] | New Zealand | 100 | 100 | Marketing of natural health products |
| PharmaFoods Pty Limited[2] | Australia | 100 | 100 | Marketing of natural health products |
| FIT-BioCeuticals Limited | United Kingdom | 100 | 100 | Marketing of natural health products |
| FIT-BioCeuticals (HK) Limited | Hong Kong | 100 | 100 | Marketing of natural health products |
| Hall Drug Technologies Pty Limited[2] | Australia | 100 | 100 | Marketing of natural health products |
| Blackmores SPV Co Pty Limited | Australia | 100 | 100 | Holding company |
| New Century Herbals Pty Limited[2] | Australia | 100 | 100 | Holding company |
| Global Therapeutics Pty Limited[2] | Australia | 100 | 100 | Marketing of natural health products |
| Blackmores Japan Limited | Japan | 100 | 100 | Marketing of natural health products |

1. PT Kalbe Blackmores Nutrition is consolidated into the Group at 100%, and the 50% of profit or loss attributable to non-controlling interests is recognised in equity.
2. These wholly owned subsidiaries have entered into a deed of cross guarantee with Blackmores Limited pursuant to ASIC class order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report.

# 06 OUR GROUP STRUCTURE

## 6.2 SUBSIDIARIES (CONT.)

### 6.2.1 Financial support

The Consolidated Statement of Profit or Loss and the Consolidated Statement of Financial Position of the entities party to the deed of cross guarantee are:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Revenue** | **518,861** | 486,143 |
| Other income | **631** | 3,497 |
| **Revenue and other income** | **519,492** | 489,640 |
| Raw materials and consumables used | **225,817** | 230,725 |
| Employee benefits expenses | **106,718** | 94,527 |
| Selling and marketing expenses | **34,084** | 32,395 |
| Depreciation and amortisation expenses | **7,939** | 7,683 |
| Operating lease rental expenses | **7,321** | 7,170 |
| Professional and consulting expenses | **8,471** | 7,062 |
| Repairs and maintenance expenses | **5,856** | 4,138 |
| Freight expenses | **8,641** | 7,253 |
| Bank charges | **1,042** | 1,239 |
| Impairment of loan to related party | **-** | 7,200 |
| Research expenses | **1,735** | 1,146 |
| Licences and registrations | **1,698** | 1,129 |
| Other expenses | **12,039** | 12,727 |
| **Total expenses** | **421,361** | 414,394 |
| **Earnings before interest and tax** | **98,131** | 75,246 |
| Interest revenue | **209** | 166 |
| Interest expense | **(4,198)** | (4,366) |
| **Net interest expense** | **(3,989)** | (4,200) |
| **Profit before tax** | **94,142** | 71,046 |
| Income tax expense | **(29,291)** | (19,420) |
| **Profit after tax** | **64,851** | 51,626 |
| **Other comprehensive income** | | |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Net gain/(loss) on hedging instruments entered into for cash flow hedges (net of tax) | **603** | (39) |
| Other comprehensive expense for the period (net of tax) | **603** | (39) |
| | | |
| **Total comprehensive income for the period** | **65,454** | 51,587 |

# 6.2 SUBSIDIARIES (CONT.)

## 6.2.1 Financial support (cont.)

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | **2,713** | 12,565 |
| Receivables | **145,522** | 117,952 |
| Inventories | **89,194** | 70,950 |
| Other assets | **8,916** | 6,544 |
| **Total current assets** | **246,345** | 208,011 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | **74,224** | 72,291 |
| Investment property | **2,160** | 2,160 |
| Goodwill and intangible assets | **63,092** | 59,457 |
| Deferred tax assets | **7,166** | 9,136 |
| Other financial assets | **10,752** | 10,883 |
| **Total non-current assets** | **157,394** | 153,927 |
| **Total assets** | **403,739** | 361,938 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Trade and other payables | **141,023** | 113,635 |
| Current tax liability | **4,103** | 1,435 |
| Provisions | **7,704** | 11,878 |
| Other liabilities | **150** | 481 |
| **Total current liabilities** | **152,980** | 127,429 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing liabilities | **86,000** | 75,000 |
| Provisions | **1,229** | 1,372 |
| Other liabilities | **108** | 199 |
| Deferred tax liabilities | **10,096** | 9,825 |
| **Total non-current liabilities** | **97,433** | 86,396 |
| **Total liabilities** | **250,413** | 213,825 |
| **Net assets** | **153,326** | 148,113 |
| **EQUITY** | | |
| CAPITAL AND RESERVES | | |
| Issued capital | **37,753** | 37,753 |
| Reserves | **3,152** | 4,115 |
| Retained earnings | **112,421** | 106,245 |
| **Total equity** | **153,326** | 148,113 |

# 06 OUR GROUP STRUCTURE

## 6.3 JOINT OPERATIONS

Blackmores' joint operation is a 50:50 partnership with Bega Cheese Limited, Bemore Partnership Pty Ltd, which was set up in 2016 to facilitate the Group's entry into the nutritional foods category.

In October 2017, the partners announced the suspension of the operations. Since this time, Bega Cheese Limited has continued to supply Blackmores Group with infant formula and the Blackmores Group has continued to market and sell infant formula through its subsidiaries, the sales of which are recorded in the relevant segments' revenues.

### Bemore Partnership Pty Ltd

The following amounts are included in the Group's Financial Statements in relation to the joint operation, representing the Group's 50% share of Bemore Partnership Pty Ltd:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Revenue** | **531** | 981 |
| Raw materials and consumables | - | (6,433) |
| Operating expenses | **41** | (1,513) |
| **Profit/(loss) before interest** | **572** | (6,965) |
| Interest income | **1** | 6 |
| **Net profit/(loss) for the year** | **573** | (6,959) |

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Cash and cash equivalents | - | 217 |
| Receivables | - | 556 |
| **Total assets** | - | 773 |
| | | |
| Other payables | - | 97 |
| Provisions | - | 567 |
| Payables to joint operators | - | 682 |
| Loans from joint operators | **7,200** | 7,200 |
| **Total liabilities** | **7,200** | 8,546 |
| | | |
| **Net liabilities** | **(7,200)** | (7,773) |
| | | |
| **Accumulated losses** | **(7,200)** | (7,773) |

### Accounting policies

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a Group entity undertakes its activities under joint operations, the Group, as a joint operator, recognises its share of assets, liabilities, revenue and expenses in its Financial Statements.

## 6.4 BUSINESS COMBINATIONS

### 2018

No subsidiaries were acquired during the financial year ended 30 June 2018.

### 2017

No subsidiaries were acquired during the financial year ended 30 June 2017.

In 2019, Blackmores Limited will acquire 100% of Catalent Australia, a tablet and soft-gel capsule manufacturing facility in Victoria for $43.2 million.

### Accounting policies

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

## 6.5 CONTINGENT LIABILITIES

Blackmores has continued to review the exemption claims available to the company under various free trade agreements in place between Australia and some of the countries with which Blackmores trades. This review included an assessment of potential risks pertaining to the use of, and compliance to, export classification codes. At the signing date, no conclusions have been reached in relation to discussions with any relevant country's regulatory bodies pertaining to any potential risks relating to compliance to free trade agreements. A reliable estimate of potential risks or probable outflows as an outcome of this ongoing review cannot be determined. Accordingly, no liability has been recorded in the accounts for 30 June 2018.

# 07 OTHER

## 7.1 RELATED PARTY AND KEY MANAGEMENT PERSONNEL DISCLOSURES

### 7.1.1 Equity interests in subsidiaries

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 6.2 to the Consolidated Financial Statements.

### 7.1.2 Loan disclosures

There were no loan balances exceeding $100,000 due from Key Management Personnel during or at the end of the financial year (2017: nil).

### 7.1.3 Other transactions with Key Management Personnel

Key Management Personnel received dividends on their shareholdings, whether held privately or through related entities or through the employee share plans in the same manner as all ordinary shareholders.

No interest was paid to or received from Key Management Personnel.

### 7.1.4 Related party transactions

The immediate parent and ultimate controlling party of the Group is Blackmores Limited (incorporated in Australia). Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

#### Trading transactions

During the year, Group entities did not enter into any trading transactions with related parties that are not members of the Group (2017: $nil).

#### Other related party transactions

During the financial year ended 30 June 2018, the following transactions occurred between the Group and its other related parties:

- Galileo Kaleidoscope Pty Ltd, a company of which Brent Wallace is a Director, performed certain consulting services for the Company for which fees of $72,525 (2017: $48,400) were charged.

#### Balances with related parties

No balances are outstanding at the end of the financial year with related parties that are not members of the Group (2017: $nil).

## 7.2 REMUNERATION OF AUDITOR

| | 2018 $ | 2017 $ |
|---|---|---|
| **Auditor of the parent entity** | | |
| Auditing or reviewing the Financial Statements | **325,944** | 322,672 |
| Taxation services | **112,398** | 90,000 |
| Other non-audit services[1] | **149,500** | 512,000 |
| | **587,842** | 924,672 |
| **Network firm of the parent company auditor** | | |
| Auditing or reviewing the Financial Statements | **246,493** | 219,793 |

The auditor of Blackmores Limited is Deloitte Touche Tohmatsu.

1. Other non-audit services is comprised of fees in relation to consulting and assurance services.

## 7.3 EVENTS AFTER THE REPORTING PERIOD

### Final dividend

The Directors declared a fully franked final dividend of 155 cents per share on 28 August 2018 as described in note 4.5.2.

### Acquisition

On 28 August 2018, Blackmores announced it will acquire the Impromy™ weight management product portfolio, including related assets and liabilities, for $9 million in November 2018 from Probiotec Limited. Impromy™ is a pharmacy-only, consultation-based weight management program that was co-developed by Probiotec and the CSIRO and is supported by strong research and clinical studies by CSIRO and Griffith University. This acquisition supports our strategic priority to drive innovation and leverage expertise in areas of chronic disease. The acquisition is expected to be earnings accretive in the first year.

## 7.4 APPROVAL OF FINANCIAL STATEMENTS

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 28 August 2018.

# ADDITIONAL INFORMATION

## Number of Holders of Equity Securities as at 31 July 2018

### Ordinary Share Capital

17,227,130 fully paid ordinary shares are held by 15,377 shareholders.

All issued ordinary shares carry one vote per share, and are entitled to participate in dividends.

There are no options in existence.
There are no restricted securities.
There is no current on-market buy-back.

### Distribution of holders of equity securities

| SPREAD OF HOLDINGS | NO. OF ORDINARY SHAREHOLDERS |
|---|---|
| 1 - 1,000 | 13,892 |
| 1,001 - 5,000 | 1,297 |
| 5,001 - 10,000 | 97 |
| 10,001 - 100,000 | 77 |
| 100,001 and over | 14 |
| **Total** | **15,377** |
| Holdings less than a marketable parcel | 178 |

### Substantial shareholders

| FULLY PAID ORDINARY SHAREHOLDERS | NUMBER | PERCENTAGE |
|---|---|---|
| Marcus C Blackmore | 4,001,835 | 23.23% |

### Twenty largest holders of quoted equity securities as at 31 July 2018

| FULLY PAID ORDINARY SHAREHOLDERS | NUMBER | PERCENTAGE |
|---|---|---|
| Mr M C Blackmore | 3,151,401 | 18.29 |
| HSBC Custody Nominees (Australia) Limited | 2,012,280 | 11.68 |
| Citicorp Nominees Pty Limited | 881,618 | 5.12 |
| National Nominees Limited | 731,443 | 4.25 |
| JP Morgan Nominees Australia Limited | 647,182 | 3.76 |
| Dietary Products Aust Pty Limited | 601,270 | 3.49 |
| Milton Corporation Limited | 367,014 | 2.13 |
| Blackmore Foundation Pty Limited | 328,200 | 1.91 |
| BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C) | 173,057 | 1.00 |
| Mrs E M Whellan | 149,934 | 0.87 |
| BNP Paribas Nominees Pty Ltd (DRP) | 133,022 | 0.77 |
| Mrs P G Wright | 116,812 | 0.68 |
| Mr R Shepherd | 115,000 | 0.67 |
| Rathvale Pty Limited | 103,205 | 0.60 |
| Blackmore Superannuation Fund | 99,230 | 0.58 |
| Citicorp Nominees Pty Limited (Colonial First State Inv A/C) | 88,844 | 0.52 |
| Marich Nominees Pty Ltd (R Marich Superannuation A/C) | 57,440 | 0.33 |
| AMP Life Limited | 56,065 | 0.33 |
| HSBC Custody Nominees (Aust) Ltd (NT-Comnwlth Super Corp A/C) | 53,968 | 0.31 |
| Ms C Holgate | 40,438 | 0.23 |
| **Total** | **9,907,423** | **57.51** |

# COMPANY INFORMATION

## Company Secretary
The Company Secretaries are Cecile Cooper and Aaron Canning.

## Principal Place of Business
20 Jubilee Avenue
Warriewood NSW 2102
Telephone +61 2 9910 5000

## Registered Office
20 Jubilee Avenue
Warriewood NSW 2102
Telephone +61 2 9910 5000

## Share Registry
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000
(GPO Box 7045 Sydney NSW 1115)
Telephone +61 2 8234 5000
Facsimile +61 2 8234 5050

## Securities Exchange Listing
Blackmores Limited's ordinary shares are quoted by the Australian Securities Exchange Limited, listing code BKL.

## Direct Payment to Shareholders' Bank Accounts
Dividends may be paid directly to bank, building society or credit union accounts in Australia. These payments are electronically credited on the dividend date and confirmed by mail. The Company encourages you to participate in this arrangement, so please contact our share registry.

## Change of Address
Shareholders who have changed address should advise our share registry in writing.

## Tax File Number
There may be benefit to shareholders in lodging their tax file number with the share registry.

## Shareholder Discount Plan
Shareholders can buy products for personal use at 30% off the recommended retail price. All shareholders have been given details of the plan, but please contact the Company Secretary on +61 2 9910 5137 if you would like more information.

## Corporate Governance Principles
The Corporate Governance Principles adopted by the Board are available on our website at blackmores.com.au (go to 'Investors', then click on 'Corporate Governance') or contact the Company Secretary.

## Annual Report Mailing
Shareholders who do not want the Annual Report or who are receiving more than one copy should advise the share registrar in writing. These shareholders will continue to receive all other shareholder information.

The Annual Report is available on our website at blackmores.com.au (go to 'Investors', then click on 'Annual Reports').

## To Consolidate Shareholdings
Shareholders who want to consolidate their separate shareholdings into one account should advise the share registrar in writing.

## Investor Information
Securities analysts and institutional investors seeking information about the Company should contact Dee Henz, Group Financial Controller and Investor Relations Manager on +61 2 9910 5162.

# COMPANY INFORMATION

## Board of Directors
Directors who are Executives of the Group:

Marcus Blackmore
Richard Henfrey (Chief Executive Officer)

Directors who are not Executives of the Group:

David Ansell
John Armstrong
Stephen Chapman (Chairman of Directors)
Jackie McArthur (appointed 24 April 2018)
Helen Nash
Brent Wallace

## Auditor
Deloitte Touche Tohmatsu

## Solicitor
David Lemon

## Blackmores Online
Blackmores has a popular website containing information on a more natural approach to health and the Company in general. The address is blackmores.com.au.

The Blackmores Investor App is downloadable by texting the word 'Blackmores' to 0400 813 813 (Aust and NZ).

## NOTES

Michael Evans and Cirby Denneman
in the wholefoods garden at the
Blackmores Campus

Design: xandercreative.com.au

BLACKMORES®

Blackmores Limited
Australia's Leading Natural Health Company
ACN 009 713 437

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Warriewood NSW 2102, Australia
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**blackmores.com.au**