


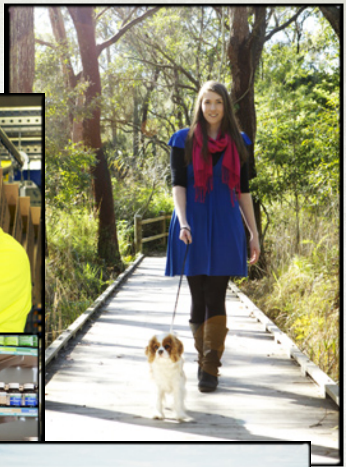



# Today's the day™

## ANNUAL REPORT 2011





BLACKMORES®
THE BEST OF HEALTH
blackmores.com.au

AUSTRALIA'S LEADING NATURAL HEALTH BRAND

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## Annual General Meeting

The 49th Annual General Meeting of the Company will be held at 11am on 27 October 2011 at the Blackmores Campus, 20 Jubilee Avenue, Warriewood NSW 2102.

Cover images of Blackmores' staff (clockwise from top left): Shanna Colver, Elizabeth d'Avigdor, Emma Shanks, Sonny Matteo, Dee Hanley, Jason Low, Carl Gagnon, Nicole Blair, Brian Coles, Bianca Hosking and Alison Bull, David Vick and Mark Johnson, Tiffany Elvy and Trish Alexander.

# Our values

BLACKMORES' 'PIRLS'

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

## Passion for Natural Health

Our enthusiasm and belief in a natural, holistic approach to health inspires us to excellence in everything we do.

## Integrity

We are honest, trustworthy and committed to the highest standards of personal, professional and business behaviour.

## Respect

We treat each other with fairness, dignity and compassion and we embrace diversity.

## Leadership

As a company, in teams and as individuals, we use our wisdom, experience and knowledge to inspire and influence everyone to be their best.

## Social Responsibility

Our actions demonstrate our care, respect and compassion for our people, the broader community and the environment.

Blackmores is committed to promoting these values. We encourage staff to engage in these guidelines with each other, in business dealings and in day-to-day life. The result is a strong and united team working towards a common goal.

# Our history

## AUSTRALIA'S LEADING NATURAL HEALTH BRAND

**BLACKMORES IS PASSIONATE ABOUT NATURAL HEALTH AND INSPIRES PEOPLE TO TAKE CONTROL OF, AND INVEST IN, THEIR HEALTH AND WELLBEING. WE ARE LEADERS IN DEVELOPING AND MARKETING PRODUCTS AND SERVICES THAT DELIVER A MORE NATURAL APPROACH TO HEALTH, BASED ON OUR EXPERTISE IN VITAMINS, MINERALS, HERBS AND NUTRIENTS.**

The Group operates in Australia, New Zealand and Asia and currently employs more than 500 people in the region, with a head office based in Warriewood on Sydney's Northern Beaches. Blackmores became a publicly listed company in May 1985.

Blackmores has been an industry leader in Australia for more than 70 years. The Company had its beginnings in the 1930s, thanks to the vision and passion of one man, Maurice Blackmore [1906–1977], an English immigrant whose ideas about health were ahead of their time.

Maurice Blackmore's belief in the health-giving properties of herbs and minerals led him to develop a whole system of healthcare based on naturopathic principles. His views on natural health, preventative medicine, the environment and recycling were nothing short of radical in the 1930s, and his work opened the doors to new ways of treating illness and maximising health.

Maurice Blackmore was also responsible for starting one of Australia's first health food stores in Brisbane in 1938 and worked with colleagues and friends to establish the first naturopathic colleges and professional associations in the country. His beliefs are still valid today and his teachings are incorporated into the training programs of many natural health practitioners.

Since taking the reigns of the business in 1975, Maurice's son Marcus has continued the family traditions established by his father. He has overseen the development of Blackmores and made it a world leader in the dietary supplements business.

Blackmores' products are developed using a combination of scientific evidence and hundreds of years of traditional knowledge. Our products are made to exacting requirements, under the international PIC/s (Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme) standards of good manufacturing practice. We use high-quality ingredients sourced from around the world. Our product formulations are approved by regulatory bodies where they are sold and are required to meet both our own and various governments' stringent standards of safety, quality and efficacy.

Blackmores' heritage and values are coupled with a commitment to superior business performance. Our strategic direction is focused on delivering growth and continuous improvement to maintain and enhance Blackmores' industry leadership position and achieve ongoing success for our Company and our shareholders.

Today's the day™

...TO THINK OUTSIDE THE BOX

*Carl Gagnon, Technical Manager*


Blackmores' products are developed using a combination of scientific evidence and hundreds of years of traditional knowledge.

We welcome the opportunity to further engage with our members of parliament on the future of Australia's healthcare system.

# Chairman's introduction

## BLACKMORES STRIVES TO IMPROVE PEOPLE'S LIVES BY DELIVERING THE WORLD'S BEST NATURAL HEALTHCARE SOLUTIONS.

**Approaching this year, we aimed to:**

> Grow our revenue, profit and shareholder return

> Get closer to our consumers and retail customers in all markets

> Invest in and develop our people

I'm pleased to report that in a challenging retail environment we have been successful in achieving our vision, delivering our ninth consecutive year of sales and profit growth.

We celebrated several important milestones including record profit growth from Asia, a successful market entry into Korea and the acquisition of Pure Animal Wellbeing, our new animal health division.

In February 2011, Blackmores hosted an event at Parliament House to educate our policy-makers on the role of natural health supplements in the healthcare system.

We urged them to incorporate complementary medicine (CM) as part of an integrated preventative health strategy, to ensure CMs with demonstrable public benefit (including fish oil, vitamin D and co-enzyme Q10) are affordable. We highlighted the need for investment in further research, particularly in relation to the clinical effectiveness and economic contribution of CM, and for improved education of healthcare professionals such as GPs and specialists.

Since that time, the New Zealand Government has announced they are developing a stand-alone framework for the regulation of natural health products. We are hopeful that the Australian Government will seriously consider following the lead of their counterparts across the Tasman and establish a separate regulatory authority, staffed by appropriately qualified people, to oversee the regulation of complementary medicines in Australia.

Blackmores believes that it is in the interest of the public and the industry that there are the same rules for complementary medicines in New Zealand as in Australia, much like the rules for rugby.

We welcome the opportunity to further engage with our members of parliament on the future of Australia's healthcare system.

## CHARITABLE GIVING

On a different note, I've been inspired by the generosity of our staff and customers this year, who have given, in various ways, back to the local community and incorporated charitable giving into how we do business. Some examples include:

> Participants of the Blackmores Sydney Running Festival raised more than $2.2 million for charities

> Blackmores' contribution to the Macular Degeneration Foundation has now exceeded $3 million

> Blackmores naturopath Elizabeth d'Avigdor is at the helm of a project helping to restore knowledge on growing and using traditional medicinal herbs in Ethiopia

> Blackmores' Malaysian team supported the Serendah Waterfall Project

> Staff participated in a community partnership with Bankstown Girls High School through the Australian Business and Community Network

## DIVERSITY

It is interesting to note that this is the first year companies are required to disclose their Diversity Policy. As a company that has always had a significant number of women in Board and senior positions we naturally embrace diversity.

We were very pleased when Chief Executive Women and the Women's Leadership Institute Australia announced our Chief Executive Officer and Managing Director, Christine Holgate, as winner of the 2011 International Executive Study Scholarship earlier this year.

Christine has provided strong leadership throughout a year that many businesses found challenging and which we weathered with great success.

On behalf of the Blackmores Board, I would like to thank Christine, the management team and our passionate and hardworking staff who have been behind this result. Finally, my sincere thanks to our valued shareholders for your continued support of our Company.

Marcus C. Blackmore AM

**Chairman of the Board**

# Year in review
# CEO Christine Holgate

## DEAR SHAREHOLDER

**2010/2011 WAS A VERY SUCCESSFUL YEAR FOR BLACKMORES, WITH ANOTHER RECORD PROFIT RESULT ACHIEVED IN A CHALLENGING AUSTRALIAN RETAIL ENVIRONMENT.**

I'm very pleased to report that we delivered a 12.4% increase in net profit after tax (NPAT) and grew sales by 9.1% to $234.4 million. This is an excellent result considering the subdued trading conditions in Australia, the impact of the natural disasters in the region and the strength of the Australian dollar diluting our strong sales from Asia.

Our results were buoyed by our expansion in Asia, including a successful market entry into Korea. Additionally, each of our Asian markets delivered double-digit top-line growth in the year. Asia sales are up 40% and NPAT is up 129% compared to the previous corresponding year. The contribution this region makes to our Group NPAT almost trebled, with Asia profit comprising 19% of the Group total. The added volumes from these sales helped gain further efficiencies from our Warriewood facility.

We also benefited from our renewed focus on strategic sourcing of raw ingredients which has allowed us to protect and build our gross margins, remain in control of our supply chain and optimise our innovation program.

## HIGHLIGHTS

- 12.4% increase in NPAT (from $24.3m to $27.3m)
- Sales growth of 9.1% (from $214.9m to $234.4m)
- EPS growth of 11.2%
- 12.7% EBITDA growth and gross margin improvement through supply chain optimisation
- Added over 1,000 points of distribution across the Group
- Added new streams of revenue
- Diversified the risk profile of our Company

**These highlights were achieved with:**

- Solid cash flows
- Strong balance sheet
- Record dividends of 124 cents per share

Blackmores' brand health remains strong and we are preferred by both consumers and retailers. We have a pipeline of growth projects planned to create additional revenue opportunities and ensure the ongoing sustainability of our business.

Blackmores' brand health remains strong and we are preferred by both consumers and retailers.

# Year in review... continued

## PEOPLE

Employee engagement measures place Blackmores among the most desirable employers but we recognise the need for continued focus on creating opportunities for our staff, developing leadership capability and protecting our corporate culture.

We have made several changes to our management team in recent months to ensure we have the right leadership to meet our growth ambitions and I'm delighted that several of these opportunities have been filled by internal candidates, which is a strong testament to the quality of our team. It has also created opportunities to introduce new talent and expertise.

## GETTING CLOSER TO OUR CUSTOMERS

Pharmacy, our biggest sales channel, has been faced with broader challenges over the year and this was compounded by the general sluggishness of retail sales. Notwithstanding these factors, we grew our sales in Australia by 3% over the year with a particularly strong fourth-quarter performance.

## DRIVING INNOVATION

Blackmores delivered 68 new products across all markets over the financial year. A further 72 existing products were 'renovated' including new pack sizes of existing products and formulation improvements.

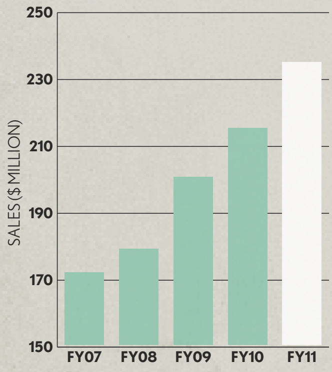
## GROWING OUR BUSINESSES

Our new pet health business, Pure Animal Wellbeing (PAW), has been successfully integrated into the Blackmores Group, has an expanded range and achieved 60% sales lift since being acquired by Blackmores in July 2010. It is a business we are still investing in to grow as consumer interest in pet nutrition increases.

In addition, our new market entry into Korea in December 2010 has already contributed to our Group profit.

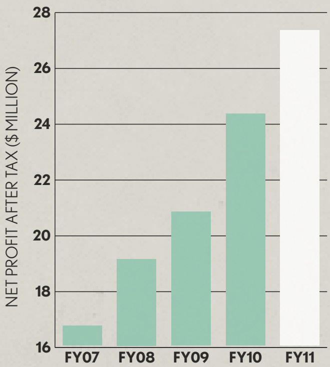
## NEW ZEALAND

Blackmores, working with our local distributor, API, gained market share in New Zealand in a very tough market, improved sales by 3% and grew share ahead of the market in both major channels despite the challenges in Christchurch. Our New Zealand growth was supported by several successful product launches, including Blackmores Macu Vision, which is our first registered over-the-counter medicine in New Zealand.



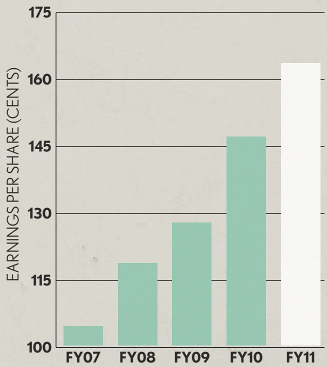

## SALES

**Group revenue from the sale of goods for the year of $234.4 million represented growth of 9.1% over last year's sales result.**




## NET PROFIT AFTER TAX

**Group Net Profit After Tax (NPAT) was $27.3 million for the year, representing growth of 12.4% on last year's reported profit.**




## EARNINGS PER SHARE

**Earnings per share increased by 11.2% to 163.2 cents.**

We are looking forward to contributing to the development of the new Natural Health Products Bill which is expected to pass ahead of the November government elections.

## LEVERAGING OPERATIONAL EFFICIENCIES FROM THE NEW FACILITY

The high volumes resulting from our Asia sales growth have been well supported by the new efficiencies from the Warriewood facility. As our capacity grows, so too do the customer benefits. For example, more than 98% of orders received by 11am are despatched the same day.

## DIVIDENDS AND CASH FLOW

Including this year's final dividend of 80 cents per share, total ordinary dividends declared out of profits for the year were 124 cents per share (fully franked). This represents a 10.7% increase over last year's total ordinary dividends of 112 cents per share.

The Group generated solid operating cash flows of $21.6 million. This was lower than the prior year as a result of the timing of customer receipts from our strong final quarter sales and the phasing of tax payments. The Group's net debt of $29.8 million, with gearing at 27.4%, includes the impact of the July 2010 acquisition of PAW and the Group taking advantage of its high interest cover to suspend the Dividend Reinvestment Plan in August 2010.

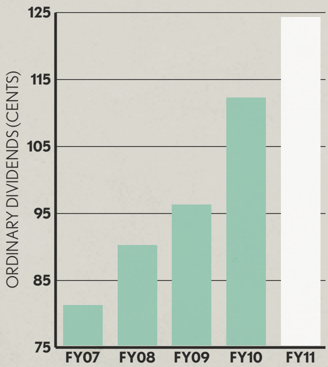
Blackmores has been engaged in court proceedings with the building contractor regarding the construction of the Blackmores Campus. Directors believe that Blackmores will not face a liability and accordingly no liability has been recorded in the current year.

Our continued success is a tribute to the strength of our brand and the continued support of our retail customers, suppliers and employees.

## OUTLOOK

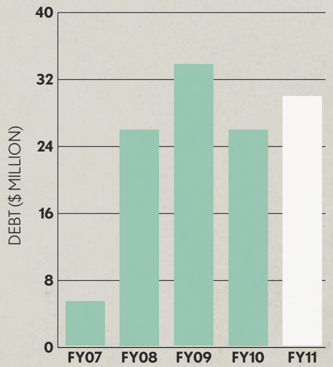
We are conscious of the continued challenges in the Australian retail environment. Looking ahead, we have a strong strategic plan which we will continue to implement to drive growth and deliver improved returns to our shareholders.

Christine Holgate
CHIEF EXECUTIVE OFFICER




## ORDINARY DIVIDENDS

**Including this year's final dividend of 80 cents per share, total ordinary dividends for the year were 124 cents per share (fully franked). This represents a 10.7% increase over last year's total ordinary dividends of 112 cents per share.**




## DEBT

**The Group's net debt level was $29.8 million at 30 June 2011. This is compared to $25.8 million in the prior year. Gearing, as measured by Net Debt / (Net Debt + Shareholders' Equity) was 27.4%, compared to 26.5% last year.**


BLACKMORES
camino
GT

# Building our brand

> Blackmores has again been recognised as the Most Trusted Vitamin and Supplement Brand, in both Australia and Thailand

## BUILDING OUR BRAND

**BLACKMORES HAS CONDUCTED EXTENSIVE CUSTOMER AND CONSUMER RESEARCH OVER THE FINANCIAL YEAR TO IMPROVE OUR UNDERSTANDING OF HOW OUR BRAND, BUSINESS AND PRODUCTS ARE PERCEIVED SO WE CAN CONTINUALLY IMPROVE.**

Blackmores' brand equity is very strong, with consumers preferring Blackmores to any other vitamin company. Similarly, retailers believe Blackmores has the best products, operations and brand.

## MOST TRUSTED

Blackmores has again been recognised as the Most Trusted Vitamin and Supplement Brand, in both Australia and Thailand as judged in the 2011 Reader's Digest Most Trusted Survey.

This is the third consecutive win for Australia and the sixth year for Thailand.

The Reader's Digest survey polls a representative sample of consumers (not necessarily just Reader's Digest readers) ranking brands on trust.

Winning the award in both Australia and Thailand is further demonstration of the confidence consumers have in the heritage of the brand and quality of Blackmores' products.

## BLACKMORES SYDNEY RUNNING FESTIVAL

The Blackmores Sydney Running Festival on 19 September 2010 attracted a record number of participants, with more than 34,000 people competing in the full marathon, half marathon, 9km bridge run and 4km family fun run. The event raised more than $2.2 million for charities.

Today's the day™

...TO BEAT MY PERSONAL BEST

Trish Alexander and Tiffany Elvy

# Developing our product portfolio

**BLACKMORES DELIVERED 68 NEW PRODUCTS ACROSS ALL MARKETS OVER THE FINANCIAL YEAR. A FURTHER 72 EXISTING PRODUCTS WERE 'RENOVATED' INCLUDING NEW PACK SIZES OF EXISTING PRODUCTS AND FORMULATION IMPROVEMENTS.**

### Odourless Fish Oil + Vitamin D3

Blackmores' Odourless Fish Oil + Vitamin D3 combines a high-quality odourless fish oil and vitamin D3 in a convenient, all-in-one formula which provides nutrients essential for a healthy body. Fish oil and vitamin D are two of the fastest growing ingredient segments in Australia and there is a significant body of evidence showing the benefits of these important nutrients.

### Women's Bio Balance and Digestive Bio Balance™

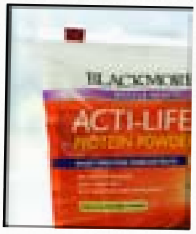
These two new probiotic products feature clinically researched strains of 'good' bacteria that support vaginal and digestive health.

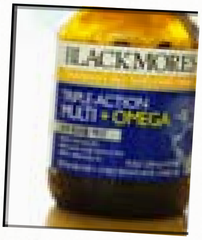
### Blackmores Origins range

The Origins range consists of seven products developed in line with naturopathic trends for the heath food store shopper. These products complement the core Blackmores product range.

### Acti-Life™ Protein Powder Plus

Blackmores Acti-Life™ Protein Powder Plus contains whey concentrate and helps build muscle strength and supports healthy bones, helping to regain power and agility.



### Asia range expansion

Throughout the year Blackmores launched many new products into our Asian markets including the Omega range of concentrated fish oils in Hong Kong and Joint Formula in Singapore.

## RESEARCH

Blackmores collaborates with leading Australian and international research institutes, hospitals and universities, including the Heart Research Institute and Southern Cross University.

Blackmores' research program has been developed to explore new indications for existing products and investigate new ingredients and areas of benefit for natural medicine.


**The Origins range** consists of seven products developed in line with naturopathic trends for the heath food store shopper.

Sales staff can connect our customers directly with our warehouse facility. This ensures a high rate of order accuracy and reduced order lead time.

# Getting closer to our customers

**BLACKMORES HAS IMPLEMENTED A RANGE OF NEW INITIATIVES DURING THE YEAR TO OPTIMISE OUR PERFORMANCE IN OUR SALES CHANNELS AND IMPROVE OUR RELATIONSHIP WITH OUR CUSTOMERS.**

In Australia, this has resulted in more than 300 new retailer accounts as well as those supporting our new Pure Animal Wellbeing range.

Blackmores' Electronic Data Interface (EDI) was expanded so many of our retail customers are able to place an order in their own point of sale system and that order can be in our warehouse within 20 minutes.

Sales staff can connect our customers directly with our warehouse facility. This ensures a high rate of order accuracy and reduced order lead time.

These changes enable more than 50% of the value of our orders to be processed electronically each month.

## NATUROPATHIC ADVISORY SERVICE

Our Naturopathic Advisory Service (Freecall 1800 803 760) has been operating for over 20 years. This service provides consumers, retailers and healthcare professionals with the opportunity to talk with a qualified naturopath. Blackmores' naturopaths provided advice and support for over 52,600 people via telephone, mail, online 'click to chat' and personalised email through the Ask a Naturopath service on blackmores.com.au.

There has been a growing trend towards digital communication for health information. Total online communication has increased by 19% over the last year. Online chat traffic has grown by over 111%, providing a total of 3,243 chat opportunities with our consumers.

## EDUCATION

Our naturopathic trainers presented health information seminars and training to over 10,000 retail staff during the year and processed 5,000 pharmacy assistant training initiatives. Blackmores' successful retail e-learning program now has over 3,000 active registered users and 15 learning modules.

Blackmores Education Department continued its commitment to healthcare professional education with sponsorships at GPCE General Practitioner conferences and the Pharmacy Expo. We have maintained strong relationships with the Pharmacy Guild of Australia and Pharmaceutical Society of Australia and trained over 600 pharmacy students in evidence-based use of complementary medicines through 12 Australian universities. In total we have trained over 1,500 healthcare professionals this year.

## BLACKMORES.COM.AU

Blackmores' award-winning website has grown to become one of Australia's biggest online health communities, with customised content, over 360,000 members and a number of interactive forums.

The Company launched a major new website in Thailand and has received a significant level of interest, fast-growing subscriber numbers and high engagement. Blackmores now has websites in all major markets. Participation in social media, such as Facebook and Twitter, and engagement with online communities also continues to grow at a fast rate.

Today's the day™

... TO CONNECT WITH OUR ONLINE COMMUNITIES

Mark Johnson and David Vick

# Growing our business

**BLACKMORES ACQUIRED PURE ANIMAL WELLBEING (PAW), AN ANIMAL HEALTH BUSINESS, IN JULY 2010. THE BUSINESS WAS SUCCESSFULLY INTEGRATED INTO BLACKMORES' WARRIEWOOD CAMPUS IN SEPTEMBER 2010.**

In February 2011, Blackmores launched PAW as a new Division of Blackmores, with 21 new products including companion pet nutritional supplements and grooming products using natural ingredients.

PAW now has distribution in over 800 veterinary clinics and 300 pet stores, with exports to New Zealand, North America and Korea. Sales are up 60% compared to prior year.

PAW now has distribution in over 800 veterinary clinics and 300 pet stores, with exports to New Zealand, North America and Korea.

Visit www.paw4pets.com
to find out more about this range.

Today's the day™

...TO GET SOME FRESH AIR AND SOME VITAMIN D

*Dee Hanley, Financial Accountant*

# Blackmores in Asia

**ASIA'S RECORD SALES GROWTH OVER THE LAST YEAR HAS MADE A WELCOME CONTRIBUTION TO THE GROUP RESULT GIVEN THE LACKLUSTRE AUSTRALIAN RETAIL ENVIRONMENT.**

The Blackmores brand is well received in Asia and our high quality and long heritage align well with Asian philosophy.

Blackmores' growing Asia business allows closer access to the source of key raw ingredients, has enabled diversification of our risk profile and has driven increased volumes of stock though our Warriewood facility, which has been key to protecting our gross margins across the Group.

Our largest overseas market, Thailand, continued its very strong growth performance across all channels in both Bangkok and regional Thailand. Blackmores again won the Reader's Digest Most Trusted Brand award, for the sixth year running, reflecting our brand position as Thailand's leading natural healthcare brand in the retail sector in the dynamic Thailand market.

In Malaysia, a combination of key new product launches, particularly the heart care range, exceptional in-store merchandising and new advertising and promotional activities, saw our business achieve double-digit growth throughout the year. In June Blackmores was awarded the prestigious Superbrands Award in the Vitamins & Health Supplements category, which is strictly by invitation. Superbrands are identified by an independent survey and represent quality, reliability and distinction.

The establishment of Blackmores' own office in Singapore, the appointment of a Country Manager and employment of our own sales force during the year enabled Blackmores to significantly enhance relationships with key channel partners, and to drive strong sales and profit growth for our business in this highly competitive market. Well-executed new product launches in the Cold & Flu and Arthritis & Joint categories further raised our brand profile with Singaporean consumers.

Our Hong Kong business underwent a major transformation during the year, more than doubling sales with the full implementation of our strategy to rapidly increase our points of distribution. Blackmores now has a strong shelf presence in all major retail chains (Watsons, Mannings, Sasa, CRCare and Vivo Plus), independent pharmacies and sales into the important Hong Kong Hospital Authority.

Our Taiwan business has seen sales quadruple during the year as a result of our rapid expansion into new channels, particularly with Cosmed, Taiwan's dominant healthcare drug store chain, as well as enhancing our partnership with Watsons. Our full Omega range successfully launched in Taiwan in the fourth quarter with very strong consumer uptake and retail channel engagement.

In December Blackmores entered Korea, our first new overseas market entry in five years, through a partnership with CJO Shopping, Korea's number one TV shopping and online retailing company. Our launch in Korea was a new go-to-market model for Blackmores with TV shopping – a dominant channel in the Korean market. Our three TV shopping products, Omega Daily, Triple Action Multi + Omega, and Kids Multi, performed extremely well, achieving in six months record sales, for a foreign vitamin brand in Korea. In June we also commenced our expansion into offline channels (high-end department stores, duty free, drug store and retail chains) to further enhance our rapidly growing brand presence in this truly dynamic new market for Blackmores.

**The Blackmores brand** is well received in Asia and our high quality and long heritage align well with Asian philosophy.

**Blackmores will** add to, nurture and develop the collective relevant skills and diverse experiences and attributes of people in the Company.

# Investing in our people

## COMMITMENT TO DIVERSITY

**BLACKMORES HAS ALWAYS HAD A STRONG COMMITMENT TO DIVERSITY, BELIEVING IT POSITIVELY IMPACTS EMPLOYEE ENGAGEMENT, IMPROVES BUSINESS PERFORMANCE, INCREASES SHAREHOLDER VALUE AND ENHANCES THE PROBABILITY OF ACHIEVEMENT OF CORPORATE OBJECTIVES.**

Consistent with our values Blackmores strives to promote a culture that creates a workplace free of discrimination and harassment.

Diversity at Blackmores recognises and values the diverse blend of skills, experiences, perspectives, styles and attributes gained from life's journey, on account of culture, gender, age or otherwise.

Blackmores is a diversity leader and we fully integrate best practice into all aspects of the workplace and how business is conducted. Although the key focus is gender, Blackmores recognises other forms of diversity are also important.

We have come a long way from our humble beginnings in Brisbane. Today, staff speak more than 20 different languages, for more than 60% of Blackmores staff across the globe English is not their first language, and 35% of those are in frontline jobs.

**For the Equal Opportunity for Women in the Workplace Agency (EOWA) reporting period Blackmores in Australia averaged 355 employees, with 70% of these employees being women.**

> 43% (3 of 7) Board Directors are women
> 48% of Senior Managers are women
> 57% of all managers are women
> 64% of supervisors and team leaders are women
> 60% of all professional roles are held by women
> 76% of the para professional/technical roles are held by women
> 89% of the sales team are women
> 87% of the clerical and administration staff are women
> 53% of production, despatch and warehouse roles are held by women
> A selection of senior managers participate in the Chief Executive Women (CEW) Talent Development Program

In an ongoing effort to maintain diversity, Blackmores commits to the following:

> Add to, nurture and develop the collective relevant skills and diverse experiences and attributes of people in the Company.
> Invest in people leaders to grow capacity to support and foster flexibility and diversity across the Company and ensure management systems are aligned to and promote diversity.

"Historically Blackmores has focused on putting the right people with the right skills in the right jobs, and we've sought to create a flexible working environment," said Marcus Blackmore. "As a result we have a richly diverse workforce."

Today's the day™

...TO START A DETOX

Bianca Hosking and Alison Bull

# Operational excellence

**BLACKMORES' OPERATIONS TEAM CONTINUES TO DELIVER OPERATIONAL IMPROVEMENTS TO SUPPORT A GROWING AND DYNAMIC BUSINESS.**

At the forefront is improving how we service our customers. We have been able to significantly increase our customer delivery processes in the Western Australian distribution centre with the introduction of new technology. Our 'Despatched On Time' statistics show that a customer order received prior to 11am is shipped on the same day more than 98% of the time.

We introduced pre-labelled bar-coding of incoming components which has significantly increased the speed with which goods will move through our receiving process. Due to this initiative we now receive at least 80,000 cartons that no longer require labelling during the receiving process, with more suppliers to come on board in the new financial year.

> For the last six months of this financial year, production output has increased by 26%.

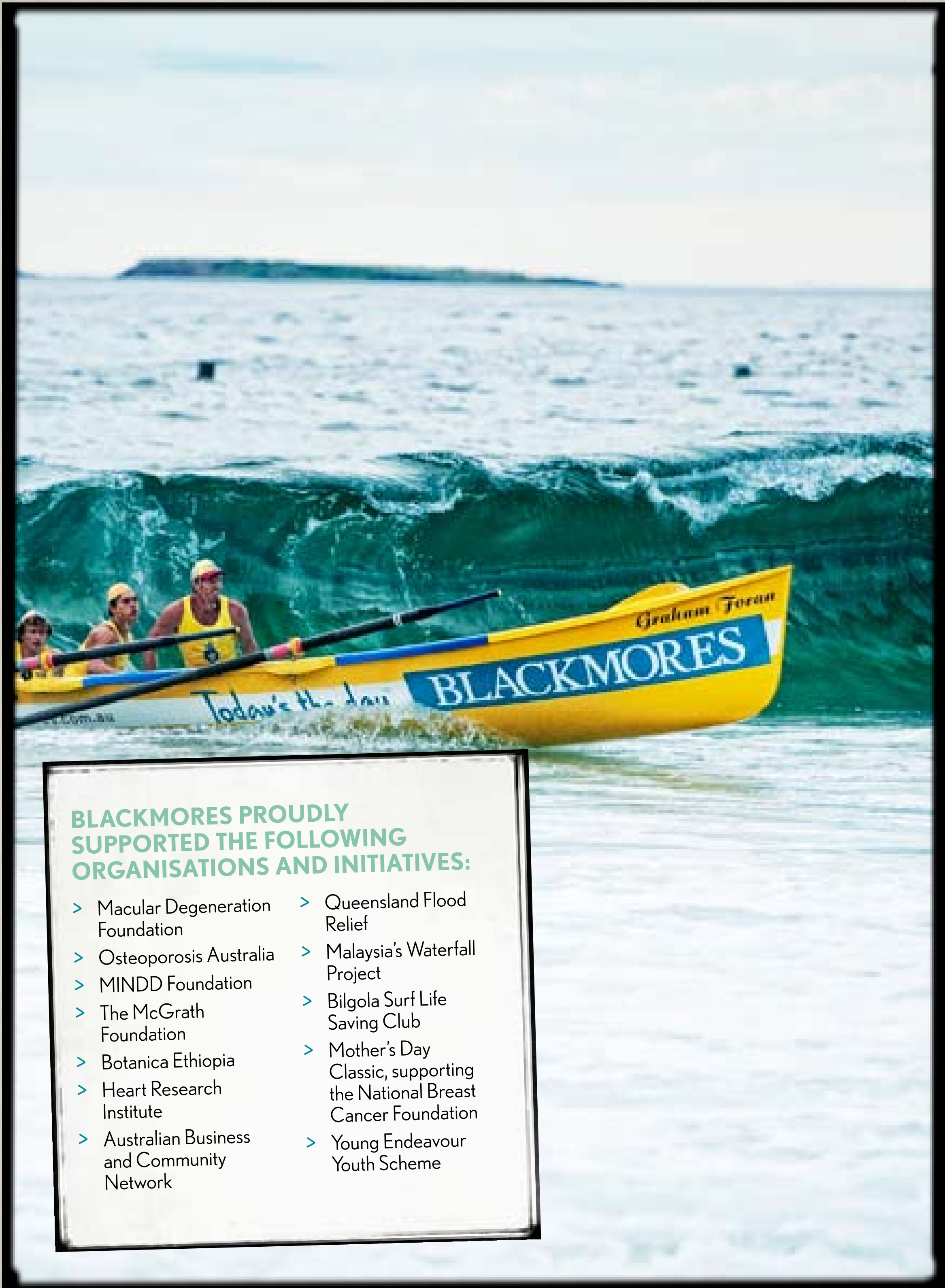
We continue to leverage our investment in the Warriewood production facility to deliver significant efficiency and cost gains. For the last six months of this financial year, production output has increased by 26% (based on average daily output compared to the previous year) and reduced the average labour and overhead cost per unit by 13%.

Today's the day™

...TO WORK TOGETHER

*Sonny Matteo, Distribution Operator*


BLACKMORES
THIS WAY UP
BLACKMORES
THE BEST OF HEALTH




## BLACKMORES PROUDLY SUPPORTED THE FOLLOWING ORGANISATIONS AND INITIATIVES:

- Macular Degeneration Foundation
- Osteoporosis Australia
- MINDD Foundation
- The McGrath Foundation
- Botanica Ethiopia
- Heart Research Institute
- Australian Business and Community Network
- Queensland Flood Relief
- Malaysia's Waterfall Project
- Bilgola Surf Life Saving Club
- Mother's Day Classic, supporting the National Breast Cancer Foundation
- Young Endeavour Youth Scheme

# Social responsibility

## AUSTRALIAN BUSINESS AND COMMUNITY NETWORK

Blackmores was invited to join the Australian Business and Community Network. ABCN's focus is on education and improving opportunities for students and schools that are most in need, providing mentoring and support programs to schools. The Aspirations Program is a coaching program for Year 11 students which aims to equip students with the knowledge and tools to make informed decisions about their choices and pathways after school. Students are coached by mentors in facilitated workshops held at company premises. Though designed to benefit students, the program provides Blackmores' participants with coaching and mentoring skills and development, enhanced job satisfaction and increased awareness of the wider community.

## SERENDAH WATERFALL PROJECT

Blackmores' Malaysian team embarked on an environmental project in January 2011. They travelled to Selangor to clean up the area of the beautiful Serendah Waterfall.

The project was a collaboration with PaCER (People and Corporate Environmental Responsibility). The organisation's mission is to ensure the waterfall is restored to its original condition and to educate the community about civic consciousness and care for the environment.

## BOTANICA ETHIOPIA

Blackmores naturopath Elizabeth d'Avigdor initiated a project to implement a sustainable and replicable indigenous medicinal herb garden in a rural community in Ethiopia and provide educational workshops. The aim of a community medicinal herb garden is to provide knowledge about, and access to, the indigenous medicinal herbs used to treat common complaints so that the herb species and knowledge are protected for future generations.

The project included collaboration with Southern Cross University and Addis Ababa University and was aligned with the Global Development Group.

## BILGOLA SURF LIFE SAVING CLUB

Blackmores is the principal sponsor of the Bilgola Surf Life Saving Club which is located near the Blackmores Campus on Sydney's Northern Beaches. This contributes to beach safety for the community through the provision of trained lifesavers. Bilgola Surf Life Saving Club and Blackmores share a common commitment to encouraging the local community to be fit and healthy and embrace Australian beach culture.

## MATCHED DONATIONS

Employees are encouraged to participate in a charitable scheme whereby 0.5% of their taxable pay is deducted each payday and placed in an interest-bearing trust account. The Company matches this, and twice yearly each participating employee nominates a registered charity to receive the donation.

## THE BLACKMORES WALK AT SOUTHERN CROSS UNIVERSITY

The Blackmores Walk was officially opened at Southern Cross University on 22 March 2011 and was the culmination of a five-year project that links three key University gardens – the medicinal herb garden, the indigenous plant garden, and the newly developed students' food garden.

The Blackmores Walk is open to the public and fully accessible to people with disabilities. For more information visit http://www.scu.edu.au/schools/hahs

Blackmores naturopath Elizabeth d'Avigdor in Ethiopia.

# Environmental sustainability

## BLACKMORES HAS A LONG-TERM COMMITMENT TO SUSTAINABILITY AND SOCIAL RESPONSIBILITY.

We believe as responsible corporate citizens, we must address the issues of environmentally sustainable practices relating to all aspects of our business, demonstrating care, respect and compassion for our people, the broader community and the environment.

We have taken a broad-based approach to reducing waste across all aspects of the business through our involvement with the National Packaging Covenant. As a signatory to the new Australian Packaging Covenant, Blackmores is committed to reducing the environmental impact of our packaging through design, closing the recycling loop and demonstrating a commitment to good product stewardship.

The Covenant marks ten years of continuous improvement in the environmental performance of Blackmores' packaging and waste minimisation. This was acknowledged at the Packaging Magazine Evolution Awards in 2006, 2007, 2008 and 2009. Blackmores was a finalist for these four consecutive years in the Pharmaceutical Packaging Action Award Category, winning twice.

As part of Blackmores' commitment to further reduce carbon emissions and minimise our carbon footprint, the conversion of all our fleet vehicles to LPG or diesel will be completed in 2011.

### BLACKMORES' APPROACH TO PRODUCT STEWARDSHIP

Blackmores is aware of the importance of packaging design, selection of packaging materials and choice of minimal but effective secondary and tertiary packaging materials that facilitate the production, distribution and retailing of its products. Post-consumer recovery and recyclability are integral to this life cycle approach.

The majority of Blackmores' products are packaged in glass with a polypropylene tamper-evident lid. Where products are placed in cartons, the recyclability of the carton is clearly indicated. Few products are packaged in blisters for on-shelf differentiation or in HDPE jars for bulk packs to minimise weight and breakages.

Blackmores has used glass as its preferred container since the early 60s based on its superior contents protection, recyclability and premium presentation on shelf.

Recognising that a product's life cycle necessitates a shared responsibility, Blackmores maintains an ongoing dialogue with downstream and upstream suppliers and customers about its approach to sustainable packaging, including disposal, recyclability and minimisation of packaging waste.

Today's the day™

...TO USE LESS PAPER AND HELP SAVE THE PLANET

*Shanna Colver, Project Office Manager*

**We believe** as responsible corporate citizens, we must address the issues of environmentally sustainable practices relating to all aspects of our business.

# Management profiles

## Christine Holgate
**Chief Executive Officer**

Christine has over 25 years of international sales and marketing experience working in highly regulated industries, including telecommunications, finance, media and healthcare. Christine was appointed to her current role as Chief Executive Officer by the Board in November 2008. She has held numerous board and senior management positions working in Europe, Asia, the Americas and Australia. Christine's prime responsibilities have been leading teams through significant change, growth and start up. Christine has three post-graduate diplomas, in Management, Marketing, and Purchasing and Supply; and a Master's Degree in Business Administration (MBA). Christine is also currently a board member of Ten Network Holdings Limited.

## Chris Last
**Chief Financial Officer**

Chris has over 20 years of experience in finance roles across consumer and manufacturing industries. He was Unilever Australasia's Director of Finance for Brand and Customer Development. Chris has also held senior positions with the Richemont Group of global brands including Cartier, Dunhill and Montblanc. Chris holds an honours degree in Management, is a qualified accountant and is a member of the Association of Corporate Treasurers in the UK.

He has a wealth of experience in the financial management of consumer products and global brand management.

## Peter Osborne
**Director Asia**

Peter brings more than 20 years of experience in Asia, having lived and worked in Taiwan, Hong Kong, Shanghai and Beijing running the Australian Trade Commission's operations in markets in North Asia. He has extensive experience and understanding of Asian business practice, operating in culturally complex business environments and leading teams across multiple markets. A Mandarin Chinese speaker, Peter has led Blackmores Asian growth strategy since 2009.

## Jim van Bruinessen
**Director of Sales & Marketing, Australia***

Jim brings over 20 years of experience to his role as Director of Sales & Marketing, Australia.

His previous senior roles with Fonterra Australia, Goodman Fielder, Arnotts and Coca-Cola have given him extensive experience in developing strategy for businesses with diverse sales channels, ranging from smaller independent retailers to large chain stores. Complementing his extensive sales experience, Jim has had responsibility for marketing services at Coca-Cola South Pacific and, as Chief Executive Officer of Lloyd Brooks Pty Ltd, a small FMCG business, developed a suite of new products, media campaigns, brand and communications strategies.

***Jim van Bruinessen was appointed as Director of Sales & Marketing, Australia in July 2011.**

## Richard Henfrey
**Director Strategic Sourcing**

Richard has over 16 years of experience in strategic and business development roles in highly regulated industries in Australia, Europe and North America.

He joined Blackmores in 2009 as Director of People & Strategy and has implemented numerous business improvement initiatives. In July 2011, Richard was appointed as president of the Complementary Healthcare Council of Australia, the peak industry association for natural healthcare products.

## Lee Richards
**Chief of Operations**

Lee has more than 30 years of experience in IT, spanning a variety of industries from distribution and manufacturing through to corporate banking. He has been with Blackmores since 2000 and, as part of the team assembled to manage the design and rollout of Blackmores' new business system, Lee brought a significant level of technical, management and business expertise with him. He was appointed Chief of Operations in 2010, incorporating IT, Production, Distribution and Facilities.

## Kerry Cunningham
**Director People & Communication**

Kerry's career at Blackmores has spanned over 20 years. She has moved through the business in Sales and Marketing roles, with her most recent appointment as Director People & Communication in April 2011. Her passions in the business include customer focus, staff engagement, development and achieving results.

## Neal Mercado
**Director Product Development**

Neal has over 15 years of experience in the global vitamin and dietary supplements industry, with an emphasis on strategic marketing and new product development. He has a proven track record of delivering innovation and has held a number of roles focused on portfolio management and global product development for multinational corporations including Amway and IdeaSphere.

## Gabriel Perera
**Director Business Development**

Gabriel has over 12 years of senior management and business building experience. He has expertise in growth strategy, M&A, business development and general management in the natural products industry.

He has experience as a lawyer at DLA Phillips Fox, in private hospital management, as a senior strategy consultant with Accenture and in senior roles at Blackmores.

Gabriel holds an LL.B, a B.Com and a Masters of Business and has advanced his education through clinical training.

## Alison Quesnel
**General Manager – New Zealand**

Alison has been the General Manager of our business in NZ since 2000. She has considerable management and export experience across a range of categories, sectors and channels. Alison is a member of the Board of Natural Products New Zealand, the industry association for dietary supplements in NZ.

# Corporate Governance Statement

**THIS CORPORATE GOVERNANCE STATEMENT DETAILS BLACKMORES' CORPORATE GOVERNANCE PRACTICES AND COMPLIANCE WITH THE ASX CORPORATE GOVERNANCE COUNCIL'S CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS (2ND EDITION).**

This statement should be read in conjunction with the Directors' Report and Remuneration Report at pages 34 to 46 of this Annual Report and the Corporate Governance Principles available on the Blackmores website at blackmores.com.au (go to 'Investors Centre', then click on 'Corporate Governance').

A copy of these principles can also be obtained by contacting the Company Secretary.

## PRINCIPLE 1

### Lay solid foundations for management and oversight

The Board has adopted a formal Board Charter which, among other matters, sets out the responsibilities, structure and composition of the Board of Directors of the Company. The matters which require approval by the Board are included. A copy of the Board Charter is available on Blackmores' website. A summary of duties for the Chairman and the Chief Executive Officer are reviewed and agreed by the Board and include job descriptions for each role.

Blackmores has comprehensive performance guidelines in place. Underpinned by clearly defined objectives and measures developed through the overall process of performance management, each Senior Executive has had their performance assessed in line with the program during the year.

## PRINCIPLE 2

### Structure the Board to add value

The Board reviews its composition from time to time to ensure the Board benefits from diversity with regard to gender, skills and experience.

Pages 34 to 35 set out the qualifications, expertise and experience of each Director at the date of this report and their period of office.

The Board considers all of its Non-Executive Directors to be independent. The Board regularly assesses the independence of each Non-Executive Director. Further details regarding criteria the Board considers in the assessment are contained on Blackmores' website.

There is a procedure in place which provides for Directors to take independent advice at the expense of the entity.

Mr Marcus Blackmore holds the position of Chairman. Mr Blackmore is also the major shareholder in the Company. Given the depth of his company experience and industry standing, he is considered to be excellently placed to serve as Chairman notwithstanding that pursuant to the ASX recommendation he is not considered an 'independent' Chairman. The Deputy Chairman and Lead Director, Mr Stephen Chapman, is an independent Director. The Non-Executive Directors regularly meet without Executive Directors present. For these reasons the ASX recommendation for an independent Chairman has not been adopted.

The Board has established a Nominations Committee which comprises the full Board. The Board's policy for the nomination and appointment of Directors is to fulfil its responsibilities to shareholders by ensuring that the Board is comprised of individuals who are best able to discharge their responsibilities as Directors, having regard to the law and the highest standards of governance. A copy of the Committee's Charter is available on Blackmores' website.

The Chairman of the Board evaluates the performance of individual Directors and the Board collectively on an ongoing basis. Periodically, a comprehensive review of Board and member performance is conducted. An assessment of the Board, its Committees and member performance was conducted during the year.

## PRINCIPLE 3

### Promote ethical and responsible decision-making

Blackmores has a Code of Conduct to provide Directors and employees guidance on what is acceptable behaviour. Specifically, the Company requires all Directors, managers and employees to maintain the highest standards of integrity and honesty. A copy of the Code of Conduct for Directors and employees is available on Blackmores' website.

Blackmores has established a policy with respect to trading in Blackmores' shares by Directors, management and staff in compliance with the ASX Listing Rules requirements. A copy of the policy is available on Blackmores' website.

Blackmores has a strong commitment to diversity, believing it positively impacts employee engagement, improves business performance, increases shareholder value and enhances the probability of achievement of corporate objectives.

Each year Blackmores' Annual Report provides organisation-wide gender statistics. The Board continues to support management in developing a Diversity Policy appropriate for the Company.

## PRINCIPLE 4

### Safeguard integrity in financial reporting

Blackmores is committed to a transparent system for auditing and reporting of the Company's financial performance. The Board has established an Audit and Risk Committee which performs a central function in achieving this goal. A copy of the Committee's Charter is available on Blackmores' website.

The Chair and members of the Committee are independent Directors. The composition and structure of the Committee and membership attendance at meetings of the Committee are set out in the Directors' Report.

Blackmores' procedure on the appointment of external auditors is available on Blackmores' website. The Committee has the opportunity to meet with the external auditors without management present as required.

## PRINCIPLE 5

### Make timely and balanced disclosure

Blackmores has established policies to ensure the market is informed of matters in compliance with the ASX Listing Rules disclosure requirements. A copy of the policy is available on Blackmores' website.

## PRINCIPLE 6

### Respect the rights of shareholders

Blackmores strives to convey to its shareholders and the investing public pertinent information in a detailed, regular, factual and timely manner. A copy of Blackmores' communication policy is available on Blackmores' website. Shareholders are encouraged to ask questions at the Annual General Meeting to ensure a high level of accountability and identification with Blackmores' strategy and goals.

## PRINCIPLE 7

### Recognise and manage risk

Blackmores has established policies for the oversight of material business risks. The Board has directed management to design, assess, monitor and review the risk management and internal control framework in place to manage these risks.

The key risk categories the control framework monitors and manages are:

- Strategic Risks such as demand shortfalls and failures to address competitor moves;
- Financial Risks such as debt levels or ineffective financial management; and
- Operational Risks such as asset loss, cost overruns, OH & S and regulatory breach.

The policies which are in place to manage risk are referenced on Blackmores' website.

The Board has required management to provide a report during the financial year as to whether the material business risks are being managed effectively. During the financial year, both the Audit and Risk Committee and the Board were provided with reports on material risks, including an assessment of the inherent risks and the effectiveness of controls in place to manage such risk where possible.

The CEO and the Chief Financial Officer have provided the Board in writing in accordance with s295A of the Corporations Act that the full year Financial Statements are founded on a sound system of risk management and internal control, which implements the policies adopted by the Board, and that the Company's risk management and internal control systems are operating efficiently and effectively in all material respects in relation to financial reporting risks.

## PRINCIPLE 8

### Remunerate fairly and responsibly

The Remuneration Report at pages 38 to 46 sets out details of Blackmores' policy and practices of remuneration for Non-Executive Directors, Executive Directors and Senior Executives.

The Board has established a People and Remuneration Committee whose primary responsibility is to consider the remuneration strategy and policy and to make recommendations to the Board that are in the best interests of Blackmores and its shareholders. The Committee monitors recruitment and development policies which encourage workplace diversity both in gender and skills.

The Committee has established processes to ensure remuneration advisors are engaged by and work under the guidance of the Committee.

A copy of the Committee's Charter is available on Blackmores' website. The composition and structure of the Committee and membership attendance at meetings of the Committee are set out in the Directors' Report.

# Financial Report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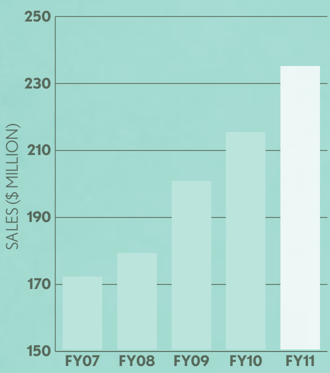
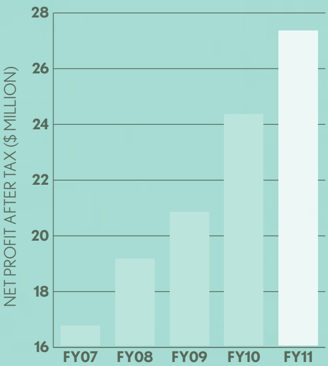
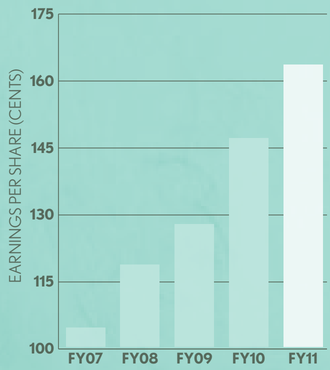


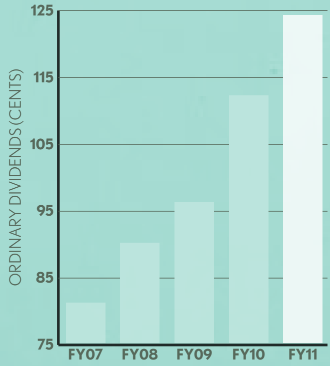

**SALES**




**NET PROFIT AFTER TAX**




**EARNING PER SHARE**




**ORDINARY DIVIDENDS**

# FIVE YEAR HISTORY

| $'000 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Sales[1] | **234,423** | 214,934 | 200,314 | 178,833 | 171,653 |
| Profit before tax | **39,322** | 34,731 | 29,228 | 27,474 | 24,488 |
| Income tax expense | **(12,017)** | (10,434) | (8,446) | (8,388) | (7,817) |
| Profit for the year | **27,305** | 24,297 | 20,782 | 19,086 | 16,671 |
| Net debt | **29,832** | 25,849 | 33,640 | 25,803 | 5,268 |
| Shareholders' equity | **79,112** | 71,790 | 58,563 | 50,351 | 43,486 |
| Total assets | **153,130** | 154,349 | 138,509 | 116,874 | 82,420 |
| Current assets | **78,521** | 80,485 | 69,544 | 61,763 | 56,959 |
| Current liabilities | **33,221** | 34,457 | 31,903 | 27,793 | 22,628 |
| Net tangible assets (NTA) | **74,108** | 68,748 | 56,414 | 49,019 | 41,869 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | **46,062** | 40,887 | 32,779 | 28,881 | 25,814 |
| Depreciation and amortisation | **4,529** | 4,141 | 2,444 | 1,909 | 1,572 |
| Earnings before interest and tax (EBIT) | **41,533** | 36,746 | 30,335 | 26,972 | 24,242 |
| Net interest expense / (revenue) | **2,211** | 2,015 | 1,107 | (502) | (246) |
| Net operating cash flows | **21,635** | 25,874 | 20,468 | 23,995 | 16,795 |
| Number of shares on issue ('000s) | **16,744** | 16,677 | 16,402 | 16,181 | 16,035 |
| Earnings per share (EPS) – basic (cents) | **163.2** | 146.8 | 127.5 | 118.4 | 104.3 |
| Ordinary dividends per share (cents) | **124.0** | 112.0 | 96.0 | 90.0 | 81.0 |
| Share price at 30 June | **$26.70** | $22.30 | $16.00 | $16.40 | $20.56 |
| NTA per share | **$4.43** | $4.12 | $3.44 | $3.03 | $2.61 |
| Return on shareholders' equity[2] | **34.5%** | 33.8% | 35.5% | 37.9% | 38.3% |
| Return on assets[3] | **27.0%** | 25.1% | 23.8% | 27.1% | 32.2% |
| Dividend payout ratio | **76.0%** | 76.3% | 75.3% | 76.0% | 77.7% |
| Gearing ratio[4] | **27.4%** | 26.5% | 36.5% | 33.9% | 10.8% |
| EBIT to sales | **17.7%** | 17.1% | 15.1% | 15.1% | 14.1% |
| Effective tax rate | **30.6%** | 30.0% | 28.9% | 30.5% | 31.9% |
| Current assets to current liabilities (times) | **2.36** | 2.34 | 2.18 | 2.22 | 2.52 |
| Net interest cover (times)[5] | **18.8** | 18.2 | 10.0 | 38.0 | 36.5 |
| Gross interest cover (times)[5] | **17.5** | 15.0 | 9.2 | 22.3 | 24.4 |
| **% change on prior year** | | | | | |
| Sales | **9.1%** | 7.3% | 12.0% | 4.2% | 16.0% |
| EBITDA | **12.7%** | 24.7% | 13.5% | 11.9% | 18.1% |
| EBIT | **13.0%** | 21.1% | 12.5% | 11.3% | 21.2% |
| Profit for the year | **12.4%** | 16.9% | 8.9% | 14.5% | 22.4% |
| EPS | **11.2%** | 15.1% | 7.7% | 13.6% | 21.7% |
| Ordinary dividends per share | **10.7%** | 16.7% | 6.7% | 11.1% | 17.4% |

1. Represents revenue from the sale of goods and excludes other revenue items.
2. Calculated as net profit after tax 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.
5. Net and gross interest cover is calculated after adjusting interest expense for capitalised interest in 2009, 2008 and 2007.

# Directors' Report

**THE DIRECTORS OF BLACKMORES LIMITED (BLACKMORES) PRESENT THEIR REPORT TOGETHER WITH THE FINANCIAL STATEMENTS OF THE GROUP, BEING BLACKMORES AND THE ENTITIES IT CONTROLLED AT THE END OF OR DURING THE YEAR ENDED 30 JUNE 2011.**

## DIRECTORS' DETAILS

Details of each Director's qualifications, experience and special responsibilities are set out below.

### Stephen J Chapman

BCOMM, MBA, CA, FA ICD

**Deputy Chairman and Lead Independent Director**

Mr Chapman is an investment banker and joined the Board in September 1993. He was a founder and is the Executive Chairman of Baron Partners Limited, an Australian investment bank. He is also a Director of OnePath Funds Management Limited Group and is Chairman of E*Trade Australia Limited Group. He was previously a director of OnePath Australia Limited, OnePath Life Limited and Macquarie Radio Networks Limited.

### Verilyn C Fitzgerald

MAICD

**Independent Director**

Ms Fitzgerald joined the Board in May 1997. She has over 25 years of experience in international corporate management and experience as a Director of public companies in the Health and IT industries in Australia and was a director of Independent Practitioner Network Limited.

### Naseema Sparks

BPHARM, MPHARM (PHARMACO L), MBA, GAICD

**Independent Director**

Ms Sparks joined the Board in October 2005. She graduated as a Bachelor of Pharmacy followed by a Master of Pharmacology. She also holds an MBA from Melbourne Business School. With a background in pharmaceutical and strategic consulting, Ms Sparks has worked in the pharma industry, management consulting and advertising in Australia and the UK. Her most recent role was Managing Director of M&C Saatchi. Ms Sparks is currently a Director of PMP Limited, DealsDirect and is on the advisory boards of Chartis Australia Limited, Osteoporosis Australia and the Sydney Dance Company. Her previous directorships include Mitchell Communication Group Limited.

## Marcus C Blackmore AM

**ND, MAICD**

**Chairman**

Mr Blackmore has served on the Board since October 1973 and is the Chairman of the Company. He is also an Honorary Doctor of Southern Cross University, a Director of the Young Endeavour Youth Scheme, Member of the NSW Maritime Advisory Council, Deputy Chairman of the Defence Reserves Support Council and an honorary trustee of the Committee for the Economic Development of Australia (CEDA).

## Robert L Stovold

**Independent Director**

Mr Stovold is a qualified accountant with over 35 years of experience in corporate management, mergers and acquisitions and the property industry. He joined the Board in August 1996. Over the past 25 years, Mr Stovold has served as an Independent Director on the boards of a number of listed and unlisted public companies operating in a variety of commercial activities, including previously as a director of Canberra Investment Corporation Limited.

## Brent W Wallace

BCOMM (MARKETING), GAICD

**Independent Director**

Mr Wallace joined the Board in October 2005. He is a cofounder and CEO of Galileo Kaleidoscope, a company known for its strategic marketing, brand and consumer research solutions. Mr Wallace has over 30 years of experience in marketing, advertising and brand development across a wide variety of consumer categories. He has held senior positions in London and Sydney advertising agencies and until 1996 was Managing Director of Ogilvy & Mather in Australia. Mr Wallace is also a Board Director and Governor of World Wildlife Fund, the global environmental group.

## Christine Holgate

**Chief Executive Officer and Managing Director**

Ms Holgate was appointed to her current role by the Board in November 2008. She has over 25 years of international sales and marketing experience in highly regulated industries, including telecommunications, finance, media and healthcare. She has held numerous board and senior management positions, working in Europe, Asia, the Americas and Australia. Ms Holgate's prime responsibilities have been leading teams through significant change, growth and start-up. Ms Holgate has three post-graduate diplomas in Management, Marketing and Purchasing and Supply; and a Master's Degree in Business Administration (MBA). Ms Holgate is also currently a board member of Ten Network Holdings Limited. She was previously a director of KeyCorp Limited.

# DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 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 |
|---|---|---|
| S Chapman | 22,055 | - |
| V Fitzgerald | 10,216 | - |
| N Sparks | - | - |
| R Stovold | 27,910 | - |
| B Wallace | 12,161 | - |
| M Blackmore | 4,479,278 | - |
| C Holgate | 90,233 | 18,369 |
| **Total** | **4,641,853** | **18,369** |

## 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 page 40 for more details. During the year, the following rights to shares were granted:

| | 2011 | 2010 |
|---|---|---|
| | NUMBER | NUMBER |
| **Executive Director** | | |
| C Holgate | **26,699** | 33,081 |
| **Senior Executives** | | |
| K Cunningham[1] | **1,140** | - |
| R Henfrey | **5,504** | 6,294 |
| C Last | **5,002** | 1,155 |
| N Mercado[2] | **313** | - |
| P Osborne | **4,574** | - |
| G Perera[3] | **313** | - |
| L Richards | **5,083** | 5,405 |
| **Former Senior Executives** | | |
| P Barraket[4] | **5,421** | 6,718 |
| G Burgoyne[5] | - | 5,744 |
| L Burrows | - | 5,408 |
| S Moore[4] | **5,252** | 6,502 |
| R Rich[6] | - | 136 |

1. Rights granted during the 2011 financial year for K Cunningham are for the period as a Senior Executive (1 April 2011 to 30 June 2011).
2. Rights granted during the 2011 financial year for N Mercado are for the period as a Senior Executive (1 June 2011 to 30 June 2011).
3. Rights granted during the 2011 financial year for G Perera are for the period as a Senior Executive (1 June 2011 to 30 June 2011).
4. Rights granted during the 2011 year to P Barraket and S Moore did not vest as they left employment during the 2011 financial year.
5. Rights granted during the 2010 year to G Burgoyne did not vest as he left employment during the 2010 financial year.
6. Rights granted during the 2010 financial year for R Rich are for the period as acting Senior Executive (1 May 2009 to 3 September 2009) prior to taking on a new role within the Group.

## 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 38 to 46.

## COMMITTEE MEMBERSHIPS

As at the date of this report, the Company had 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:** | Robert Stovold, Chair |
| | Stephen Chapman |
| | Verilyn Fitzgerald |
| | Brent Wallace |
| **Nominations:** | Verilyn Fitzgerald, Chair |
| | Marcus Blackmore |
| | Stephen Chapman |
| | Christine Holgate |
| | Naseema Sparks |
| | Robert Stovold |
| | Brent Wallace |
| **People and Remuneration:** | Verilyn Fitzgerald, Chair |
| | Marcus Blackmore |
| | Stephen Chapman |
| | Naseema Sparks |

### Company Secretary

Cecile Cooper BBus, Dip Inv Rel (AIRA), GAICD.
Ms Cooper joined Blackmores in 1991 as Finance Manager. She has held a variety of positions and her experience includes enterprise resource planning system implementations, design of business reporting solutions and business management. Ms Cooper is a Certified Practising Accountant and Chartered Secretary.

# DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## PRINCIPAL ACTIVITIES

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

## REVIEW OF OPERATIONS

The net amount of profit attributable to the shareholders ('NPAT') of the Blackmores Group for the financial year was $27.3 million (2010: $24.3 million) which represents a 12% increase over the prior year. Sales for the year were $234.4 million (2010: $214.9 million), an increase of 9% compared to the prior year. Basic earnings per share ('EPS') increased from 146.8 cents per share to 163.2 cents per share (an increase of 11%). Net tangible assets per share increased from $4.12 last year to $4.43 this year. Net debt increased from $25.8 million last year to $29.8 million this year and the gearing ratio increased from 26.5% last year to 27.4% this 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 Financial Statements or notes thereto and elsewhere in the Annual Report of Blackmores for the year ended 30 June 2011.

## SUBSEQUENT EVENTS

There has not been any matter or circumstance, other than that referred to in the 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 the Blackmores Group, the results of those operations, or the state of affairs of the Blackmores Group in future financial years.

## FUTURE DEVELOPMENTS

Disclosure of additional information not already disclosed in the Annual Report of Blackmores for the year ended 30 June 2011 regarding the business strategies, prospects and likely developments in the operations of the Blackmores Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Blackmores Group. Accordingly, this information has not been disclosed in this report.

## ENVIRONMENTAL REGULATIONS

The Company monitors its legal obligations and has its own self-imposed policies. The Directors believe that the Company complies with all aspects of the environmental laws. The Company is a party to the Australian Packaging Covenant, an agreement between industry and government which ensures that the management of packaging and paper throughout their life-cycle produces sustainable, cost-effective benefits to the environment.

## OCCUPATIONAL HEALTH AND SAFETY

The Company's Occupational Health and Safety Committee meets monthly and monitors the business by conducting regular audits of the premises. Any safety matters raised either by staff, the audits or from an investigation of any workers' compensation claims are reviewed and, where appropriate, changes made to operating procedures. Staff are encouraged to make safety suggestions to their departmental representatives. All Committee members are given the necessary training for the position.

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Blackmores support and have adhered to key principles of corporate governance. The Company's current corporate governance principles are set out on the Company's website at blackmores.com.au (go to 'Investor Centre', then click on 'Corporate Governance'). A separate section in this Annual Report on pages 30 to 31 outlines the Company's current Corporate Governance principles and practices.

## DIVIDENDS

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

- A final dividend of 70 cents per share fully franked in respect of the year ended 30 June 2010, as detailed in the Directors' Report for that financial year, was paid on 20 September 2010.
- An interim dividend of 44 cents per share fully franked in respect of the year ended 30 June 2011 was paid on 22 March 2011.
- On 18 August 2011, Directors declared a final dividend for the year ended 30 June 2011 of 80 cents per share fully franked, payable on 15 September 2011 to shareholders registered on 1 September 2011.

This will bring total ordinary dividends to 124 cents per share fully franked (2010: 112 cents per share fully franked) for the full year.

## 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 as such a 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' REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 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 AND RISK COMMITTEE | | NOMINATIONS COMMITTEE | | PEOPLE AND REMUNERATION COMMITTEE | |
|---|---|---|---|---|---|---|---|---|
| DIRECTORS | HELD[1] | ATTENDED | HELD[1] | ATTENDED | HELD[1] | ATTENDED | HELD[1] | ATTENDED |
| M Blackmore | 7 | 7 | - | - | - | - | 5 | 5 |
| S Chapman | 7 | 7 | 3 | 3 | - | - | 5 | 5 |
| V Fitzgerald | 7 | 7 | 3 | 3 | - | - | 5 | 5 |
| C Holgate[2] | 7 | 7 | 3 | 3 | - | - | 5 | 5 |
| N Sparks | 7 | 7 | - | - | - | - | 5 | 5 |
| R Stovold | 7 | 6 | 3 | 3 | - | - | - | - |
| B Wallace | 7 | 6 | 3 | 3 | - | - | - | - |

1. Reflects the number of meetings held during the time that the Director held office during the year.
2. C. Holgate's attendance at the Audit and Risk Committee and People and Remuneration Committee was as an invitee.

## 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 11 to the 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 47 of this Annual Report.

## ROUNDING OFF OF AMOUNTS

In accordance with the Australian Securities and Investments Commission (ASIC) Class Order 98/0100, dated 10 July 1998, the amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

## REMUNERATION REPORT – AUDITED

To retain our position as Australia's leading natural health brand, and to achieve ongoing success for our Company and shareholders, it is important for Blackmores to retain and attract the best and brightest in the industry.

This Remuneration Report forms part of the Directors' Report and sets out information about the remuneration of Blackmores Limited Directors and other Key Management Personnel.

# REMUNERATION REPORT

## KEY MANAGEMENT PERSONNEL

Key Management Personnel encompasses all Directors (Executive and Non-Executive) as well as those Executives who have authority and responsibility for planning, directing and controlling the activities of the Blackmores Group, directly or indirectly. In this report, the terms:

- 'Executive Directors' refers to the Chairman and Chief Executive Officer; and
- 'Senior Executives' refers to the Key Management Personnel, excluding the Directors.

The following table lists all the current Key Management Personnel referred to in this report, including the five highest remunerated Executives of the Company and the Group.

| | |
|---|---|
| **Non-Executive Directors** | |
| Stephen Chapman | Non-Executive Director, Deputy Chairman, member of the Audit and Risk Committee and member of the People and Remuneration Committee |
| Verilyn Fitzgerald | Non-Executive Director, Chairman of the People and Remuneration Committee and member of the Audit and Risk Committee |
| Naseema Sparks | Non-Executive Director and member of the People and Remuneration Committee |
| Robert Stovold | Non-Executive Director and Chairman of the Audit and Risk Committee |
| Brent Wallace | Non-Executive Director and member of the Audit and Risk Committee |
| **Executive Directors** | |
| Marcus Blackmore | Chairman of the Board, member of the People and Remuneration Committee |
| Christine Holgate | Chief Executive Officer and Managing Director |
| **Senior Executives** | |
| Kerry Cunningham | Director People and Communication |
| Richard Henfrey | Director Strategic Sourcing |
| Chris Last | Chief Financial Officer |
| Neal Mercado | Director Product Development |
| Peter Osborne | Director Asia |
| Gabriel Perera | Director Business Development |
| Lee Richards | Chief of Operations |

The Remuneration Policy and programs detailed in this report also apply to other senior Blackmores Group management not included as Key Management Personnel.

This report provides disclosure around the following topics:

1. Remuneration Policy
2. Relationship between Remuneration Policy and the Blackmores Group's Performance
3. Performance-based Remuneration
4. Remuneration Disclosures for Directors and Key Management Personnel
5. Share-based Payments
6. Employment Contracts
7. Non-Executive Directors' Remuneration

## 1. REMUNERATION POLICY

Blackmores remunerates its people fairly and responsibly. Our remuneration policy is transparent and linked to both the individual's and Group performance. These guidelines are underpinned by clearly defined objectives and measures, with each Senior Executive assessed in line with our performance management program.

In determining performance conditions, Blackmores aims to align Senior Executive interests with the interests of shareholders and the Group, recognising EPS growth as the key driver of shareholder value.

The Board of Directors have established a Committee of Directors known as the People and Remuneration Committee. The primary responsibilities of the People and Remuneration Committee are to consider remuneration strategy and policy for Senior Executives and Non-Executive Directors of Blackmores and to make recommendations to the Board that are in the best interests of Blackmores and its shareholders. The People and Remuneration Committee operates in accordance with Blackmores' Corporate Governance Principle 8, particulars of which are available on the Company's website at blackmores.com.au (go to 'Investor Centre', then click on 'Corporate Governance').

The People and Remuneration 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 to ensure that an appropriate balance between fixed and incentive pay is achieved.

The People and Remuneration Committee has established a remuneration policy in order to:

- encourage a strong and long-term commitment to Blackmores;
- attract and retain talented Senior Executives and Directors; and
- enhance Blackmores' earnings and shareholder wealth.

# REMUNERATION REPORT

Fixed and performance-related remuneration are structured to provide an incentive to Senior Executives to maximise Blackmores' profitability and increase returns to shareholders. Performance-related remuneration provides Executives with tangible incentives to meet Blackmores' objectives. Participation in incentive plans provides Senior Executives with the opportunity to share in the success and profitability of Blackmores and aligns Executives' interests with those of shareholders.

The Board's current policy regarding remuneration for Senior Executives is summarised below. Non-Executive Directors are remunerated on a different basis to Senior Executives, as set out in Section 7 of this report.

### SENIOR EXECUTIVE REMUNERATION

(a) Fixed remuneration reflects core performance requirements and expectations and is targeted to be reasonable and fair, taking into account Senior Executives' responsibilities and experience compared to competitive market benchmarking against companies with relative size and scale of Blackmores' operations.

(b) Short-term incentives (STI) comprise cash payments linked to clearly specified annual performance targets. 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 on Blackmores' NPAT performance relative to budget.

(c) Senior Executives participate in the same profit share plan as all permanent Blackmores staff.

(d) Long-term incentives (LTI): The Executive Performance Share Plan (EPSP) was approved at Blackmores' Annual General Meeting in November 2008. Participation is open to 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.

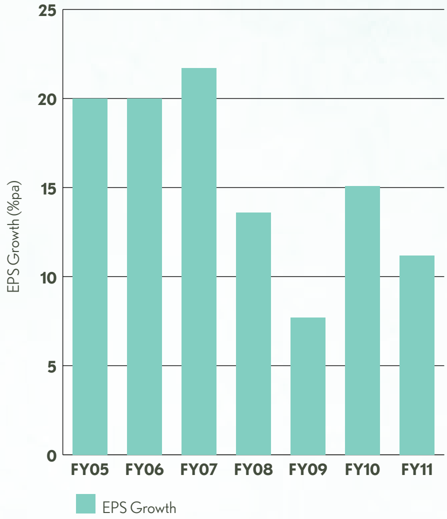
(e) Special long-term incentives (SLTI): From time to time the Board may offer 'one-off' SLTIs to particular Senior Executives in addition to the LTI as outlined in (d) above.

## 2. RELATIONSHIP BETWEEN REMUNERATION POLICY AND THE BLACKMORES GROUP'S PERFORMANCE

Consistent with Blackmores' remuneration policy, the performance-based components of Senior Executive remuneration are designed to align the interests of the Senior Executives with the interests of Blackmores and its shareholders, with the objectives of growing Blackmores' earnings and increasing shareholder wealth. Performance-based remuneration is periodically reviewed and revised to ensure it continues to drive these objectives. NPAT and EPS have been identified as key drivers of shareholder value and have consistently been used as performance measures in short-term and long-term incentive plans. Blackmores' policy is that short-term and long-term incentives will only be awarded when Blackmores meets performance hurdles.

Blackmores' EPS growth is illustrated in the following graph.

### EPS GROWTH




## 3. PERFORMANCE-BASED REMUNERATION

### 3.1 SHORT-TERM INCENTIVES (STI)

#### 3.1.1 PERFORMANCE CONDITIONS

(a) Under the current remuneration policy, unless Blackmores' NPAT is at least 95% of budgeted NPAT for the relevant financial year, no STI payments will be made. If this target is reached, STI payments are made according to a sliding scale based on actual NPAT relative to budget.

STI awards also reflect individual performance against objectives. Typical individual performance targets include financial-based targets and non-financial goals that measure alignment with Blackmores strategic objectives. An example of a core strategic objective is to 'Invest and Develop Employees'. Performance targets for this objective include assessment against the annual Employee Climate Survey results and Occupational Health and Safety measures.

# REMUNERATION REPORT

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 Key Management Personnel.

Subject to personal performance achievement, an example of the maximum STI payment at various levels of Group NPAT as a percentage of budget is shown in the following table.

| GROUP NPAT AS A PERCENTAGE OF BUDGET | CHAIRMAN MAXIMUM STI | CHIEF EXECUTIVE OFFICER MAXIMUM STI | SENIOR EXECUTIVES MAXIMUM STI |
|---|---|---|---|
| | (AS % OF BASE REMUNERATION) | | |
| less than 95% | 0% | 0% | 0% |
| equal to 100% | 15.0% | 25.0% | 17.5% |
| equal to 110% | 40.0% | 41.0% | 42.5% |
| equal to 120% | 60.0% | 57.0% | 62.5% |
| equal to or greater than 125% | 65.0% | 65.0% | 67.5% |

The Chairman's STI payment is based on NPAT as a percentage of budget.

(b) As mentioned on page 40 under Section 1(c), Senior Executives participate in a profit share plan, whereby 10% of the Group NPAT is allocated to all eligible permanent Group staff on a pro-rata basis by reference to their base remuneration. The profit share plan is in addition to the STI award described in 3.1.1(a)

### 3.1.2 RATIONALE FOR PERFORMANCE CONDITIONS

NPAT performance relative to budget 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.

The NPAT budget is approved on an annual basis by the Board and incentive targets are set by the Board at levels designed to reward superior performance. NPAT is calculated by Blackmores at the end of the financial year and verified by reference to Blackmores' audited Financial Statements before any payment is made. This method was chosen to ensure transparency and consistency with disclosed information.

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.

### 3.1.3 STI OPPORTUNITY AWARDED

The table below shows the percentage of STI opportunity awarded and the % of base remuneration that this represented in respect of the 2011 financial year.

| NAME | % AWARDED OF THE MAXIMUM AVAILABLE | % OF BASE REMUNERATION |
|---|---|---|
| **Executive Director** | | |
| Marcus Blackmore | 47.4% | 32.0% |
| Christine Holgate | 53.2% | 34.6% |
| **Senior Executives** | | |
| Kerry Cunningham[1] | 48.9% | 33.0% |
| Richard Henfrey | 48.9% | 33.0% |
| Chris Last | 48.9% | 33.0% |
| Neal Mercado[1] | 47.4% | 32.0% |
| Peter Osborne | 51.1% | 34.5% |
| Gabriel Perera[1] | 47.4% | 32.0% |
| Lee Richards | 48.9% | 33.0% |
| **Former Senior Executives** | | |
| Peter Barraket[2] | 0% | 0% |
| Liz Burrows[3] | 0% | 0% |
| Sue Moore[2] | 0% | 0% |

1. Attributable to the period as a Senior Executive.
2. Peter Barraket and Sue Moore left employment during the financial year.
3. Liz Burrows took a new role in the Group.

## 3.2 LONG-TERM INCENTIVES (LTI)

### 3.2.1 PERFORMANCE CONDITIONS

Selected Senior Executives are invited annually by the Board to participate in the EPSP. Under this plan, eligible Senior Executives are granted rights to acquire shares in Blackmores. The value of rights granted to Senior Executives is equivalent to a percentage of their base remuneration at the time of grant.

The number of rights granted to a Senior Executive other than the CEO is equivalent to 40% of their base remuneration (or 100% in the case of the CEO) divided by:

- 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 (year ended 30 June 2010) are announced to the ASX, less
- the amount of any final dividend per share declared as payable in respect of the prior financial year

The number of rights vesting to Senior Executives other than the CEO are determined according to EPS growth in the financial year calculated according to the following formula:

$$\frac{(5\% + (\text{EPS Growth}\% \text{ less } 4\%) \times 2.5)}{40}$$

provided that EPS growth is at least equal to 4%.

# REMUNERATION REPORT

For Senior Executives an example of the number of rights vesting and the equivalent percentage of their base remuneration at various levels of EPS growth is shown in the following table:

| EPS GROWTH | NUMBER OF RIGHTS VESTING (% OF TOTAL) | % OF BASE REMUNERATION |
|---|---|---|
| less than 4% | 0% | 0% |
| 4% | 12.5% | 5.0% |
| 8% | 37.5% | 15.0% |
| 12% | 62.5% | 25.0% |
| 16% | 87.5% | 35.0% |
| equal to or greater than 18% | 100.0% | 40.0% |

In the case of the CEO, rights vest in line with EPS growth.

For the CEO an example of the number of rights vesting and the equivalent percentage of base remuneration at various levels of EPS growth is shown in the following table.

| EPS GROWTH | NUMBER OF RIGHTS VESTING (% OF TOTAL) | % OF BASE REMUNERATION |
|---|---|---|
| less than or equal to 4% | 0% | 0% |
| greater than 4% but less than or equal to 5% | 25.0% | 25.0% |
| greater than 7% but less than or equal to 8% | 37.5% | 37.5% |
| greater than 11% but less than or equal to 12% | 68.8% | 68.8% |
| greater than 16% | 100.0% | 100.0% |

Rights are automatically exercised following vesting, audit clearance of the Financial Statements and Board approval and Blackmores shares are issued to participants at zero cost. The number of shares issued is identical to the number of rights exercised.

Shares issued to the CEO and Senior Executives are subject to restrictions referred to as a 'holding lock'. During this period, participants are entitled to dividend income and have voting rights, but may not sell them or transfer their ownership. If participants are employed by Blackmores at the end of the two year period following vesting, the holding lock is lifted and participants acquire full beneficial and legal ownership of the shares. If the CEO or a Senior Executive resigns or their employment is terminated during the holding lock period (except for reasons such as death, serious injury, disability, illness or involuntary early retirement), shares subject to the holding lock are forfeited.

In the case of the Chairman a cash equivalent is paid in lieu of shares calculated according to the same formula as applies to Senior Executives.

### 3.2.2 RATIONALE FOR PERFORMANCE CONDITIONS

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. 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.

Growth in EPS is calculated at the end of the financial year 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, is easy to calculate and ensures transparency and consistency with public disclosures.

In the event of Blackmores experiencing an unusual decline in NPAT (EPS), the base for the next year will be reset by the Board in consultation with the People and Remuneration Committee.

## 3.3 STAFF SHARE ACQUISITION PLAN

Blackmores established a Staff Share Acquisition Plan during the financial year ended 30 June 2006. The plan is open to all employees, including Senior Executives, who may purchase up to $1,000 of Blackmores' shares tax free each year (subject to taxable income threshold limits) with money that would have otherwise been received under the profit share plan (refer to Section 3.1.1(b) of this Remuneration Report).

Blackmores' Share Trading Policy prohibits Executives from entering into any transaction which operates to hedge the exposure of unvested shares received under any share incentive plan, unless prior approval is provided by the Board.

# REMUNERATION REPORT

## 4. REMUNERATION DISCLOSURES FOR DIRECTORS AND KEY MANAGEMENT PERSONNEL

The following table discloses the remuneration of the Non-Executive Directors for the financial year ended 30 June 2011.

| | 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] $ | SUPERANNUATION $ | OTHER[4] $ | SHARES AND RIGHTS $ | TOTAL $ | % OF PERFORMANCE BASED REMUNERATION % | % OF NON-PERFORMANCE BASED REMUNERATION | % OF REMUNERATION RIGHTS |
| **Non-Executive Directors** | | | | | | | | | | | |
| Stephen Chapman | | | | | | | | | | | |
| 2011 | 117,342 | - | - | - | 21,836 | - | - | 139,178 | - | 100.0% | - |
| 2010 | 99,713 | - | - | - | 19,996 | - | - | 119,709 | - | 100.0% | - |
| Verilyn Fitzgerald | | | | | | | | | | | |
| 2011 | 52,995 | - | - | - | 50,941 | - | - | 103,936 | - | 100.0% | - |
| 2010 | 81,550 | - | - | - | 7,340 | - | - | 88,890 | - | 100.0% | - |
| Naseema Sparks | | | | | | | | | | | |
| 2011 | 82,567 | - | - | - | 7,431 | - | - | 89,998 | - | 100.0% | - |
| 2010 | 71,550 | - | - | - | 6,439 | - | - | 77,989 | - | 100.0% | - |
| Robert Stovold | | | | | | | | | | | |
| 2011 | 87,682 | - | - | - | 7,891 | - | - | 95,573 | - | 100.0% | - |
| 2010 | 76,550 | - | - | - | 6,889 | - | - | 83,439 | - | 100.0% | - |
| Brent Wallace | | | | | | | | | | | |
| 2011 | 82,567 | - | - | - | 7,431 | - | - | 89,998 | - | 100.0% | - |
| 2010 | 71,550 | - | - | - | 6,439 | - | - | 77,989 | - | 100.0% | - |
| Total Remuneration | | | | | | | | | | | |
| 2011[5] | 423,153 | - | - | - | 95,530 | - | - | 518,683 | - | 100.0% | - |
| 2010 | 400,913 | - | - | - | 47,103 | - | - | 448,016 | - | 100.0% | - |

Notes to this table are shown on page 44.

The following table discloses the remuneration of the Key Management Personnel of Blackmores (excluding Non-Executive Directors disclosed in the previous table) for the financial year ended 30 June 2011.

| | 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] $ | SUPERANNUATION $ | OTHER[4] $ | SHARES AND RIGHTS $ | TOTAL $ | % OF PERFORMANCE BASED REMUNERATION % | % OF NON-PERFORMANCE BASED REMUNERATION | % OF REMUNERATION RIGHTS |
| **Executive Directors** | | | | | | | | | | | |
| Marcus Blackmore[6] | | | | | | | | | | | |
| 2011 | 345,257 | 256,968 | - | 29,700 | 42,896 | 6,429 | - | 681,250 | 37.7% | 62.3% | - |
| 2010 | 354,578 | 365,413 | 2,927 | 24,391 | 48,968 | 5,938 | - | 802,215 | 45.6% | 54.4% | - |
| Christine Holgate[7] | | | | | | | | | | | |
| 2011 | 603,059 | 281,980 | - | 49,313 | 15,199 | 2,785 | 520,612 | 1,472,948 | 49.6% | 50.4% | 24.4% |
| 2010 | 597,290 | 364,222 | - | 46,331 | 14,461 | 1,164 | 383,919 | 1,407,387 | 41.7% | 58.3% | 15.8% |
| **Senior Executives** | | | | | | | | | | | |
| Kerry Cunningham[8] | | | | | | | | | | | |
| 2011 | 63,700 | 28,336 | - | 6,952 | 3,800 | 14,377 | 4,874 | 122,039 | 27.2% | 72.8% | 4.0% |
| 2010 | - | - | - | - | - | - | - | - | - | - | - |
| Richard Henfrey | | | | | | | | | | | |
| 2011 | 282,775 | 139,319 | 9,438 | 26,197 | 24,249 | 1,334 | 56,278 | 539,590 | 36.2% | 63.8% | 10.4% |
| 2010 | 240,923 | 181,887 | 18,546 | 21,955 | 20,961 | 398 | 32,755 | 517,425 | 41.5% | 58.5% | 6.3% |
| Chris Last[9] | | | | | | | | | | | |
| 2011 | 299,250 | 126,431 | - | 21,893 | 23,799 | 399 | 28,162 | 499,934 | 30.9% | 69.1% | 5.6% |
| 2010 | 47,967 | 30,787 | - | 4,332 | 3,705 | - | 6,783 | 93,574 | 40.2% | 59.8% | 7.2% |

# REMUNERATION REPORT

| | 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] $ | SUPERANNUATION $ | OTHER [4] $ | SHARES AND RIGHTS $ | TOTAL $ | % OF PERFORMANCE BASED REMUNERATION % | % OF NON-PERFORMANCE BASED REMUNERATION | % OF REMUNERATION RIGHTS |
| **Senior Executives (continued)** | | | | | | | | | | | |
| Neal Mercado[10] | | | | | | | | | | | |
| **2011** | **17,483** | **5,918** | **-** | **3,209** | **1,267** | **2,234** | **1,339** | **31,450** | **23.1%** | **76.9%** | **4.3%** |
| 2010 | - | - | - | - | - | - | - | - | - | - | - |
| Peter Osborne[6] | | | | | | | | | | | |
| **2011** | **258,714** | **190,253** | **-** | **-** | **-** | **-** | **471** | **449,438** | **42.4%** | **57.6%** | **0.1%** |
| 2010 | 254,066 | 255,805 | - | 20,687 | 7,230 | - | 470 | 538,258 | 47.6% | 52.4% | 0.1% |
| Gabriel Perera[10] | | | | | | | | | | | |
| **2011** | **14,877** | **6,085** | **886** | **3,939** | **2,100** | **380** | **1,339** | **29,606** | **25.1%** | **74.9%** | **4.5%** |
| 2010 | - | - | - | - | - | - | - | - | - | - | - |
| Lee Richards | | | | | | | | | | | |
| **2011** | **254,934** | **128,572** | **27,351** | **16,731** | **15,199** | **9,551** | **52,772** | **505,110** | **35.9%** | **64.1%** | **10.4%** |
| 2010 | 195,289 | 155,746 | 16,785 | 26,360 | 14,461 | 11,944 | 41,588 | 462,173 | 42.7% | 57.3% | 9.0% |
| **Former KMP's and Senior Executives disclosed under the Corporations Act 2001** | | | | | | | | | | | |
| Peter Barraket[11] | | | | | | | | | | | |
| **2011** | **512,017** | **16 ,410** | **-** | **18,087** | **15,199** | **20,159** | **-** | **581,872** | **2.8%** | **97.2%** | **0.0%** |
| 2010 | 276,385 | 186,642 | - | 22,727 | 14,461 | 5,348 | 52,638 | 558,201 | 42.9% | 57.1% | 9.4% |
| Greg Burgoyne[12] | | | | | | | | | | | |
| **2011** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2010 | 225,421 | 11,654 | - | 17,274 | 13,278 | - | - | 267,627 | 4.4% | 95.6% | 0.0% |
| Liz Burrows[13] | | | | | | | | | | | |
| **2011** | **16,775** | **10,974** | **118** | **19,600** | **54,003** | **5,562** | **11,186** | **118,218** | **18.7%** | **81.3%** | **9.5%** |
| 2010 | 179,790 | 150,747 | - | 20,477 | 46,516 | 9,977 | 41,950 | 449,457 | 42.9% | 57.1% | 9.3% |
| Sue Moore[11] | | | | | | | | | | | |
| **2011** | **358,278** | **15,872** | **-** | **25,953** | **14,685** | **-** | **-** | **414,788** | **3.8%** | **96.2%** | **0.0%** |
| 2010 | 261,485 | 178,559 | - | 32,938 | 14,461 | 410 | 33,898 | 521,751 | 40.7% | 59.3% | 6.5% |
| Rananda Rich[14] | | | | | | | | | | | |
| **2011** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2010 | 20,951 | 7,506 | - | 2,509 | 2,249 | 92 | 691 | 33,998 | 24.1% | 75.9% | 2.0% |
| Total Remuneration | | | | | | | | | | | |
| **2011** | **3,027,119** | **1,207,118** | **37,793** | **221,574** | **212,396** | **63,210** | **677,033** | **5,446,243** | **34.6%** | **65.4%** | **9.5%** |
| 2010 | 2,654,145 | 1,888,968 | 38,258 | 239981 | 200,751 | 35,271 | 594,692 | 5,652,066 | 43.9% | 56.1% | 7.7% |

1. Amounts included in the 'STI and Profit Share' column include amounts paid by way of profit share in 17 December 2010 and 23 June 2011. The STI plan for the 2011 financial year was approved by the People and Remuneration Committee on 16 August 2010. Awards will be paid following audit clearance of the Group's financial year 2011 results and Board approval.
2. Non-monetary benefits include motor vehicle benefits.
3. Amounts disclosed as other short-term employment benefits relate to provisions for annual leave.
4. Other amounts shown under other long-term employment benefits relate to provisions for long service leave.
5. The Non-Executive Fees were increased effective 1 July 2010. The last increase was effective 1 July 2007.
6. Marcus Blackmore's and Peter Osborne's FY10 and FY11 STI and Profit Share includes the cash equivalent of the share-based LTI scheme fully expensed in the year awarded.
7. Christine Holgate's FY11 share-based payment ($520,612) represents the combination of (a) $160,939, being the FY11 portion of SLTI shares and (b) the FY11 portion of the fair value of rights granted in FY09, FY10 and FY11 ($359,673).
8. Kerry Cunningham was appointed as a Senior Executive 1 April 2011.
9. Chris Last joined 27 April 2010. FY11 Salary and Fees include a $30,000 one-off performance-based payment.
10. Neal Mercado and Gabriel Perera were appointed as Senior Executives 1 June 2011.
11. Peter Barraket and Sue Moore resigned 8 April 2011. Salary and Fees include a $211,015 termination payment to P Barraket and $130,392 to S Moore.
12. Greg Burgoyne joined 1 September 2009 and resigned 26 May 2010.
13. Liz Burrows' amounts are for the period as Senior Executive to 8 November 2010 when she took a new role in the Group.
14. Rananda Rich amounts are for the period as acting Senior Executive 1 May 2009 to 3 September 2009 when she took a new role in the Group.

# REMUNERATION REPORT

Directors' and Officers' liability insurance has not been included in the figures above since the amounts involved are not material and it is not possible to determine an appropriate allocation basis.

## 5. SHARE-BASED PAYMENTS

The table below outlines the rights and shares outstanding to Senior Executives at 30 June 2011. The fair value of awards is calculated in accordance with AASB 2 Share-based Payments.

| NAME | GRANT | | | | | | | VESTING | | | EXERCISE | END OF HOLDING LOCK | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | DATE | NOTE | NUMBER OF RIGHTS | FAIR VALUE PER RIGHT | TOTAL FAIR VALUE | SHARE PRICE | MAXIMUM VALUE[1] | DATE | NUMBER OF RIGHTS[2] | % OF NUMBER GRANTED | VALUE[3] | DATE[2,4] | VALUE OF RIGHTS NOT VESTED[7] |
| **Executive Director** | | | | | | | | | | | | | |
| Christine Holgate | 25/11/08 | 5 | 30,216 | $11.81 | $356,851 | $13.90 | $420,002 | 22/10/09 | 30,216 | 100.0% | $631,514 | 09/2011 | |
| | 25/11/08 | 5 | 20,144 | $10.42 | $209,900 | $13.90 | $280,002 | 22/10/09 | 20,144 | 100.0% | $421,010 | 09/2013 | |
| | 20/2/09 | 6 | 20,189 | $10.12 | $204,313 | $12.00 | $242,268 | 30/6/09 | 8,843 | 43.8% | $168,990 | 30/6/11 | |
| | 9/12/09 | 6 | 33,081 | $18.67 | $617,622 | $21.14 | $699,332 | 30/6/10 | 31,030 | 94% | $761,476 | 30/6/12 | |
| | 13/9/10 | 4 | 26,699 | $22.32 | $595,922 | $25.53 | $681,625 | 30/6/11 | 18,369 | 69% | N/A | 30/6/13 | $222,411 |
| **Senior Executives** | | | | | | | | | | | | | |
| Kerry Cunningham | 13/9/10 | 4 | 1,140 | $22.32 | $25,445 | $25.53 | $29,104 | 30/6/11 | 655 | 57% | N/A | 30/6/13 | $12,950 |
| Richard Henfrey | 16/6/09 | 4 | 508 | $16.63 | $8,448 | $16.66 | $8,463 | 30/6/09 | 127 | 25% | $2,427 | 30/6/11 | |
| | 9/12/09 | 4 | 6,294 | $18.67 | $117,509 | $21.14 | $133,055 | 30/6/10 | 5,149 | 82% | $126,356 | 30/6/12 | |
| | 13/9/10 | 4 | 5,504 | $22.32 | $122,849 | $25.53 | $140,517 | 30/6/11 | 3,161 | 57% | N/A | 30/6/13 | $62,558 |
| Chris Last | 30/4/10 | 4 | 1,155 | $21.53 | $24,867 | $23.66 | $27,327 | 30/6/10 | 945 | 82% | $23,190 | 30/6/12 | |
| | 13/9/10 | 4 | 5,002 | $22.32 | $111,645 | $25.53 | $127,701 | 30/6/11 | 2,873 | 57% | N/A | 30/6/13 | $56,844 |
| Neal Mercado | 13/9/10 | 4 | 313 | $22.32 | $6,986 | $25.53 | $7,991 | 30/6/11 | 180 | 58% | N/A | 30/6/13 | $3,551 |
| Peter Osborne | 16/6/09 | 4 | 339 | $16.63 | $5,638 | $16.66 | $5,648 | 30/6/09 | 85 | 25% | $1,624 | 30/6/11 | |
| Gabriel Perera | 13/9/10 | 4 | 313 | $22.32 | $6,986 | $25.53 | $7,991 | 30/6/11 | 180 | 58% | N/A | 30/6/13 | $3,551 |
| Lee Richards | 11/9/08 | 4 | 2,417 | $17.51 | $42,322 | $18.20 | $43,989 | 30/6/09 | 605 | 25% | $11,562 | 30/6/11 | |
| | 9/12/09 | 4 | 5,405 | $18.67 | $100,911 | $21.14 | $114,262 | 30/6/10 | 4,422 | 82% | $108,516 | 30/6/12 | |
| | 13/9/10 | 4 | 5,083 | $22.32 | $113,453 | $25.53 | $129,769 | 30/6/11 | 2,919 | 57% | N/A | 30/6/13 | $57,779 |
| **Former Senior Executives** | | | | | | | | | | | | | |
| Peter Barraket | 11/9/08 | 4 | 3,176 | $17.51 | $55,612 | $18.20 | $57,803 | 30/6/09 | 794 | 25% | $15,173 | N/A | $23,820 |
| | 9/12/09 | 4 | 6,718 | $18.67 | $125,425 | $21.14 | $142,019 | 30/6/10 | 5,496 | 82% | $134,872 | N/A | $164,880 |
| | 13/9/10 | 4 | 5,421 | $22.32 | $120,997 | $25.53 | $138,398 | N/A | N/A | 0% | N/A | N/A | $162,630 |
| Liz Burrows | 11/9/08 | 4 | 2,496 | $17.51 | $43,705 | $18.20 | $45,427 | 30/6/09 | 624 | 25% | $11,925 | 30/6/11 | |
| | 9/12/09 | 4 | 5,408 | $18.67 | $100,967 | $21.14 | $114,325 | 30/6/10 | 4,422 | 82% | $108,516 | 30/6/12 | |
| Sue Moore | 16/6/09 | 4 | 565 | $16.63 | $9,396 | $16.66 | $9,413 | 30/6/09 | 141 | 25% | $2,695 | 30/6/11 | $4,230 |
| | 9/12/09 | 4 | 6,502 | $18.67 | $121,392 | $21.14 | $137,452 | 30/6/10 | 5,320 | 82% | $130,553 | N/A | $159,600 |
| | 13/9/10 | 4 | 5,252 | $22.32 | $117,225 | $25.53 | $134,084 | N/A | N/A | 0% | N/A | N/A | $157,560 |

1. Disclosure of maximum value is required under s300A 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.
2. 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.
3. Value of rights at exercise is equal to the number of rights exercised multiplied by the share price at exercise date.
4. Shares are subject to a two year holding lock. If the Senior Executive resigns or their employment is terminated prior to the end of the holding lock (except for reasons such as death, serious injury, disability, illness or involuntary early retirement), these shares will be forfeited.
5. Shares were issued to the CEO under the terms of the employment contract agreed with Christine Holgate and approved by shareholders at the 2009 Annual General Meeting and are subject to a service condition enforced by holding locks.
6. Shares are subject to a two year holding lock. If the CEO resigns or if employment ceases for reasons such as serious misconduct, then the deferred shares are forfeited.
7. Not vested in the current year only.

# REMUNERATION REPORT

## 6. EMPLOYMENT CONTRACTS

The following Executive Directors and Senior Executives have employment contracts:

Kerry Cunningham, Richard Henfrey, Christine Holgate, Chris Last, Neal Mercado, Peter Osborne, Gabriel Perera and Lee Richards. No contract is for a fixed term.

### 6.1 Termination

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

| NAME | YEARS OF CONTINUOUS SERVICE | NOTICE PERIOD PROVIDED BY BLACKMORES OR SENIOR EXECUTIVE |
|---|---|---|
| Christine Holgate | N/A | Six months |
| Senior Executives | N/A | Three months |

In the event of termination by the Company, Christine Holgate is also entitled to an additional cash payment, its value dependent on predefined termination dates. Amounts payable range from a minimum of $nil to a maximum of $420,000. In the event of voluntary resignation she will not be entitled to the above payment.

Where termination is due to redundancy, Blackmores must pay a severance payment according to years of service as shown in the table below.

| NAME | YEARS OF CONTINUOUS SERVICE | NOTICE PERIOD PROVIDED BY BLACKMORES OR SENIOR EXECUTIVE |
|---|---|---|
| Christine Holgate | N/A | Six months pay |
| Senior Executives | Up to one year | Two weeks pay |
| | Between one and 10 years | Two weeks pay plus an additional three weeks pay for each completed year of service |
| | 10 years or more | 29 weeks pay plus an additional three weeks pay for each completed year of service following 10 years capped at a maximum of 52 weeks pay |

For the purposes of calculating Christine Holgate's payment, a month of pay is based on her total remuneration package at the time, being base salary, superannuation contributions and other benefits as agreed from time to time.

For the purposes of calculating the amount payable for all other 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.

## 7. NON-EXECUTIVE DIRECTORS' REMUNERATION

Compensation arrangements for Non-Executive Directors are determined by Blackmores after reviewing published remuneration surveys and market information. Non-Executive Directors receive fixed annual fees comprising a Board fee, Committee fee and Committee Chair fee as applicable. Retirement allowances were accrued until 1 October 2003 for Non-Executive Directors appointed prior to this date. No further retirement allowances have accrued to these individuals. Non-Executive Directors appointed after 1 October 2003 do not receive a retirement allowance.

Directors' Fees paid in respect to the financial year 2011 are as follows:

- the base fee for each Director is $73,205 per annum;
- additional fee of $7,500 applies for each Committee membership;
- additional fee of $5,000 applies if appointed Chairman of the Committee;

Directors' Fees have been increased in accordance with CPI effective 1 July 2011 as follows:

- the base fee for each Director is $75,401 per annum;
- additional fee of $7,725 applies for each Committee membership;
- additional fee of $5,150 applies if appointed Chairman of the Committee;

A Non-Executive Director, who is also Deputy Chairman, receives 150% of the relevant base fee.

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.

Shareholders at a meeting held on 21 October 2010 determined the maximum total Non-Executive Directors' fees payable to be $700,000 per year, to be distributed as the Board determines.

Information about amounts paid to individual Directors is provided in Section 4 of this Remuneration Report.

Signed in accordance with a Resolution of the Directors made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the Directors

**Marcus C Blackmore**
DIRECTOR

Dated in Sydney, 18 August 2011

# AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

The Barrington
Level 10
10 Smith Street
Parramatta NSW 2150
PO Box 38
Parramatta NSW 2124 Australia

DX 28485
Tel: +61 (0) 2 9840 7000
Fax: +61 (0) 2 9840 7001
www.deloitte.com.au

The Board of Directors
Blackmores Limited
20 Jubilee Avenue
WARRIEWOOD NSW 2102

18 August 2011

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 2011, 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

**P G Forrester**
Partner
Chartered Accountants

# INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

The Barrington
Level 10
10 Smith Street
Parramatta NSW 2150
PO Box 38
Parramatta NSW 2124 Australia

DX 28485
Tel: +61 (0) 2 9840 7000
Fax: +61 (0) 2 9840 7001
www.deloitte.com.au

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

### Report on the Financial Report

We have audited the accompanying financial report of Blackmores Limited, which comprises the statement of financial position as at 30 June 2011, the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 50 to 101.

*Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

# INDEPENDENT AUDITOR'S REPORT

*Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Blackmores Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

*Auditor's Opinion*

In our opinion:

(a) the financial report of Blackmores Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

**Report on the Remuneration Report**

We have audited the Remuneration Report included on pages 38 to 46 of the directors' report for the year ended 30 June 2011. 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.

*Auditor's Opinion*

In our opinion the Remuneration Report of Blackmores Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

**P G Forrester**
Partner
Chartered Accountants

Parramatta, 18 August 2011

# 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 3 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.

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

**MARCUS C BLACKMORE AM**
Director

Dated in Sydney, 18 August 2011

# CONSOLIDATED INCOME STATEMENT

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| | NOTES | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| Sales | 5 | 234,423 | 214,934 |
| Royalties | 5 | 844 | 873 |
| Other income | 6 | 1,325 | 1,286 |
| **Revenue and other income** | | 236,592 | 217,093 |
| Promotional and other rebates | | 22,907 | 19,054 |
| Changes in inventories of finished goods | | 2,047 | 5,194 |
| Raw materials and consumables used | | 69,920 | 65,748 |
| Employee benefits expense | | 52,730 | 48,179 |
| Depreciation and amortisation expense | | 4,529 | 4,141 |
| Selling and marketing expenses | | 22,102 | 19,134 |
| Operating lease rental expenses | | 1,391 | 1,034 |
| Professional and consulting expenses | | 3,303 | 2,198 |
| Repairs and maintenance expenses | | 2,375 | 1,992 |
| Freight expenses | | 3,278 | 3,006 |
| Bank charges | | 1,146 | 881 |
| Other expenses | | 9,331 | 9,786 |
| **Total expenses** | | 195,059 | 180,347 |
| **Earnings before interest and tax** | | 41,533 | 36,746 |
| Interest revenue | | 161 | 427 |
| Interest expense | | (2,372) | (2,442) |
| Net interest expense | | (2,211) | (2,015) |
| Profit before tax | 7 | 39,322 | 34,731 |
| Income tax expense | 8 | (12,017) | (10,434) |
| **Profit for the year** | | 27,305 | 24,297 |
| **EARNINGS PER SHARE** | | | |
| – Basic earnings per share (cents) | 25 | 163.2 | 146.8 |
| – Diluted earnings per share (cents) | 25 | 162.9 | 146.4 |

Notes to the consolidated Financial Statements are included on pages 56 to 101.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| | NOTES | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| Profit for the year | | 27,305 | 24,297 |
| **Other comprehensive income** | | | |
| Gain recognised on cash flow hedges | | 209 | 533 |
| Exchange differences arising on translating the foreign controlled entities | 23.3 | (2,161) | 341 |
| Income tax relating to components of other comprehensive income | | (63) | (160) |
| Other comprehensive income for the year, net of income tax | | (2,015) | 714 |
| **Total comprehensive income for the year** | | 25,290 | 25,011 |

Notes to the consolidated Financial Statements are included on pages 56 to 101.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

| | NOTES | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **ASSETS:** | | | |
| CURRENT ASSETS | | | |
| Cash and bank balances | 33.1 | 10,168 | 21,507 |
| Receivables | 12 | 43,030 | 33,994 |
| Inventories | 13 | 23,749 | 22,555 |
| Other | | 1,574 | 2,429 |
| **Total current assets** | | 78,521 | 80,485 |
| NON-CURRENT ASSETS | | | |
| Receivables | 12 | 2,500 | 2,500 |
| Property, plant and equipment | 14 | 64,926 | 66,148 |
| Investment property | 15 | 2,160 | 2,160 |
| Other intangible assets | 16 | 2,012 | 716 |
| Goodwill | 36 | 657 | - |
| Deferred tax assets | 8.2 | 2,335 | 2,326 |
| Other | | 19 | 14 |
| **Total non-current assets** | | 74,609 | 73,864 |
| **Total assets** | | 153,130 | 154,349 |
| **LIABILITIES:** | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 17 | 25,843 | 26,575 |
| Current tax liabilities | 20 | 3,570 | 3,992 |
| Other financial liabilities | 18 | 155 | 660 |
| Provisions | 21 | 3,653 | 3,230 |
| **Total current liabilities** | | 33,221 | 34,457 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 19 | 40,000 | 47,356 |
| Deferred tax liabilities | 8.2 | 5 | 5 |
| Provisions | 21 | 792 | 741 |
| **Total non-current liabilities** | | 40,797 | 48,102 |
| **Total liabilities** | | 74,018 | 82,559 |
| **Net assets** | | 79,112 | 71,790 |
| **EQUITY:** | | | |
| CAPITAL AND RESERVES | | | |
| Issued capital | 22 | 25,348 | 25,348 |
| Reserves | 23 | 1,594 | 2,470 |
| Retained earnings | 24 | 52,170 | 43,972 |
| **Total equity** | | 79,112 | 71,790 |

Notes to the consolidated Financial Statements are included on pages 56 to 101.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| | ISSUED CAPITAL $'000 | EQUITY-SETTLED EMPLOYEE BENEFITS RESERVE $'000 | HEDGE RESERVE $'000 | FOREIGN CURRENCY TRANSLATION RESERVE $'000 | RETAINED EARNINGS $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| Balance as at 30 June 2009 | 21,680 | 2,786 | (676) | (1,234) | 36,007 | 58,563 |
| Dividends declared | - | - | - | - | (16,332) | (16,332) |
| Profit for the year | - | - | - | - | 24,297 | 24,297 |
| Other comprehensive income for the year, net of income tax | - | - | 373 | 341 | - | 714 |
| **Total comprehensive income for the year** | - | - | 373 | 341 | 24,297 | 25,011 |
| Issue of shares under Dividend Reinvestment Plan | 3,668 | - | - | - | - | 3,668 |
| Recognition of share-based payments | - | 880 | - | - | - | 880 |
| **Balance as at 30 June 2010** | **25,348** | **3,666** | **(303)** | **(893)** | **43,972** | **71,790** |
| Dividends declared | - | - | - | - | (19,107) | (19,107) |
| Profit for the year | - | - | - | - | 27,305 | 27,305 |
| Other comprehensive income for the year, net of income tax | - | - | 146 | (2,161) | - | (2,015) |
| **Total comprehensive income for the year** | - | - | 146 | (2,161) | 27,305 | 25,290 |
| Recognition of share-based payments | - | 1,139 | - | - | - | 1,139 |
| **Balance as at 30 June 2011** | **25,348** | **4,805** | **(157)** | **(3,054)** | **52,170** | **79,112** |

Notes to the consolidated Financial Statements are included on pages 56 to 101.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| | NOTES | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 247,828 | 237,522 |
| Payments to suppliers and employees | | (211,311) | (200,399) |
| Cash generated from operations | | 36,517 | 37,123 |
| Interest and other costs of finance paid | | (2,372) | (1,942) |
| Income taxes paid | | (12,510) | (9,307) |
| **Net cash generated by operating activities** | 33.3 | 21,635 | 25,874 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | 161 | 427 |
| Net cash outflow on acquisition of subsidiary | 36.5 | (1,968) | - |
| Payment for property, plant and equipment | | (3,396) | (3,742) |
| Payment for investment property | | - | (2,160) |
| Proceeds from sale of property, plant and equipment | | 16 | - |
| **Net cash used in investing activities** | | (5,187) | (5,475) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of borrowings | | (7,356) | - |
| Dividends paid | | (19,107) | (12,664) |
| Other | | (135) | - |
| **Net cash used in financing activities** | | (26,598) | (12,664) |
| **Net (decrease) / increase in cash and cash equivalents** | | (10,150) | 7,735 |
| **Cash and cash equivalents at the beginning of the year** | | 21,507 | 13,716 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (1,189) | 56 |
| **Cash and cash equivalents at the end of the year** | 33.1 | 10,168 | 21,507 |

Notes to the consolidated Financial Statements are included on pages 56 to 101.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 1. 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 in Australia, Asia and New Zealand.

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

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

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

## 2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

### 2.1 STANDARDS AND INTERPRETATIONS AFFECTING AMOUNTS REPORTED IN THE CURRENT YEAR (AND/OR PRIOR YEARS)

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these Financial Statements. Details of other Standards and Interpretations adopted in these Financial Statements but that have had no effect on the amounts reported are set out in section 2.2.

#### STANDARDS AFFECTING PRESENTATION AND DISCLOSURE

| STANDARD / INTERPRETATION | NATURE OF CHANGE REQUIRED |
|---|---|
| • Amendments to AASB 7 'Financial Instruments: Disclosure' (adopted in advance of effective date of 1 January 2011) | The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. |
| • Amendments to AASB 101 'Presentation of Financial Statements' (adopted in advance of effective date of 1 January 2011) | The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the Statement of Changes in Equity or in the notes to the Financial Statements. |
| • Amendments to AASB 107 'Statement of Cash Flows' | The amendments (part of AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') specify that only expenditures that result in a recognised asset in the Statement of Financial Position can be classified as investing activities in the Statement of Cash Flows. Consequently, cash flows in respect of development costs that do not meet the criteria in AASB 138 'Intangible Assets' for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) have been reclassified from investing to operating activities in the Statement of Cash Flows. |

#### STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULTS OR FINANCIAL POSITION

There are no new and revised Standards and Interpretations adopted in these Financial Statements affecting the reporting results or financial position.

### 2.2 STANDARDS AND INTERPRETATIONS ADOPTED WITH NO EFFECT ON THE FINANCIAL STATEMENTS

The following new and revised Standards and Interpretations have also been adopted in these Financial Statements. Their adoption has not had any significant impact on the amounts reported in these Financial Statements but may affect the accounting for future transactions or arrangements.

| STANDARD / INTERPRETATION | NATURE OF CHANGE REQUIRED |
|---|---|
| • AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' | Except for the amendments to AASB 107 described earlier in this section the application of AASB 2009-5 has not had any material effect on amounts reported in the Financial Statements. |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| STANDARD / INTERPRETATION | NATURE OF CHANGE REQUIRED |
|---|---|
| • AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions' | The application of AASB 2009-8 makes amendments to AASB 2 'Share-based Payment' to clarify the scope of AASB 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) Financial Statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award. |
| • AASB 2009-10 'Amendments to Australian Accounting Standards – Classification of Rights Issues' | The application of AASB 2009-10 makes amendments to AASB 132 'Financial Instruments: Presentation' to address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. |
| • AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project' | The application of AASB 2010-3 makes amendments to AASB 3(2008) 'Business Combinations' to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, the application of AASB 2010-3 makes amendments to AASB 3(2008) to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with AASB 2 'Share-based Payment' at the acquisition date ('market-based measure'). |
| • AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' | Except for the amendments to AASB 7 and AASB 101 described earlier in this section, the application of AASB 2010-4 has not had any material effect on amounts reported in the Financial Statements. |
| • Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments' | This Interpretation provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular, the equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. To date, the Group has not entered into transactions of this nature. |

## 2.3 STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

At the date of authorisation of the Financial Statements, the following Standards and Interpretations were in issue but not yet effective.

| STANDARD / INTERPRETATION | EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER | EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING |
|---|---|---|
| • AASB 124 'Related Party Disclosures' (revised December 2009), AASB 2009-12 'Amendments to Australian Accounting Standards' | 1 January 2011 | 30 June 2012 |
| • AASB 9 'Financial Instruments', AASB 2009- 11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)' | 1 January 2013 | 30 June 2014 |
| • AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement' | 1 January 2011 | 30 June 2012 |
| • AASB 2010-5 'Amendments to Australian Accounting Standards' | 1 January 2011 | 30 June 2012 |
| • AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets' | 1 July 2011 | 30 June 2012 |
| • AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets' | 1 January 2012 | 30 June 2013 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 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.

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 18 August 2011.

### 3.2 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 accounting policies below. 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 Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Financial Statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

#### 3.2.1 EARLY ADOPTION OF ACCOUNTING STANDARDS

The Directors have elected under s334 (5) of the Corporations Act 2001 to apply Amendments to AASB 7 'Financial Instruments: Disclosure' and Amendments to AASB 101 'Presentation of Financial Statements' in advance of their effective dates. The Standards are not required to be applied until annual reporting periods beginning on or after 1 January 2011. The impact of the adoption of these standards is disclosed in note 2.1 to the consolidated Financial Statements.

The following significant accounting policies have been adopted in the preparation and presentation of the consolidated Financial Statements.

### 3.3 BASIS OF CONSOLIDATION

The consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) referred to as 'the Group' in the consolidated Financial Statements. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated Statement of Comprehensive Income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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 intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

### 3.4 CASH AND CASH EQUIVALENTS

Cash is comprised of cash on hand and cash at bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition. Bank overdrafts are shown within borrowings in current liabilities in the consolidated Statement of Financial Position.

### 3.5 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.

#### 3.5.1 FINANCIAL ASSETS

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' (FVTPL), '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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

### 3.5.1.1 Effective Interest Method

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.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

### 3.5.1.2 Financial Assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income. Fair value is determined in the manner described in note 34.

### 3.5.1.3 AFS Financial Assets

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

### 3.5.1.4 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.

### 3.5.1.5 Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of 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 the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity instruments, including listed or unlisted shares, objective evidence of impairment includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicate that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment for unlisted shares classified as available-for-sale.

For all other financial assets, including redeemable notes classified as available-for-sale and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the reporting period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### 3.5.1.6 Derecognition of Financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

### 3.5.2 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

#### 3.5.2.1 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.

#### 3.5.2.2 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.

#### 3.5.2.3 Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

#### 3.5.2.4 Financial Liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other income' line item in the consolidated Income Statement. Fair value is determined in the manner described in note 34.

#### 3.5.2.5 Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are 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.

#### 3.5.2.6 Derecognition of Financial Liabilities

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

#### 3.5.2.7 Transaction Costs on the Issue of Equity Instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

#### 3.5.2.8 Dividends

Dividends are classified as distributions of profit.

### 3.5.3 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 note 34 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.

#### 3.5.3.1 Hedge Accounting

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, 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 that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 34 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.

#### 3.5.3.2 Fair Value Hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the consolidated Income Statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

#### 3.5.3.3 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 Income Statement as the recognised hedged item.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

However, when the hedged forecast transaction that is hedged 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.

#### 3.5.3.4 Hedges of Net Investments in Foreign Operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated under the heading of foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the other income line item.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operation.

#### 3.5.3.5 Derivatives That Do Not Qualify For Hedge Accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

### 3.6 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular 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.

### 3.7 PROPERTY, PLANT AND EQUIPMENT

Property, and associated land, in the course of construction for production or administrative purposes, is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Plant and equipment and leasehold improvements are measured at cost less accumulated depreciation and impairment. Construction in progress is stated at cost. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each financial year, with the effect of any changes recognised on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Freehold land is not depreciated. The following estimated useful lives are used in the calculation of depreciation:

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

### 3.8 IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss unless the relevant asset is carried

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## 3.9 BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 3.10 LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### 3.10.1 THE GROUP AS LESSEE

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

## 3.11 PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and 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. Where 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 effect of 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.

### 3.11.1 ONEROUS CONTRACTS

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the obligations under the contract exceed the economic benefits estimated to be received from the contract.

## 3.12 EMPLOYEE BENEFITS

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 in respect of services provided by employees up to reporting date.

### 3.12.1 DEFINED CONTRIBUTION PLANS

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

## 3.13 REVENUE RECOGNITION

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

### 3.13.1 SALE OF GOODS

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of the revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or expected to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title is passed.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.13.2 ROYALTIES

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

### 3.13.3 DIVIDEND AND INTEREST REVENUE

Dividend revenue from investments is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 3.14 FOREIGN CURRENCIES

### 3.14.1 INDIVIDUAL CONTROLLED ENTITIES

The individual Financial Statements of each controlled 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 entity are expressed in Australian Dollars ('$'), which is the functional currency of Blackmores Limited and the presentation currency for the consolidated Financial Statements.

### 3.14.2 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.

Exchange differences are recognised in profit or loss in the period in which they arise, except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

### 3.14.3 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).

## 3.15 SHARE-BASED PAYMENTS

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 a binomial 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. 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.

## 3.16 GOODS AND SERVICE TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

Cash flows are included in the consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

## 3.17 TAXATION

Income tax expense represents the sum of the tax currently payable and the movement in deferred tax.

### 3.17.1 CURRENT TAX

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated Income Statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### 3.17.2 DEFERRED TAX

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and 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.

### 3.17.3 CURRENT AND DEFERRED TAX FOR THE YEAR

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 3.18 INVESTMENT PROPERTY

Investment property, which is property held to earn rentals and/or for capital appreciation is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property will continue to be measured on a cost basis. Investment property will be depreciated where applicable.

Depreciation is provided on investment property, including freehold buildings but excluding land. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each financial year, with the effect of any changes recognised on a prospective basis.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

## 3.19 INTANGIBLE ASSETS

### 3.19.1 INTANGIBLE ASSETS ACQUIRED SEPARATELY

Intangible assets with finite lives acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.19.2 INTERNALLY-GENERATED INTANGIBLE ASSETS

#### 3.19.2.1 Research and development expenditure

In accordance with AASB 138.54 expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

#### 3.19.2.2 Website development expenditure

The Group has developed and operates a number of websites. These belong to one of two categories, those which are capable of generating revenue and those which are not.

Those which fit into the first category were developed to act as both information/advertising tools and as another means of selling our products. These websites also have the capability of generating direct revenues for the Group by enabling orders to be placed online. This is considered to be an important growth channel for the business going forward.

These websites generate probable future economic benefits and have a measurable cost and therefore satisfy the criteria set out in AASB 138 for recognition as an internally-generated intangible asset. Expenditure on the development of those websites which belong to the second category and do not have these revenue generating capabilities does not meet the recognition criteria and thus is expensed as incurred.

Expenditure during the Planning Stage is expensed as incurred in accordance with AASB 138 on the basis that it is akin to research.

Expenditure during the Application and Infrastructure Development Stage, the Graphical Design Stage and the Content Development Stage, when the expenditure can be directly attributed and is necessary to creating, producing or preparing the website for it to be capable of operating in the manner intended by management, is included in the cost of the website recognised as an intangible asset. This is considered to be similar to the Development Stage as outlined in AASB 138.

Expenditure relating to content development to the extent that content is developed to advertise and promote the Group's own products and services is expensed as incurred. Similarly, any further expenditure once the website enters the Operating Stage is expensed as incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. The website is estimated to have a useful life of three years.

### 3.19.3 INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

### 3.19.4 DERECOGNITION OF INTANGIBLE ASSETS

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

## 3.20 BUSINESS COMBINATIONS

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Noncurrent Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

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.

### 3.21 GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business (see 3.20 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

### 3.22 GOVERNMENT GRANTS

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government assistance which does not have conditions attached specifically relating to the operating activities of the Group is recognised in accordance with the accounting policies above.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### 4.1 USEFUL LIVES OF PROPERTY PLANT AND EQUIPMENT

As described in note 3.7, the Group reviews the useful lives of property, plant and equipment at the end of each financial year. No changes were made during the current year.

### 4.2 RECOVERABILITY OF INTERNALLY GENERATED INTANGIBLE ASSET

The Directors considered the recoverability of the Group's internally generated intangible assets arising from its website development projects, which are included in the consolidated Statement of Financial Position at 30 June 2011 at $809,000 (30 June 2010: $716,000).

The websites continue to gain popularity in a very satisfactory manner with monthly increases in the number of subscribers and activity levels. This level of engagement has reconfirmed the Directors' previous estimates of anticipated revenues from the projects. The Directors remain confident that the carrying amount of the assets will be recovered in full.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 5. REVENUE

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Revenue from continuing operations consisted of the following:** | | |
| Revenue from sale of goods | 234,423 | 214,934 |
| Interest revenue from bank deposits | 161 | 427 |
| Royalties | 844 | 873 |
| | 235,428 | 216,234 |

## 6. OTHER INCOME

| | | |
|---|---|---|
| Gain/(loss) on disposals of property, plant and equipment | 5 | (36) |
| Government grants received for market development[1] | 21 | - |
| Net foreign exchange gains | 1,299 | 1,286 |
| Net exchange losses on forward exchange contracts | (1,391) | (1,499) |
| | (66) | (249) |
| Other income per above | 1,325 | 1,286 |
| Losses per above | (1,391) | (1,535) |
| | (66) | (249) |

1. No unfulfilled conditions or contingencies attached to this assistance exist as at 30 June 2011.

## 7. PROFIT FOR THE YEAR

| | | |
|---|---|---|
| **Profit for the year has been arrived at after charging (crediting):** | | |
| Cost of sales | 78,790 | 80,151 |
| Interest expense: | | |
| Interest on bank loans | 2,090 | 1,888 |
| Net settlement of interest rate swap | 282 | 554 |
| Total interest expense | 2,372 | 2,442 |
| Impairment of receivables: | | |
| Trade receivables | - | 425 |
| Depreciation of non-current assets | 4,211 | 4,037 |
| Amortisation of non-current assets | 318 | 104 |
| Total depreciation and amortisation expense | 4,529 | 4,141 |
| Operating lease minimum lease payments | 1,391 | 1,034 |
| Research and development costs expensed as incurred | 624 | 734 |
| Employee benefit expense | | |
| Post-employment benefits: | | |
| Defined contribution plans | 2,809 | 2,579 |
| Share-based payments: | | |
| Equity-settled share-based payments | 1,139 | 880 |
| Termination benefits | 405 | 65 |
| Other employee benefits | 48,377 | 44,655 |
| | 52,730 | 48,179 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 8. INCOME TAXES

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **8.1 Income Tax Recognised in Profit** | | |
| CURRENT TAX: | | |
| Current tax expense in respect of the current year | 12,411 | 11,281 |
| Adjustments recognised in the current year in relation to the current tax of prior years | (385) | (100) |
| DEFERRED TAX: | | |
| Deferred tax benefit relating to the origination and reversal of temporary differences | (9) | (747) |
| Total income tax expense | 12,017 | 10,434 |

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the consolidated Financial Statements as follows:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Profit before tax | 39,322 | 34,731 |
| Income tax expense calculated at 30% | 11,797 | 10,419 |
| Effect of different tax rates on tax on overseas income | (11) | (41) |
| Net effect of foreign tax debits/(credits) | 115 | (50) |
| Effect of expenses that are not deductible in determining taxable profit | 357 | 421 |
| Effect of tax concessions | (12) | (40) |
| Utilisation of tax losses not recognised as an asset | - | (13) |
| Effect of revenue exempt from tax | (7) | - |
| Effect of withholding tax on intercompany dividend | 161 | - |
| Other items | 2 | (162) |
| | 12,402 | 10,534 |
| Over provision of income tax in previous year | (385) | (100) |
| Income tax expense recognised in profit or loss | 12,017 | 10,434 |

The tax rate used for the 2011 and 2010 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 8. INCOME TAXES (CONTINUED)

### 8.2 Deferred Tax Balances

Deferred tax assets/(liabilities) arise from the following:

| | OPENING BALANCE $'000 | RECOGNISED IN PROFIT OR LOSS $'000 | RECOGNISED IN OTHER COMPREHENSIVE INCOME $'000 | ACQUISITIONS $'000 | CLOSING BALANCE $'000 |
|---|---|---|---|---|---|
| **Temporary Differences 2011** | | | | | |
| Property, plant and equipment | (933) | 433 | - | - | (500) |
| Prepayments and other | (34) | (173) | - | - | (207) |
| Provisions | 1,974 | 32 | - | 4 | 2,010 |
| Accruals | 1,112 | (252) | - | - | 860 |
| Cash flow hedges | 130 | - | (63) | - | 67 |
| Website development | 60 | 1 | - | - | 61 |
| Foreign currency monetary items | 17 | (1) | - | - | 16 |
| Capitalised expenses | - | 28 | - | - | 28 |
| Other | (5) | - | - | - | (5) |
| | 2,321 | 68 | (63) | 4 | 2,330 |
| Presented in the consolidated Statement of Financial Position as follows: | | | | | |
| Deferred tax asset | | | | | 2,335 |
| Deferred tax (liability) | | | | | (5) |
| | | | | | 2,330 |
| **Temporary Differences 2010** | | | | | |
| Property, plant and equipment | (911) | (22) | - | - | (933) |
| Prepayments and other | (25) | (9) | - | - | (34) |
| Provisions | 1,534 | 440 | - | - | 1,974 |
| Accruals | 774 | 338 | - | - | 1,112 |
| Cash flow hedges | 290 | - | (160) | - | 130 |
| Website development | 57 | 3 | - | - | 60 |
| Foreign currency monetary items | 20 | (3) | - | - | 17 |
| Other | (5) | - | - | - | (5) |
| | 1,734 | 747 | (160) | - | 2,321 |
| Presented in the consolidated Statement of Financial Position as follows: | | | | | |
| Deferred tax asset | | | | | 2,326 |
| Deferred tax (liability) | | | | | (5) |
| | | | | | 2,321 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

### Unrecognised Deferred Tax Assets

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| The following deferred tax assets have not been brought to account as assets: | | |
| Tax losses – capital (no expiry date) | 758 | 758 |
| Tax losses – revenue (expiry: 2015) | 33 | 33 |
| Tax losses – revenue (expiry: 2016) | 143 | 143 |
| Tax losses – revenue (expiry: 2017) | 202 | 202 |
| Tax losses – revenue (expiry: 2018) | 139 | 139 |
| Tax losses – revenue (expiry: 2019) | 100 | 100 |
| Tax losses – revenue (expiry: 2020) | 131 | - |
| Tax losses – revenue (no expiry date) | 387 | 307 |
| | 1,893 | 1,682 |

## 9. KEY MANAGEMENT PERSONNEL COMPENSATION

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

| | 2011 $ | 2010 $ |
|---|---|---|
| Short-term employee benefits | 4,575,350 | 5,222,265 |
| Post-employment benefits | 307,926 | 247,854 |
| Other long-term benefits | 63,210 | 35,271 |
| Termination benefits | 341,407 | - |
| Share-based payment | 677,033 | 594,692 |
| | 5,964,926 | 6,100,082 |

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 which accompanies these consolidated Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 10. SHARE-BASED PAYMENTS

### Executive Performance Share Plan

The Executive Performance Share Plan was approved at Blackmores' Annual General Meeting in November 2008. 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'. During the year, the Company granted entitlements to an allocation of ordinary shares provided specific objectives and hurdles were met. The number of ordinary shares that will be issued for nil consideration in relation to the services performed during the financial year ended 30 June 2011 is 32,960 (2010: 63,800). The minimum number of rights that could be vested under the entitlement was 11,329 (2010: 13,278) and the maximum number of rights that could be vested was 59,498 (2010: 73,140).

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

| SHARE RIGHTS SERIES | NUMBER OF RIGHTS | GRANT DATE | EXPIRY DATE | EXERCISE PRICE | FAIR VALUE AT GRANT DATE |
|---|---|---|---|---|---|
| **GRANTS IN THE 2011 YEAR** | | | | | $ |
| Granted 13 September 2010 | **52,104** | **13 September 2010** | **30 June 2011** | | **22.32** |
| Granted 9 December 2010 | **7,394** | **9 December 2010** | **30 June 2011** | | **25.55** |
| **GRANTS IN THE 2010 YEAR** | | | | | $ |
| Granted 9 December 2009 | 71,985 | 9 December 2009 | 30 June 2010 | 24.54 | 18.67 |
| Granted 30 April 2010 | 1,155 | 30 April 2010 | 30 June 2010 | 24.54 | 21.53 |

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | NUMBER OF RIGHTS | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER | WEIGHTED AVERAGE EXERCISE PRICE |
| Balance at the beginning of the year | **63,800** | | 16,019 | |
| Granted during the year | **59,498** | | 73,140 | |
| Forfeited during the year | **(26,538)** | | (9,340) | |
| Exercised during the year | **(63,800)** | **24.54** | (16,019) | 19.11 |
| Expired during the year | **-** | | - | |
| Balance at the end of the year | **32,960** | | 63,800 | |
| Exercisable at the end of the year | **32,960** | | 63,800 | |

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

Share rights are vested as at 30 June 2011 and shares are subsequently issued in September following audit clearance of the Group's result and Board approval. The issue price for share rights granted in the 2011 financial year will be determined in September 2011.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

### Chief Executive Officer

| RATE OF EPS GROWTH | PERCENTAGE OF PARTICIPANT'S BASE REMUNERATION 2011 | 2010 |
|---|---|---|
| greater than 4% but less than or equal to 5% | 25.0 | 25.0 |
| greater than 5% but less than or equal to 6% | 31.3 | 31.3 |
| greater than 6% but less than or equal to 7% | 37.5 | 37.5 |
| greater than 7% but less than or equal to 8% | 43.8 | 43.8 |
| greater than 8% but less than or equal to 9% | 50.0 | 50.0 |
| greater than 9% but less than or equal to 10% | 56.3 | 56.3 |
| greater than 10% but less than or equal to 11% | 62.5 | 62.5 |
| greater than 11% but less than or equal to 12% | 68.8 | 68.8 |
| greater than 12% but less than or equal to 13% | 75.0 | 75.0 |
| greater than 13% but less than or equal to 14% | 81.3 | 81.3 |
| greater than 14% but less than or equal to 15% | 87.5 | 87.5 |
| greater than 15% but less than or equal to 16% | 93.8 | 93.8 |
| greater than 16% | 100.0 | 100.0 |

### Senior Executives and other Senior Company Management

2011 AND 2010

The Percentage of Base Remuneration at levels of EPS Growth for the 2011 financial year is determined by the following formula: 5% + (EPS Growth% less 4%) x 2.5), provided that EPS Growth is at least equal to or greater than 4%.
Senior Management's percentage is one quarter of Senior Executives.
Examples of Percentage of Base Remuneration at levels of EPS Growth are as follows.

| RATE OF EPS GROWTH | PERCENTAGE OF PARTICIPANT'S BASE REMUNERATION: SENIOR EXECUTIVES | OTHER SENIOR COMPANY MANAGEMENT |
|---|---|---|
| less than 4% | - | - |
| equal to 4% | 5.0 | 1.25 |
| equal to 5% | 7.5 | 1.88 |
| equal to 6% | 10.0 | 2.50 |
| equal to 7% | 12.5 | 3.13 |
| equal to 8% | 15.0 | 3.75 |
| equal to 9% | 17.5 | 4.38 |
| equal to 10% | 20.0 | 5.00 |
| equal to 11% | 22.5 | 5.63 |
| equal to 12% | 25.0 | 6.25 |
| equal to 13% | 27.5 | 6.88 |
| equal to 14% | 30.0 | 7.50 |
| equal to 15% | 32.5 | 8.13 |
| equal to 16% | 35.0 | 8.75 |
| equal to 17% | 37.5 | 9.38 |
| equal to or greater than 18% | 40.0 | 10.00 |

### Senior Executive Animal Health Division

2011

The allocation is based on a percentage of the Senior Executive's base remuneration. The allocation is primarily payable only if actual sales revenue exceeds 150% of budgeted revenue for the Animal Health Business. Thereafter assuming this initial criteria is met, the allocation then varies depending on the performance of actual EBIT compared to stretch EBIT target, which is also in excess of that budgeted for the business. The minimum payout is 0% and the maximum potential payout is 100% of the Senior Executive's base remuneration.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 10. SHARE-BASED PAYMENTS (CONTINUED)

Shares allocated to Key Management Personnel are subject to a two year holding lock whereby a percentage of the shares is treated as deferred shares. If the Senior Executive resigns or is terminated (except for reasons other than death, serious injury, disability or illness or involuntary early retirement) the deferred shares are treated as forfeited.

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 (year ended 30 June 2010) are announced to the ASX, less
- the amount of any final dividend per share declared as payable for the year ended 30 June 2010.

### Special Long-Term Incentives

At the 2009 Annual General Meeting, shareholders approved the grant to Christine Holgate of 50,360 Blackmores shares for nil consideration as part of a Special Long-Term Incentive (SLTI). Eligibility for an SLTI was part of the employment contract agreed with Ms Holgate.

The shares were issued to Ms Holgate in November 2009 and will vest subject to a service condition enforced by the following holding locks:

- 30,216 shares are subject to a holding lock ending 30 days after the audit clearance of the Group's 2011 consolidated Financial Statements;
- 20,144 shares are subject to a holding lock ending 30 days after the audit clearance of the Group's 2013 consolidated Financial Statements.

A share-based payment expense of $160,939 (2010: $160,939) was recorded in relation to these shares for the year ended 30 June 2011. This amount has been included in the total remuneration for Christine Holgate as set out in the Key Management Personnel Remuneration Disclosure on page 43 of the Directors' Report.

### Staff Share Acquisition Plan

The Group has established a Staff Share Acquisition Plan. The plan is open to all 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. There were 3,141 shares issued during the year ended 30 June 2011 (2010: 3,213 shares). In July 2011, 2,411 shares (2010: 3,108 shares) were issued to employees, including Senior Executives, for profit share entitlement that would otherwise have been paid in cash during the year ended 30 June 2011.

### Options Plan

At 1 July 2010 and at 1 July 2009 there were no share options outstanding, none were issued during the years ended 30 June 2011 and 2010 and as at 30 June 2011 and 2010 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 Group are detailed in the Remuneration Report which accompanies these consolidated Financial Statements.

## 11. REMUNERATION OF AUDITOR

| | 2011 $ | 2010 $ |
|---|---|---|
| **Auditor of the Parent Entity** | | |
| Auditing or reviewing the Financial Statements | 238,904 | 211,700 |
| Taxation services | 12,205 | 89,763 |
| Other non-audit services[1] | 16,475 | 60,685 |
| | 267,584 | 362,148 |
| **Related Practice of the Parent Company Auditor** | | |
| Auditing the Financial Statements | 80,946 | 84,859 |
| Taxation services | 38,820 | 31,417 |
| | 119,766 | 116,276 |

The auditor of Blackmores Limited is Deloitte Touche Tohmatsu.

1. Other non-audit services is comprised of fees in relation to the provision of accounting advice and consulting services.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 12. RECEIVABLES

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Current** | | |
| Current trade and other receivables[1] | 44,175 | 34,915 |
| Allowance for doubtful debts | (478) | (589) |
| Allowance for claims | (746) | (392) |
| | 42,951 | 33,934 |
| Goods and services tax (GST) recoverable | 79 | 60 |
| | 43,030 | 33,994 |
| **Non-current** | | |
| Payment on account on a building contract | 2,500 | 2,500 |

1. The average credit period on sale of goods is 30 days from the end of the month of invoice. No interest is charged on trade receivables and the Group does not hold any collateral over these balances. Trade receivables consist of a large number of customers spread across several retail channels and geographic regions.

The concentration of risk is limited due to the customer base generally being large and unrelated. At 30 June 2011, the Group had four customers (2010: five customers) each comprising amounts greater than 5% of the total trade receivables. These customers owed the Group more than $2.2 million (2010: $1.7 million) each and accounted for approximately 60% (2010: 48%) of all receivables owing.

| | | |
|---|---|---|
| **Ageing of Past Due but Not Impaired** | | |
| 0 – 30 days past due date | 1,393 | 2,720 |
| 31 – 60 days past due date | 80 | 115 |
| 61 – 90 days past due date | 4 | 698 |
| > 90 days past due date | 41 | 115 |
| Total | 1,518 | 3,648 |

An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past sale of goods, determined by reference to past default experience. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Group manages credit risk with regular review of the balances outstanding and restrictive action is taken where necessary.

| | | |
|---|---|---|
| **Ageing of Impaired Trade Receivables** | | |
| 0 – 30 days | 196 | 177 |
| 31 – 60 days | 54 | - |
| 61 – 90 days | 15 | 58 |
| > 90 days | 213 | 354 |
| Total | 478 | 589 |

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of $60,602 (2010: $64,007) which have been placed into liquidation. The Group does not hold any collateral over these balances. The Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

| | | |
|---|---|---|
| **Movement in the Allowance for Doubtful Debts** | | |
| Balance at the beginning of the year | 589 | 177 |
| Impairment losses recognised on trade receivables | - | 425 |
| Amounts written off as uncollectable | (38) | (13) |
| Provision release | (73) | - |
| Balance at the end of the year | 478 | 589 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 13. INVENTORIES

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Raw materials | 7,569 | 8,550 |
| Finished goods | 16,180 | 14,005 |
| | 23,749 | 22,555 |

The cost of inventories recognised as an expense during the year in respect of continuing operations was approximately $78,790,000 (2010: $80,151,000).

There were no write downs of inventory below cost during the financial year (2010: nil).

Inventories of $nil (30 June 2010: $nil) are expected to be recovered after more than 12 months.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | | |
|---|---|---|
| Cost | 84,141 | 82,280 |
| Accumulated depreciation | (19,215) | (16,132) |
| | 64,926 | 66,148 |
| Freehold land | 12,848 | 12,845 |
| Buildings | 33,496 | 34,064 |
| Leasehold improvements | 93 | 103 |
| Plant and equipment | 17,246 | 17,845 |
| Capital work in progress | 1,243 | 1,291 |
| | 64,926 | 66,148 |

| | FREEHOLD LAND AT COST $'000 | BUILDINGS AT COST $'000 | LEASEHOLD IMPROVE-MENTS AT COST $'000 | PLANT AND EQUIPMENT AT COST $'000 | CAPITAL WORK IN PROGRESS $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 30 June 2009 | 12,767 | 34,772 | 667 | 31,159 | 370 | 79,735 |
| Additions | 78 | 609 | 7 | 1,314 | 1,346 | 3,354 |
| Category transfers | - | - | - | 425 | (425) | - |
| Disposals | - | - | - | (887) | - | (887) |
| Other | - | - | - | 69 | - | 69 |
| Net foreign currency exchange differences arising on translation of financial statements of foreign operations | - | - | (1) | 10 | - | 9 |
| **Balance at 30 June 2010** | 12,845 | 35,381 | 673 | 32,090 | 1,291 | 82,280 |
| Additions | 3 | 394 | 45 | 1,342 | 1,229 | 3,013 |
| Acquisitions through business combinations | - | - | - | 13 | - | 13 |
| Category transfers | - | - | - | 1,277 | (1,277) | - |
| Disposals | - | - | - | (1,056) | - | (1,056) |
| Net foreign currency exchange differences arising on translation of financial statements of foreign operations | - | - | (23) | (86) | - | (109) |
| **Balance at 30 June 2011** | 12,848 | 35,775 | 695 | 33,580 | 1,243 | 84,141 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| | FREEHOLD LAND AT COST $'000 | BUILDINGS AT COST $'000 | LEASEHOLD IMPROVE-MENTS AT COST $'000 | PLANT AND EQUIPMENT AT COST $'000 | CAPITAL WORK IN PROGRESS $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| **Accumulated Depreciation** | | | | | | |
| Balance at 30 June 2009 | - | (373) | (539) | (12,019) | - | (12,931) |
| Disposals | - | - | - | 849 | - | 849 |
| Depreciation expense | - | (944) | (31) | (3,062) | - | (4,037) |
| Net foreign currency exchange differences arising on translation of financial statements of foreign operations | - | - | - | (13) | - | (13) |
| **Balance at 30 June 2010** | - | (1,317) | (570) | (14,245) | - | (16,132) |
| Acquisitions through business combinations | - | - | - | (10) | - | (10) |
| Disposals | - | - | - | 1,040 | - | 1,040 |
| Depreciation expense | - | (962) | (47) | (3,202) | - | (4,211) |
| Net foreign currency exchange differences arising on translation of financial statements of foreign operations | - | - | 15 | 83 | - | 98 |
| **Balance at 30 June 2011** | - | (2,279) | (602) | (16,334) | - | (19,215) |
| **Net Book Value** | | | | | | |
| As at 30 June 2010 | 12,845 | 34,064 | 103 | 17,845 | 1,291 | 66,148 |
| **As at 30 June 2011** | 12,848 | 33,496 | 93 | 17,246 | 1,243 | 64,926 |

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Aggregate Depreciation Allocated:** | | |
| Buildings | 962 | 944 |
| Leasehold improvements | 47 | 31 |
| Plant and equipment | 3,202 | 3,062 |
| | 4,211 | 4,037 |

No impairment losses have been recognised in the current year (2010: $nil).

## 15. INVESTMENT PROPERTY

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Cost of investment property | 2,160 | 2,160 |
| **At Cost** | | |
| Balance at beginning of year | 2,160 | - |
| Additions | - | 2,160 |
| Balance at end of year | 2,160 | 2,160 |

Investment property in the form of a plot of land at 15 Jubilee Avenue, Warriewood, NSW 2102 was acquired during the financial year ended 30 June 2010. At the date of the signing of these consolidated Financial Statements there were no plans to use this land for the production of goods or services or for administrative purposes, nor for sale in the ordinary course of business.

In line with our accounting policy on investment property, this property has been measured at cost. The cost of the purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes professional fees for legal services, property transfer taxes and other transaction costs. As the property in question is freehold land, no depreciation is recognised in relation to it.

This investment property is tested for impairment annually. To date no impairment losses have been recognised and the Directors remain confident that the carrying amount of the investment property will be recovered in full.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 16. OTHER INTANGIBLE ASSETS

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Cost | 2,434 | 820 |
| Accumulated amortisation and impairment | (422) | (104) |
| | 2,012 | 716 |

| | CAPITALISED WEBSITE DEVELOP-MENT $'000 | REGISTRA-TIONS[1,2] $'000 | TRADE-MARKS[1,2] $'000 | FORMULA-TIONS[1,2] $'000 | DISTRIBUTION AGREEMENT[1] $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 30 June 2009 | 410 | - | - | - | - | 410 |
| Additions from internal development | 410 | - | - | - | - | 410 |
| Balance at 30 June 2010 | 820 | - | - | - | - | 820 |
| Additions from internal development | 384 | - | - | - | - | 384 |
| Acquisitions through business combinations | - | 797 | 120 | 272 | 41 | 1,230 |
| **Balance at 30 June 2011** | 1,204 | 797 | 120 | 272 | 41 | 2,434 |
| **Accumulated Amortisation** | | | | | | |
| Balance at 30 June 2009 | - | - | - | - | - | - |
| Amortisation expense | (104) | - | - | - | - | (104) |
| Balance at 30 June 2010 | (104) | - | - | - | - | (104) |
| Amortisation expense | (291) | - | - | - | (27) | (318) |
| **Balance at 30 June 2011** | (395) | - | - | - | (27) | (422) |
| **Net Book Value** | | | | | | |
| As at 30 June 2010 | 716 | - | - | - | - | 716 |
| **As at 30 June 2011** | 809 | 797 | 120 | 272 | 14 | 2,012 |

1. These assets were acquired in a business combination.
2. These assets are considered to be of indefinite life and therefore do not require amortisation, but are subject to impairment testing.

The following useful lives are used in the calculation of amortisation expense:

| | |
|---|---|
| Capitalised website development | 3 years |
| Distribution agreement | 18 months |

The amortisation expense has been included in the line item 'depreciation and amortisation expense' in the consolidated Income Statement.

## 17. TRADE AND OTHER PAYABLES

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Trade payables[1] | 10,051 | 11,054 |
| Goods and services tax (GST) payable | 625 | 75 |
| Other creditors and accruals | 15,167 | 15,446 |
| | 25,843 | 26,575 |

1. The average credit period on purchases is 30 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 18. OTHER CURRENT FINANCIAL LIABILITIES

Derivatives and hedging instruments (designated as effective) are carried at fair value:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Liabilities** | | |
| Interest rate swaps | 155 | 433 |
| Foreign currency forward contracts | - | 227 |
| | 155 | 660 |

The weighted average interest rates related to interest rate swaps were 5.68% (2010: 5.92%).

## 19. BORROWINGS

| | | |
|---|---|---|
| **Non-current** | | |
| Secured – at amortised cost: | | |
| Bank bills[1,2] | 40,000 | 47,356 |

**Summary of borrowing arrangements:**

1. Secured by registered mortgage debentures and a floating charge over certain assets of the Group.
2. In accordance with the security arrangements of liabilities, as disclosed in this note to the consolidated Financial Statements, effectively all assets of the Parent Entity have been pledged as security.

## 20. CURRENT TAX LIABILITIES

| | | |
|---|---|---|
| Income tax payable | 3,570 | 3,992 |

## 21. PROVISIONS

| | | |
|---|---|---|
| **Current** | | |
| Employee benefits[1] | 3,239 | 2,816 |
| Directors' retirement benefits[2] | 414 | 414 |
| | 3,653 | 3,230 |
| **Non-current** | | |
| Employee benefits | 792 | 741 |

1. The provision for employee benefits represents annual leave and vested long service leave entitlements accrued.
2. The provision for Directors' retirement benefits represents amounts set aside as Directors' retirement allowances in accordance with a resolution passed by shareholders at the 4 November 1993 Annual General Meeting.
   Directors appointed prior to 1 October 2003 receive a retirement allowance of $15,333 per annum that is capped after nine years of service at $138,000.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 21. PROVISIONS (CONTINUED)

**Reconciliations**

| | DIRECTORS' RETIREMENT BENEFITS $'000 |
|---|---|
| Balance at 30 June 2010 | 414 |
| Additional provisions recognised | - |
| Reductions arising from payments made | - |
| **Balance at 30 June 2011** | **414** |
| Current | **414** |
| Non-current | - |
| | **414** |

## 22. ISSUED CAPITAL

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| 16,744,292 fully paid ordinary shares (2010: 16,677,351) | **25,348** | 25,348 |

| | 2011 NUMBER '000 | 2011 SHARE CAPITAL $'000 | 2010 NUMBER '000 | 2010 SHARE CAPITAL $'000 |
|---|---|---|---|---|
| **Fully Paid Ordinary Shares** | | | | |
| Balance at beginning of financial year | **16,677** | **25,348** | 16,402 | 21,680 |
| Issue of shares under Executive and employee share plans (notes 10, 32.3) | **67** | - | 78 | - |
| Issue of shares under dividend reinvestment plan | - | - | 197 | 3,668 |
| Balance at end of financial year | **16,744** | **25,348** | 16,677 | 25,348 |

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

**Employee Share Plans**

Further details of the Group's Executive and employee share plans are contained in note 10 to the consolidated Financial Statements.

## 23. RESERVES

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Equity-settled employee benefits reserve | **4,805** | 3,666 |
| Hedge reserve | **(157)** | (303) |
| Foreign currency translation reserve | **(3,054)** | (893) |
| | **1,594** | 2,470 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

### 23.1 Equity-Settled Employee Benefits Reserve

The equity-settled employee benefits reserve arises on the grant of share rights to Executives and employees under various share plans. Further information about share-based payments to Executives and employees is in note 10 to the consolidated Financial Statements.

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Balance at beginning of year | 3,666 | 2,786 |
| Share-based payments expense | 1,139 | 880 |
| Balance at end of year | 4,805 | 3,666 |

### 23.2 Hedge Reserve

The hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

| | | |
|---|---|---|
| Balance at beginning of year | (303) | (676) |
| Net gain on revaluation | 146 | 373 |
| Balance at end of year | (157) | (303) |

### 23.3 Foreign Currency Translation Reserve

Exchange differences relating to foreign currency monetary items forming part of the net investment in a foreign operation and the translation of foreign controlled entities are brought to account by entries made directly to the foreign currency translation reserve, as described in note 3.14 to the consolidated Financial Statements.

| | | |
|---|---|---|
| Balance at beginning of year | (893) | (1,234) |
| Exchange differences arising on translating the foreign controlled entities | (2,161) | 341 |
| Balance at end of year | (3,054) | (893) |

## 24. RETAINED EARNINGS

| | | |
|---|---|---|
| Retained earnings | 52,170 | 43,972 |
| Balance at the beginning of the year | 43,972 | 36,007 |
| Profit for the year | 27,305 | 24,297 |
| Payment of dividends | (19,107) | (16,332) |
| Balance at end of year | 52,170 | 43,972 |

## 25. EARNINGS PER SHARE

| | 2011 CENTS PER SHARE | 2010 CENTS PER SHARE |
|---|---|---|
| Basic earnings per share | 163.2 | 146.8 |
| Diluted earnings per share | 162.9 | 146.4 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 25. EARNINGS PER SHARE (CONTINUED)

### Basic Earnings per Share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Earnings (reconciles directly to profit for the year in the consolidated Income Statement) | 27,305 | 24,297 |

| | 2011 NUMBER | 2010 NUMBER |
|---|---|---|
| Weighted average number of ordinary shares on issue during the financial year used in the calculation of basic earnings per share | 16,733,395 | 16,556,169 |

### Diluted Earnings per Share

Earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Earnings (reconciles directly to profit for the year in the consolidated Income Statement) | 27,305 | 24,297 |

| | 2011 NUMBER | 2010 NUMBER |
|---|---|---|
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | 16,733,395 | 16,556,169 |
| Shares deemed to be issued for no consideration in respect of: | | |
| Employee share plans | 28,055 | 35,479 |
| Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share | 16,761,450 | 16,591,648 |

## 26. DIVIDENDS

| | 2011 CENTS PER SHARE | TOTAL $'000 | 2010 CENTS PER SHARE | TOTAL $'000 |
|---|---|---|---|---|
| **Recognised Amounts** | | | | |
| FULLY PAID ORDINARY SHARES | | | | |
| Final dividend for year ended 30 June 2010 (2010: 30 June 2009) | | | | |
| – fully franked at 30% corporate tax rate | 70 | 11,740 | 57 | 9,370 |
| Interim dividend for year ended 30 June 2011 (2010: 30 June 2010) | | | | |
| – fully franked at 30% corporate tax rate | 44 | 7,367 | 42 | 6,962 |
| | 114 | 19,107 | 99 | 16,332 |
| **Unrecognised Amounts** | | | | |
| FULLY PAID ORDINARY SHARES | | | | |
| Final dividend – fully franked at 30% corporate tax rate | 80 | 13,397 | | |

The final dividend in respect of ordinary shares for the year ended 30 June 2011 has not been recognised in these consolidated Financial Statements because the final dividend was declared subsequent to 30 June 2011. On the basis that Directors will continue to publicly recommend dividends in respect of ordinary shares subsequent to reporting date, in future consolidated Financial Statements the amount disclosed as 'recognised' will be the final dividend in respect of the prior financial year, and the interim dividend in respect of the current financial year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| | COMPANY | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| Adjusted franking account balance | 7,586 | 6,597 |

## 27. COMMITMENTS FOR EXPENDITURE

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Research and Development Contracts** | | |
| Not longer than 1 year | 95 | - |
| Longer than 1 year and not longer than 5 years | 120 | - |
| Longer than 5 years | - | - |
| | 215 | - |
| **Plant and Equipment** | | |
| Not longer than 1 year | 1,436 | - |
| Longer than 1 year and not longer than 5 years | - | - |
| Longer than 5 years | - | - |
| | 1,436 | - |
| **Promotional Services[1]** | | |
| Not longer than 1 year | 250 | - |
| Longer than 1 year and not longer than 5 years | 1,000 | - |
| Longer than 5 years | - | - |
| | 1,250 | - |

1. The Group has entered into a long-term joint venture arrangement on 9 September 2010 with an established supplier of internet-based personalised health clubs and related services. The initial term of the agreement covers a 5 year period and determines that the partner will provide services covering web design, maintenance and hosting. In terms of the joint venture arrangement, all revenue generated from the membership and advertising will be shared equally. Blackmores will be responsible for promotional services to the value of not less than $250,000 per year in addition to the ancillary services and support required . No financial transactions occurred during the financial year ended 30 June 2011.

### Lease Commitments

Non-cancellable operating lease commitments are disclosed in note 28 of the consolidated Financial Statements.

## 28. OPERATING LEASES

### Leasing Arrangements

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.

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Non-cancellable Operating Lease Payments** | | |
| Not longer than 1 year | 998 | 800 |
| Longer than 1 year and not longer than 5 years | 1,159 | 618 |
| | 2,157 | 1,418 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 29. CONTINGENT LIABILITIES

### Variation Claims by Building Contractor

The building contractor in respect of the construction of the Group's Warriewood head office has commenced court proceedings against Blackmores, claiming additional monies to the fixed price contract sum. The Group is defending the proceedings, has denied these claims and has brought cross claims against the building contractor for a return of a payment on account, in addition to compensation for delays and costs relating to certain defects. The Directors believe that Blackmores will not face a liability to the contractor. Accordingly, no liability has been recorded in relation to the building contractor's claims as at 30 June 2011.

## 30. SUBSIDIARIES

Details of the Group's subsidiaries at the end of the financial year are as follows.

| | | OWNERSHIP INTEREST | | |
|---|---|---|---|---|
| NAME OF ENTITY | COUNTRY OF INCORPORATION | 2011 % | 2010 % | PRINCIPAL ACTIVITY |
| Blackmores Nominees Pty Limited | Australia | 100 | 100 | Management of employee share plans |
| Pat Health Limited | Hong Kong | 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 | - | Holder of intellectual property for Animal Health Division |
| Blackmores (New Zealand) Limited[1] | New Zealand | 100 | 100 | Dormant |
| 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 (Thailand) Limited | Thailand | 100 | 100 | Marketing of natural health products |
| Blackmores Holdings Limited[1] | Thailand | 100 | 100 | Holding Company |
| PT Blackmores Indonusa[1,2] | Indonesia | - | 100 | Dormant |

1. These companies did not trade during the 2011 or 2010 financial years.
2. This company was wound up during the 2011 financial year.

Companies incorporated outside Australia carry on business in the country of incorporation. All overseas entities have been audited by overseas firms of Deloitte Touche Tohmatsu.

### Economic Dependency

The Group is not significantly dependent upon any other entity.

## 31. SEGMENT INFORMATION

Information reported to the Group's Chief Operating Decision Maker for the purposes of resource allocation and assessment of performance is largely focused on geographical regions. In order to better align our segment reporting with our internal focus, our larger Asian markets – Thailand and Malaysia – are now presented as separate segments, with the remainder of the Asian markets aggregated as 'Other Asia'. The Group's reportable segments under AASB 8 are therefore as follows:

Australia
Thailand
Malaysia
Other Asia
New Zealand
Other

The principal activity of each segment is the development and/or marketing of health products including vitamins, herbal, mineral and nutritional supplements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## SEGMENT REVENUES FOR THE YEAR ENDED 30 JUNE 2011

| | EXTERNAL SALES | | INTER-SEGMENT[1] | | ROYALTIES | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| Australia | 185,100 | 179,567 | 15,670 | 15,092 | - | - | 200,770 | 194,659 |
| Thailand | 20,349 | 16,846 | - | - | - | - | 20,349 | 16,846 |
| Malaysia | 13,400 | 11,496 | - | - | - | - | 13,400 | 11,496 |
| Other Asia[2] | 10,662 | 3,272 | - | - | - | - | 10,662 | 3,272 |
| New Zealand | 3,520 | 3,721 | - | - | 837 | 848 | 4,357 | 4,569 |
| Other | 1,392 | 32 | - | - | 7 | 25 | 1,399 | 57 |
| Total of all segments | 234,423 | 214,934 | 15,670 | 15,092 | 844 | 873 | 250,937 | 230,899 |
| Eliminations[3] | | | | | | | (15,670) | (15,092) |
| **Consolidated revenue (excluding interest revenue and other income)** | | | | | | | 235,267 | 215,807 |

1. Intersegment sales are recorded at cost plus 10%. Pricing is initially set using a budgeted exchange rate and reviewed each quarter.
2. Other Asia comprises the markets of Korea, Singapore, Hong Kong and Taiwan.
3. This is the total of adjustments to revenue as a result of the intercompany consolidation eliminations.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

## INFORMATION ABOUT MAJOR CUSTOMERS

The Group had two customers who contributed more than 10% of the Group's revenue in 2011. Included in external sales of the Australian segment of $185,100,000 (2010: $179,567,000) are sales of $36,323,064 (2010: $29,389,513) and $35,849,532 (2010: $24,228,625) which arose from sales to the Group's two largest customers.

## EXTERNAL SALES TO CUSTOMERS FOR THE YEAR ENDED 30 JUNE 2011

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Australia | 185,100 | 179,567 |
| Thailand | 20,349 | 16,846 |
| Malaysia | 13,400 | 11,496 |
| Other Asia | 10,662 | 3,272 |
| New Zealand | 8,370 | 8,485 |
| Other | 1,462 | 250 |
| **Total of all segments** | 239,343 | 219,916 |

External Sales represents the sale of goods when the significant risks and rewards of ownership of the goods have transferred to the ultimate buyer. In New Zealand, the buyer of Blackmores goods sells these products to a customer base that is equivalent to the customer base represented by external sales made in Australia and Asia. Blackmores has an agency arrangement with the buyer in New Zealand and earns royalty revenue on sales made to this customer base.

Additional disclosure has been provided in the above table so that external sales to the equivalent customer base can be compared on a geographical basis.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 31. SEGMENT INFORMATION (CONTINUED)

### SEGMENT RESULTS FOR THE YEAR ENDED 30 JUNE 2011

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Australia | **22,180** | 21,472 |
| Thailand | **4,200** | 2,312 |
| Malaysia | **1,205** | 726 |
| Other Asia | **(61)** | (694) |
| New Zealand | **425** | 467 |
| Other | **(644)** | 14 |
| Profit after tax | **27,305** | 24,297 |

Segment profit represents the net profit after tax earned by each segment. This is the measure reported to the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance.

| | CURRENT | | NON-CURRENT | |
|---|---|---|---|---|
| | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| **SEGMENT ASSETS AS AT 30 JUNE 2011** | | | | |
| Australia | **60,433** | 63,930 | **76,143** | 77,240 |
| Thailand | **9,226** | 8,119 | **586** | 475 |
| Malaysia | **6,936** | 6,638 | **65** | 83 |
| Other Asia | **3,889** | 3,474 | **1,180** | 1,153 |
| New Zealand | **56** | 71 | **-** | - |
| Other | **151** | 14 | **1,860** | - |
| Total of all segments | **80,691** | 82,246 | **79,834** | 78,951 |
| Eliminations[1] | **(2,170)** | (1,761) | **(5,225)** | (5,087) |
| Total assets | **78,521** | 80,485 | **74,609** | 73,864 |

1. This relates to consolidation adjustments for the elimination of intercompany investments and loans.

### OTHER SEGMENT INFORMATION FOR THE YEAR ENDED 30 JUNE 2011

| | AUSTRALIA | | THAILAND | | MALAYSIA | | OTHER ASIA | | NEW ZEALAND | | OTHER | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| Interest revenue | **204** | 454 | **1** | 2 | **5** | - | **1** | 1 | **-** | - | **-** | - |
| Interest expense | **2,372** | 2,442 | **-** | - | **-** | - | **50** | 30 | **-** | - | **-** | - |
| Additions to non-current assets | **4,445** | 5,831 | **140** | 84 | **16** | 6 | **39** | 3 | **-** | - | **-** | - |
| Depreciation and amortisation | **4,345** | 4,048 | **120** | 70 | **21** | 20 | **11** | 3 | **-** | - | **32** | - |
| Other non-cash expenses[1] | **2,453** | 1,877 | **70** | 99 | **463** | 361 | **141** | 148 | **-** | 174 | **-** | - |

1. Other non-cash expenses relate to provisions raised in respect of doubtful debts and stock obsolescence, long-term incentives, employee share plans and other provisions and accruals.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 32. RELATED PARTY AND KEY MANAGEMENT PERSONNEL DISCLOSURES

### 32.1 Equity Interests In Related Parties

EQUITY INTERESTS IN SUBSIDIARIES

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 30 to the consolidated Financial Statements.

### 32.2 Key Management Personnel Remuneration

Details of Key Management Personnel's remuneration are disclosed in note 9, note 10 and in the Remuneration Report which accompanies these consolidated Financial Statements.

### 32.3 Key Management Personnel's Equity Holdings

KEY MANAGEMENT PERSONNEL'S EMPLOYEE SHARE PLANS, SHAREHOLDINGS AND SHARE RIGHTS

During the years ended 30 June 2011 and 30 June 2010 there were no share options in existence. There have been no share options issued since the end of the financial year.

FULLY PAID ORDINARY SHARES OF BLACKMORES LIMITED

| 2011 | BALANCE AT 1/7/10 NUMBER | RECEIVED ON SETTLEMENT OF RIGHTS NUMBER | NET CHANGE OTHER[1] NUMBER | BALANCE AT 30/6/11 NUMBER |
|---|---|---|---|---|
| **Non-Executive Directors** | | | | |
| S Chapman | 22,055 | - | - | 22,055 |
| V Fitzgerald | 10,216 | - | - | 10,216 |
| N Sparks | - | - | - | - |
| R Stovold | 27,910 | - | - | 27,910 |
| B Wallace | 12,161 | - | - | 12,161 |
| **Executive Directors** | | | | |
| M Blackmore | 4,479,278 | - | - | 4,479,278 |
| C Holgate | 59,203 | 31,030 | - | 90,233 |
| **Senior Executives** | | | | |
| K Cunningham[2] | 4,073 | - | - | 4,073 |
| R Henfrey | 274 | 5,149 | - | 5,423 |
| C Last | 441 | 945 | 45 | 1,431 |
| N Mercado[3] | 167 | - | - | 167 |
| P Osborne | 237 | - | 45 | 282 |
| G Perera[3] | 205 | - | - | 205 |
| L Richards | 18,262 | 4,422 | - | 22,684 |
| **Former KMP's and Senior Executives** | | | | |
| P Barraket[4,5] | 10,121 | 5,496 | (6,245) | 9,372 |
| L Burrows[6] | 17,182 | 4,422 | - | 21,604 |
| S Moore[4,5] | 302 | 5,320 | (5,461) | 161 |
| **Total (for Key Management Personnel)** | **4,662,087** | **56,784** | **(11,616)** | **4,707,255** |

1. Includes shares issued under the Company's Staff Share Acquisition Plan.
2. K Cunningham's opening share balance is at the date of appointment as a KMP (1 April 2011).
3. N Mercado's and G Perera's opening share balance is at the date of appointment as KMPs (1 June 2011).
4. P Barraket's and S Moore's closing share balances are at the date of their resignation (8 April 2011).
5. P Barraket's and S Moore's Net Change Other includes shares that were subject to forfeiture under the Rules of the Executive Performance Share Plan.
6. L Burrows' closing balance is at the date of ceasing as a KMP (8 November 2010).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 32. RELATED PARTY AND KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTNUED)

| 2010 | BALANCE AT 1/7/09 NUMBER | RECEIVED ON SETTLEMENT OF RIGHTS NUMBER | NET CHANGE OTHER[1] NUMBER | BALANCE AT 30/6/10 NUMBER |
|---|---|---|---|---|
| **Non-Executive Directors** | | | | |
| S Chapman | 20,914 | - | 1,141 | 22,055 |
| V Fitzgerald | 10,000 | - | 216 | 10,216 |
| N Sparks | - | - | - | - |
| R Stovold | 26,723 | - | 1,187 | 27,910 |
| B Wallace | 11,531 | - | 630 | 12,161 |
| **Executive Directors** | | | | |
| M Blackmore | 4,434,018 | - | 45,260 | 4,479,278 |
| C Holgate[2] | - | 8,843 | 50,360 | 59,203 |
| **Senior Executives** | | | | |
| P Barraket | 11,872 | 1,588 | (3,339) | 10,121 |
| L Burrows | 15,024 | 1,248 | 910 | 17,182 |
| R Henfrey | 100 | 254 | (80) | 274 |
| C Last | - | - | 441 | 441 |
| S Moore | - | 282 | 20 | 302 |
| P Osborne | - | 170 | 67 | 237 |
| L Richards | 17,033 | 1,209 | 20 | 18,262 |
| **Former KMP's and Senior Executives** | | | | |
| G Burgoyne[3] | - | - | - | - |
| R Rich[4] | 671 | - | 61 | 732 |
| **Total (for Key Management Personnel)** | **4,547,886** | **13,594** | **96,894** | **4,658,374** |

1. Includes 20 fully paid shares which were issued to all eligible employees employed as at 30 June 2009 for nil consideration.
2. Shareholders at the 2009 Annual General Meeting approved the grant of 50,360 shares to C Holgate for nil consideration as part of a special long-term incentive (SLTI). Eligibility for a SLTI was part of the employment contract agreed with C Holgate.
3. G Burgoyne's closing share balance is at the date of his resignation (28 May 2010).
4. R Rich's closing share balance is at the date of ceasing as a KMP (3 September 2009).

### Rights to Shares

| 2011 | BALANCE AS AT 1/7/10 NUMBER | GRANTED AS COMPEN-SATION NUMBER | EXERCISED NUMBER | NET OTHER CHANGE NUMBER | BALANCE AS AT 30/6/11 NUMBER | BALANCE VESTED AT 30/6/11 NUMBER | VESTED BUT NOT EXERCIS-ABLE NUMBER | VESTED AND EXER-CISABLE NUMBER | RIGHTS VESTED DURING YEAR NUMBER |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | | | | |
| C Holgate | 31,030 | 26,699 | (31,030) | (8,330) | 18,369 | 18,369 | - | 18,369 | 18,369 |
| **Senior Executives** | | | | | | | | | |
| K Cunningham[1] | - | 1,140 | - | (485) | 655 | 655 | - | 655 | 655 |
| R Henfrey | 5,149 | 5,504 | (5,149) | (2,343) | 3,161 | 3,161 | - | 3,161 | 3,161 |
| C Last | 945 | 5,002 | (945) | (2,129) | 2,873 | 2,873 | - | 2,873 | 2,873 |
| N Mercado[2] | - | 313 | - | (133) | 180 | 180 | - | 180 | 180 |
| G Perera[2] | - | 313 | - | (133) | 180 | 180 | - | 180 | 180 |
| L Richards | 4,422 | 5,083 | (4,422) | (2,164) | 2,919 | 2,919 | - | 2,919 | 2,919 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| 2011 | BALANCE AS AT 1/7/10 NUMBER | GRANTED AS COMPEN-SATION NUMBER | EXERCISED NUMBER | NET OTHER CHANGE NUMBER | BALANCE AS AT 30/6/11 NUMBER | BALANCE VESTED AT 30/6/11 NUMBER | VESTED BUT NOT EXERCIS-ABLE NUMBER | VESTED AND EXER-CISABLE NUMBER | RIGHTS VESTED DURING YEAR NUMBER |
|---|---|---|---|---|---|---|---|---|---|
| **Former KMP's and Senior Executives** | | | | | | | | | |
| P Barraket | 5,496 | 5,421 | (5,496) | (5,421) | - | - | - | - | - |
| L Burrows | 4,422 | - | (4,422) | - | - | - | - | - | - |
| S Moore | 5,320 | 5,252 | (5,320) | (5,252) | - | - | - | - | - |
| **Total (for Key Management Personnel)** | **56,784** | **54,727** | **(56,784)** | **(26,390)** | **28,337** | **28,337** | **-** | **28,337** | **28,337** |

| 2010 | BALANCE AS AT 1/7/09 NUMBER | GRANTED AS COMPEN-SATION NUMBER | EXERCISED NUMBER | NET OTHER CHANGE NUMBER | BALANCE AS AT 30/6/10 NUMBER | BALANCE VESTED AT 30/6/10 NUMBER | VESTED BUT NOT EXERCIS-ABLE NUMBER | VESTED AND EXER-CISABLE NUMBER | RIGHTS VESTED DURING YEAR NUMBER |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | | | | |
| C Holgate | 8,843 | 33,081 | (8,843) | (2,051) | 31,030 | 31,030 | - | 31,030 | 31,030 |
| **Senior Executives** | | | | | | | | | |
| P Barraket | 1,588 | 6,718 | (1,588) | (1,222) | 5,496 | 5,496 | - | 5,496 | 5,496 |
| L Burrows | 1,248 | 5,408 | (1,248) | (986) | 4,422 | 4,422 | - | 4,422 | 4,422 |
| R Henfrey | 254 | 6,294 | (254) | (1,145) | 5,149 | 5,149 | - | 5,149 | 5,149 |
| C Last | - | 1,155 | - | (210) | 945 | 945 | - | 945 | 945 |
| S Moore | 282 | 6,502 | (282) | (1,182) | 5,320 | 5,320 | - | 5,320 | 5,320 |
| P Osborne | 170 | - | (170) | - | - | - | - | - | - |
| L Richards | 1,209 | 5,405 | (1,209) | (983) | 4,422 | 4,422 | - | 4,422 | 4,422 |
| **Former KMP's and Senior Executives** | | | | | | | | | |
| G Burgoyne | - | 5,744 | - | (5,744) | - | - | - | - | - |
| R Rich[3] | 39 | 136 | (39) | (25) | 111 | 111 | - | 111 | 111 |
| **Total (for Key Management Personnel)** | **13,633** | **70,443** | **(13,633)** | **(13,548)** | **56,895** | **56,895** | **-** | **56,895** | **56,895** |

1. Rights granted and vested during the financial year ended 30 June 2011 for K Cunningham are for the period as a KMP (1 April to 30 June 2011).
2. Rights granted and vested during the financial year ended 30 June 2011 for N Mercado and G Perera are for the period as a KMP (1 June to 30 June 2011).
3. Rights granted and vested during the financial year ended 30 June 2010 for R Rich are for the period as a KMP (1 May 2009 to 3 September 2009).

### 32.4 Loan Disclosures

There were no loan balances exceeding $100,000 due from Key Management Personnel during or at the end of the financial year (2010: nil)

### 32.5 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 32. RELATED PARTY AND KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### 32.6 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 (2010: nil).

#### BALANCES WITH RELATED PARTIES

There were no balances outstanding at the end of the financial year with related parties that are not members of the Group (2010: nil).

#### EQUITY INTEREST IN SUBSIDIARIES

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 30 to the consolidated Financial Statements.

## 33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### 33.1 Reconciliation of Cash and Cash Equivalents

For the purposes of the consolidated Statement of Cash Flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the consolidated Statement of Cash Flows is reconciled to the related items in the consolidated Statement of Financial Position as follows:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Cash and bank balances | 10,168 | 15,507 |
| Cash at call | - | 6,000 |
| **Cash and cash equivalents** | 10,168 | 21,507 |
| **33.2 Financing Facilities** | | |
| Secured bank overdraft facility, reviewed annually and payable at call: | | |
| • amount used | - | - |
| • amount unused | 5,000 | 2,500 |
| | 5,000 | 2,500 |
| Secured bank bill acceptance facility, reviewed annually: | | |
| • amount used | 40,000 | 47,356 |
| • amount unused | 15,000 | 7,644 |
| | 55,000 | 55,000 |

The Group has access to financing facilities at reporting date as indicated above. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The Group expects to maintain a current debt to equity ratio of between 20% and 35%.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Profit for the year | 27,305 | 24,297 |
| Loss on disposal of non-current assets | 5 | 36 |
| Interest revenue disclosed as investing cash-flow | (161) | (427) |
| Depreciation and amortisation of non-current assets | 4,529 | 4,141 |
| Unrealised foreign exchange (gain)/loss | (227) | 121 |
| Share-based payments | 1,139 | 880 |
| Other | (959) | 200 |
| (Decrease)/increase in current tax liability | (422) | 1,873 |
| Increase in deferred tax balances | (9) | (587) |
| Decrease in deferred tax balances related to hedge reserve in equity | (63) | (160) |
| Movements in working capital: | | |
| • Current receivables | (8,787) | 1,740 |
| • Current inventories | (1,015) | (6,483) |
| • Other debtors and prepayments | 914 | (1,060) |
| • Current trade payables | (898) | 755 |
| • Provisions | 284 | 548 |
| **Net cash from operating activities** | **21,635** | 25,874 |

### 33.4 Non-cash Transactions

Dividend payments during the financial year totalled $19,107,035 (2010: $16,331,411) of which $nil (2010: $3,667,291) relates to shares created under the Dividend Reinvestment Plan (DRP). During the year ended 30 June 2010, the Company suspended the Dividend Reinvestment Plan and as a result issued no shares during the year ended 30 June 2011 under its DRP. The balance of $19,107,035 (2010: $12,664,120) was paid as cash to equity holders of the parent.

## 34. FINANCIAL INSTRUMENTS

### 34.1 Capital Risk Management

The Group manages its capital to ensure that entities 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 overall strategy remains unchanged from 2010.

The capital structure of the Group consists of net debt (borrowings as disclosed in note 19 offset by cash and cash equivalents as disclosed in note 33) and equity of the Group (comprising issued capital, reserves and retained earnings as disclosed in notes 22 and 23 respectively).

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 are 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 34. FINANCIAL INSTRUMENTS (CONTINUED)

### GEARING RATIO

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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Debt[1] | 40,000 | 47,356 |
| Cash and bank balances | (10,168) | (21,507) |
| Net debt | 29,832 | 25,849 |
| Equity[2] | 79,112 | 71,790 |
| Net debt to (net debt plus equity) ratio | 27.4% | 26.5% |

1. Debt is defined as long- and short-term borrowings, as detailed in note 19.
2. Equity includes all capital and reserves that are managed as capital.

### CATEGORIES OF FINANCIAL INSTRUMENTS

| | | |
|---|---|---|
| **Financial Assets** | | |
| Cash and bank balances | 10,168 | 21,507 |
| Loans and receivables | 45,530 | 36,494 |
| | 55,698 | 58,001 |
| **Financial Liabilities** | | |
| Derivative instruments in designated hedge accounting relationships | 155 | 433 |
| Fair value through profit or loss – designated as at FVTPL | - | 227 |
| Loans and payables | 65,843 | 73,931 |
| | 65,998 | 74,591 |

### 34.2 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.

### 34.3 Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability, are disclosed in note 3.5 to the consolidated Financial Statements.

### 34.4 Foreign Currency Risk Management

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and options.

The Group is mainly exposed to Thai Baht (THB), Malaysian Ringgit (MYR), Hong Kong Dollar (HKD), Taiwan Dollar (TWD), Singapore Dollar (SGD) and United States Dollar (USD).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

The Australian Dollar carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the financial year are as follows.

| | ASSETS | | LIABILITIES | |
|---|---|---|---|---|
| | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| United States Dollar (USD) | 1,526 | - | - | - |
| Thai Baht (THB) | 4,104 | 3,844 | - | - |
| Malaysian Ringgit (MYR) | 1,757 | 1,003 | - | - |
| Singapore Dollar (SGD) | 1,231 | 1,542 | - | - |

## FOREIGN CURRENCY SENSITIVITY ANALYSIS

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 financial year end for a 10% change in foreign currency rates.

| | PROFIT OR LOSS | | EQUITY | |
|---|---|---|---|---|
| | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| USD impact | - | - | 153 | - |
| THB impact | - | - | 410 | 384 |
| MYR impact | - | - | 176 | 100 |
| SGD impact | - | - | 123 | 154 |

From time to time during the year, the Group entered into foreign currency forward exchange contracts and option contracts in order to reduce foreign currency risk.

The Group's sensitivity to foreign currency has been reduced during the current year due to the opening of the USD bank account to utilise the natural hedge between intercompany receipts from Asia and USD exposure on purchases of raw materials.

## FORWARD FOREIGN EXCHANGE CONTRACTS

It is the policy of the Group to enter into forward foreign exchange contracts to cover the risk associated with certain anticipated sales to foreign controlled entities arising in the next 12 months.

The following table details the forward foreign currency (FC) contracts outstanding as at the reporting date:

| | AVERAGE EXCHANGE RATE | | FOREIGN CURRENCY | | CONTRACT VALUE | | FAIR VALUE | |
|---|---|---|---|---|---|---|---|---|
| OUTSTANDING CONTRACTS | 2011 | 2010 | 2011 FC'000 | 2010 FC'000 | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| **SELL THAI BAHT** | | | | | | | | |
| Less than 3 months | - | 29.94 | - | 36,000 | - | 1,202 | - | (125) |
| 3 to 6 months | - | 26.79 | - | 42,000 | - | 1,568 | - | - |
| **SELL MALAYSIAN RINGGITS** | | | | | | | | |
| Less than 3 months | - | 2.96 | - | 3,000 | - | 1,013 | - | (87) |
| 3 to 6 months | - | 2.74 | - | 3,300 | - | 1,204 | - | (15) |
| | | | | | - | 4,987 | - | (227) |

## OPTION CONTRACTS

While the Group utilised option contracts during the year, there were no open contracts at 30 June 2011.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 34. FINANCIAL INSTRUMENTS (CONTINUED)

### 34.5 Interest Rate Risk Management

The Group is exposed to interest rate risk as it borrows funds on a floating interest rate basis. 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.

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Financial Liabilities** | | |
| Borrowings | (40,000) | (47,356) |
| Interest rate swap[1] | 30,000 | 30,000 |
| Net exposure | (10,000) | (17,356) |
| Forward setting interest rate swaps[1, 2] | 10,000 | - |

1. Represents the notional amount of the interest rate swaps.
2. On 24 June 2011, the Group transacted into forward setting interest rate swaps that will settle and come into effect in January 2012.

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 | |
|---|---|---|---|---|---|---|
| | 2011 % | 2010 % | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| **OUTSTANDING FIXED FOR FLOATING CONTRACTS** | | | | | | |
| Less than 1 year | 5.92 | - | 30,000 | - | (141) | - |
| 1 to 2 years | - | 5.92 | - | 30,000 | - | (433) |
| 2 to 5 years | 5.07 | - | 5,000 | - | 5 | - |
| > 5 years | 5.61 | - | 5,000 | - | (19) | - |
| | | | 40,000 | 30,000 | (155) | (433) |

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.

#### INTEREST RATE SENSITIVITY ANALYSIS

The sensitivity analyses below have been determined based upon 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 2011, 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 $212,087 (2010: $236,778) or increase by $212,087 (2010: $236,778) respectively as a result of changes in the interest rates applicable to commercial bank bills.

For the year ended 30 June 2011, 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 $242,000 or decrease by $237,000 respectively (2010: increase by $105,000 or decrease by $400,000 respectively) mainly as a result of the changes in the fair value of the interest rate swap.

The Group's sensitivity to interest rates has decreased during the current year due to the shorter remaining term of the $30 million 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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

on the fair value of issued fixed rate debt and the cash flow exposures on the issued 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 reporting period.

In 2006, the Group entered into an interest rate swap with a notional amount of $30 million, a fixed rate of 5.92% and a forward start date of January 2007. This contract expires in January 2012.

During the financial year the Group entered into two interest rate swaps with a notional amount of $5 million each. These had fixed rates of 5.07% and 5.61% respectively and a forward start date of January 2012. These contracts expire in January 2014 and January 2017 respectively.

### 34.6 Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group only transacts with entities that have a positive credit history. 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 its own trading record to rate its major customers.

Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased. The quality of trade receivables has been discussed in note 12.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high 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.

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

### 34.7 Liquidity 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 management of 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 |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| Trade and other payables | **0.00** | **-** | **25,843** | **-** | **-** | **-** | **25,843** |
| Borrowings | **5.78** | **-** | **-** | **2,310** | **44,620** | **-** | **46,930** |
| | | **-** | **25,843** | **2,310** | **44,620** | **-** | **72,773** |
| **2010** | | | | | | | |
| Trade and other payables | 0.00 | - | 26,575 | - | - | - | 26,575 |
| Borrowings | 5.39 | - | - | 2,552 | 52,459 | - | 55,011 |
| | | - | 26,575 | 2,552 | 52,459 | - | 81,586 |

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 34. FINANCIAL INSTRUMENTS (CONTINUED)

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

| | 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 |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| Non-interest bearing | **0.00** | **46,312** | - | - | - | - | **46,312** |
| Variable interest rate instruments | **0.92** | **9,386** | - | - | - | - | **9,386** |
| Fixed interest rate instruments | **0.00** | - | - | - | - | - | - |
| | | **55,698** | - | - | - | - | **55,698** |
| **2010** | | | | | | | |
| Non-interest bearing | 0.00 | 43,048 | - | - | - | - | 43,048 |
| Variable interest rate instruments | 4.00 | 8,953 | - | - | - | - | 8,953 |
| Fixed interest rate instruments | 5.30 | 6,000 | - | - | - | - | 6,000 |
| | | 58,001 | - | - | - | - | 58,001 |

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the financial year.

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 instrument 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 |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| Net settled: | | | | | | |
| Interest rate swaps | **(66)** | - | **(81)** | **(77)** | **0** | **(224)** |
| Foreign exchange forward exchange contracts | - | - | - | - | - | - |
| | **(66)** | - | **(81)** | **(77)** | **0** | **(224)** |
| **2010** | | | | | | |
| Net settled: | | | | | | |
| Interest rate swaps | (76) | - | (216) | (150) | - | (442) |
| Foreign exchange forward exchange contracts | (70) | (143) | (15) | - | - | (227) |
| | (146) | (143) | (231) | (150) | - | (670) |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

### 34.8 Fair Value of Financial Instruments

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 are determined with reference to quoted market prices;
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis 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) are 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).

| 2011 | LEVEL 1 $'000 | LEVEL 2 $'000 | LEVEL 3 $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Financial Assets at FVTPL:** | | | | |
| Derivative financial assets | - | - | - | - |
| Non-derivative financial assets held for trading | - | - | - | - |
| **Available-for-sale Financial Assets:** | | | | |
| Unquoted equities | - | - | - | - |
| Asset-backed securities reclassified from fair value through profit or loss | - | - | - | - |
| **Total** | - | - | - | - |
| **Financial liabilities at FVTPL:** | | | | |
| Derivative financial liabilities | - | 155 | - | 155 |
| Financial liabilities designated at fair value through profit or loss | - | - | - | - |
| **Total** | - | 155 | - | 155 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 34. FINANCIAL INSTRUMENTS (CONTINUED)

| 2010 | LEVEL 1 $'000 | LEVEL 2 $'000 | LEVEL 3 $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Financial Assets at FVTPL:** | | | | |
| Derivative financial assets | - | - | - | - |
| Non-derivative financial assets held for trading | - | - | - | - |
| **Available-for-sale Financial Assets:** | | | | |
| Unquoted equities | - | - | - | - |
| Asset-backed securities reclassified from fair value through profit or loss | - | - | - | - |
| Total | - | - | - | - |
| **Financial liabilities at FVTPL:** | | | | |
| Derivative financial liabilities | - | 433 | - | 433 |
| Financial liabilities designated at fair value through profit or loss | - | 227 | - | 227 |
| **Total** | **-** | **660** | **-** | **660** |

There were no transfers between Levels 1, 2 and 3 in the period.

### DERIVATIVES

Forward foreign currency exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Interest rate swaps are measured at present value of future cash flows estimated and discounted based upon the applicable yield curves derived from quoted interest rates.

## 35. ASSETS PLEDGED AS SECURITY

In accordance with the security arrangements of liabilities, as disclosed in note 19 to the consolidated Financial Statements, all assets of the Parent Entity have been pledged as security. The holder of the security does not have the right to sell or repledge the assets.

## 36. BUSINESS COMBINATIONS

### 36.1 Subsidiaries Acquired

2011

#### ACQUISITION OF PURE ANIMAL WELLBEING PTY LIMITED

On 2 July 2010, the Group signed an agreement to acquire 100% of the issued capital of Pure Animal Wellbeing Pty Ltd ('PAW') for a purchase price of $2,000,000 payable in cash. The results of PAW have been consolidated by the Group from this date. Subsequently, during the financial year the PAW business and operations were incorporated into the Blackmores business in the form of the PAW Animal Health Division.

PAW developed and marketed natural dietary supplements and topical products for dogs and cats which were sold in veterinary clinics and speciality stores in Australia, New Zealand and Korea. Blackmores' PAW Animal Health Division now performs these activities and now also sells into Canada.

PAW was acquired so as to provide Blackmores with a well-positioned entry into the fast-growing segment of natural health products for pets.

2010

No acquisitions were made in the financial year ended 30 June 2010.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **36.2 Consideration Transferred** | | |
| Cash and cash equivalents transferred | 2,000 | - |
| **36.3 Assets Acquired and Liabilities Assumed at the Date of Acquisition** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 32 | - |
| Trade receivables | 74 | - |
| Inventory | 180 | - |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 6 | - |
| Intangible assets | 1,230 | - |
| CURRENT LIABILITIES | | |
| Trade and other creditors | (166) | - |
| Provisions | (13) | - |
| | 1,343 | - |

The receivables acquired (which principally comprised trade receivables) in this transaction with a fair value of $77,000 had a gross contractual amount of $77,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected are $nil.

### 36.4 Goodwill Arising on Acquisition

The goodwill recognised on acquisition is subject to impairment testing on an annual basis. At the end of the financial year the Directors were satisfied that no impairment was necessary in this financial year.

| | | |
|---|---|---|
| Consideration transferred | 2,000 | - |
| Less: fair value of identifiable net assets acquired | (1,343) | - |
| Goodwill arising on acquisition[1] | 657 | - |

Goodwill arose in the acquisition of PAW because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of PAW. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

1. The goodwill arising on the acquisition represents the only goodwill in the Group's books at the reporting date.

### 36.5 Net Cash Outflow on Acquisition of Subsidiaries

| | | |
|---|---|---|
| Consideration paid in cash | 2,000 | - |
| Less: cash and cash equivalent balances acquired | (32) | - |
| | 1,968 | - |

### 36.6 Impact of Acquisitions on the Results of the Group

Included in the profit for the year is a loss of $624,000 attributable to the business generated by the PAW Animal Health Division. Revenue for the year includes $1,392,000 in respect of the PAW Animal Health Division.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 37. PARENT ENTITY DISCLOSURES

The accounting policies of the Parent Entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated Financial Statements. Refer to note 3 for a summary of the significant accounting policies relating to the Group.

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **FINANCIAL POSITION** | | |
| ASSETS | | |
| Current assets | 60,495 | 64,016 |
| Non-current assets | 78,003 | 77,240 |
| Total assets | 138,498 | 141,256 |
| LIABILITIES | | |
| Current liabilities | 29,259 | 31,326 |
| Non-current liabilities | 40,792 | 48,097 |
| Total liabilities | 70,051 | 79,423 |
| EQUITY | | |
| Issued capital | 25,348 | 25,348 |
| Retained earnings | 38,451 | 33,122 |
| Reserves | | |
| Equity-settled employee benefits reserve | 4,805 | 3,666 |
| Hedge reserve | (157) | (303) |
| Total equity | 68,447 | 61,833 |
| **FINANCIAL PERFORMANCE** | | |
| Profit for the year | 24,437 | 21,337 |
| Other comprehensive income | 146 | 373 |
| Total comprehensive income | 24,583 | 21,710 |

### 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 and Blackmores (Taiwan) Ltd, both wholly-owned subsidiaries of the Group.

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.

### CONTINGENT LIABILITIES

The building contractor in respect of the construction of the Company's Warriewood head office has commenced court proceedings against Blackmores, claiming additional monies to the fixed price contract sum. The Company is defending the proceedings, has denied these claims and has brought cross claims against the building contractor for a return of a payment on account, in addition to compensation for delays and costs relating to certain defects. The Directors believe that Blackmores will not face a liability to the contractor. Accordingly, no liability has been recorded in relation to the building contractor's claims as at 30 June 2011.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

**COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT BY THE PARENT ENTITY**

| | | |
|---|---|---|
| PLANT AND EQUIPMENT | | |
| Not longer than 1 year | 1,436 | - |
| Longer than 1 year and not longer than 5 years | - | - |
| Longer than 5 years | - | - |
| | 1,436 | - |

## 38. EVENTS AFTER THE REPORTING PERIOD

**FINAL DIVIDEND**

The Directors declared a fully franked final dividend of 80 cents per share on 18 August 2011 as described in note 26.

Other than the final dividend disclosed above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the Group's operations, the result of those operations or the Group's state of affairs in future financial years.

## 39. APPROVAL OF FINANCIAL STATEMENTS

The consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 18 August 2011.

# ADDITIONAL INFORMATION

## NUMBER OF HOLDERS OF EQUITY SECURITIES AS AT 5 AUGUST 2011:

### ORDINARY SHARE CAPITAL

16,747,703 fully paid ordinary shares are held by 7,208 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 | 4,879 |
| 1,001 – 5,000 | 2,027 |
| 5,001 – 10,000 | 181 |
| 10,001 – 100,000 | 105 |
| 100,001 and over | 16 |
| Total | 7,208 |
| Holdings less than a marketable parcel | 134 |

### SUBSTANTIAL SHAREHOLDERS

| | FULLY PAID | |
|---|---|---|
| ORDINARY SHAREHOLDERS | NUMBER | PERCENTAGE |
| Marcus C Blackmore | 4,479,278 | 26.75 |

### TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES AS AT 5 AUGUST 2011

| | FULLY PAID | |
|---|---|---|
| ORDINARY SHAREHOLDERS | NUMBER | PERCENTAGE |
| Mr M C Blackmore | 3,540,020 | 21.14 |
| Dietary Products (Aust) Pty Ltd | 588,592 | 3.51 |
| Citicorp Nominees Pty Limited | 432,137 | 2.58 |
| Milton Corporation Limited | 347,066 | 2.07 |
| National Nominees Limited | 278,280 | 1.66 |
| JP Morgan Nominees Australia Limited | 222,572 | 1.33 |
| Gowing Bros Limited | 207,363 | 1.24 |
| Blackmore Foundation Pty Limited | 200,000 | 1.19 |
| Ms E M Whellan | 186,822 | 1.12 |
| Ms J A Tait | 177,213 | 1.06 |
| HSBC Custody Nominees (Australia) Limited | 176,067 | 1.05 |
| Blackmore Superannuation Fund | 144,503 | 0.86 |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 126,382 | 0.75 |
| Mr R Shepherd | 115,000 | 0.69 |
| Rathvale Pty Limited | 102,005 | 0.61 |
| Ms C Holgate | 90,233 | 0.54 |
| Mrs P G Wright | 88,989 | 0.53 |
| P G Wright, M G Wright and J G Wright | 63,530 | 0.38 |
| Trans State Nominees Pty Ltd (A/C McPhee Family) | 59,150 | 0.35 |
| Invia Custodian Pty Ltd (A/C S McClay) | 54,442 | 0.33 |
| **Total** | **7,200,366** | **43.00** |

# COMPANY INFORMATION

## COMPANY SECRETARY

The Company Secretary is Cecile Cooper.

## 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 per cent 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 Company 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 Report').

## 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, in the first instance, contact Adrian Sturrock, Investor Relations Manager, on 61 2 9910 5373.

## COMPANY INFORMATION

**Board of Directors**

Directors who are Executives of the Group:

Marcus C Blackmore (Chairman of Directors)

Christine Holgate (Chief Executive Officer)

**Directors who are not Executives of the Group**

Stephen J Chapman

Verilyn C Fitzgerald

Robert L Stovold

Naseema Sparks

Brent W Wallace

**Auditor**

Deloitte Touche Tohmatsu

**Solicitor**

David Lemon

**Bank**

National Australia Bank Limited

**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

# Thank you to the stars of our 2011 Blackmores Annual Report photo shoot.

Blackmores' Staff (left to right, top to bottom): Adrian Sturrock, Shanna Colver and Brian Coles, Trish Alexander and Tiffany Elvy, Sonny Matteo, Carl Gagnon, Dee Hanley, David Vick and Mark Johnson, Bianca Hosking and Laity Samsudin, Shanna Colver.


BLACKMORES
THE BEST OF HEALTH
blackmores.com.au

BLACKMORES LIMITED
**AUSTRALIA'S LEADING NATURAL HEALTH BRAND**
ACN 009 713 437

**20 JUBILEE AVENUE**
**WARRIEWOOD NSW 2102, AUSTRALIA**

**TEL : 61 2 9910 5000**
**FAX: 61 2 9910 5555**