

1. Company details

Name of entity:	Nick Scali Limited
ABN:	82 000 403 896
Reporting period:	For the half-year ended 31 December 2017
Previous period:	For the half-year ended 31 December 2016

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	8.1% to	127,953
Profit from ordinary activities after tax attributable to the owners of Nick Scali Limited	up	15.0% to	23,514
Profit for the year attributable to the owners of Nick Scali Limited	up	15.0% to	23,514

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2017 paid on 25 October 2017	20.0	100.0

On 7 February 2018 the directors declared a fully franked interim dividend of 16.0 cents per ordinary share with a record date of 7 March 2018 to be paid on 28 March 2018.

Comments

The profit for the company after providing for income tax amounted to \$23,514,000 (31 December 2016: \$20,451,000).

	Consolidated 31 Dec 2017 \$'000	31 Dec 2016 \$'000
Profit after income tax expense	23,514	20,451
Interest income	(448)	(494)
Finance costs	398	316
Income tax expense	10,185	8,754
Earnings Before Interest and Tax (EBIT)	33,649	29,027
Depreciation and amortisation expense	1,916	1,453
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	<u>35,565</u>	<u>30,480</u>

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>93.12</u>	<u>83.96</u>

Nick Scali Limited

ABN 82 000 403 896

Half-Year Report - 31 December 2017

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The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Nick Scali Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

The names and details of the Company's directors in office at any time during the financial year or until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

John W Ingram
Greg R Laurie
Carole A Molyneux
Anthony J Scali

Principal activities

The principal activities of the consolidated entity during the period were the sourcing and retailing of household furniture and related accessories.

No significant change in the nature of these activities occurred during the period.

Operating and financial review

For the half-year to 31 December 2017, the consolidated entity reported an NPAT result of \$23.5m, up 15.0% on the prior year result of \$20.5m.

Profit growth was driven by 8.1% increase in revenue to \$128.0m for the half-year. The increased revenue resulted from a 2.6% growth in same store sales and new store openings for Nick Scali Furniture stores excluding Sofas2Go.

Gross margin strengthened to 62.6% (H1-17: 61.7%) largely as a result of economies of scale from volume growth in specialised categories.

Operating expenses decreased as a percentage of sales to 35.2% (H1-17: 36.1%) due to continued attention to economies of scale and a continued focus on cost control.

Store network

The consolidated entity opened six new Nick Scali Furniture stores during the half year to 31 December 2017, in North Lakes (QLD), Robina (QLD), Toowoomba (QLD), Marsden Park (NSW), Cannington (WA) and Mt Wellington (New Zealand).

The total number of stores at 31 December 2017 was 55, comprising 52 Nick Scali Furniture stores and three Sofas2Go stores.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Rounding of amounts

The Company is of a kind referred to in Class Order 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, unless otherwise stated.

Auditor's independence declaration

The directors received an independence declaration from the auditor of Nick Scali Limited and this is included on page 4 of the Financial Statements.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



John W Ingram
Chairman

7 February 2018
Sydney



Anthony J Scali
Managing Director

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Auditor's Independence Declaration to the Directors of Nick Scali Limited

As lead auditor for the review of Nick Scali Limited for the half-year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Nick Scali Limited and the entities it controlled during the financial period.

Ernst & Young

Kathy Parsons
Partner
7 February 2018

		Consolidated	
	Note	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Revenue from sale of goods	3	127,953	118,369
Cost of goods sold		(47,851)	(45,355)
Gross profit		80,102	73,014
Other income	3	917	683
Expenses			
Marketing expenses		(8,802)	(8,132)
Employment expenses	4	(17,260)	(16,742)
General and administration expenses		(4,221)	(3,840)
Property expenses	4	(14,237)	(13,640)
Distribution expenses		(486)	(369)
Depreciation and amortisation		(1,916)	(1,453)
Finance costs		(398)	(316)
Profit before income tax expense		33,699	29,205
Income tax expense		(10,185)	(8,754)
Profit after income tax expense for the year attributable to the owners of Nick Scali Limited		23,514	20,451
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		188	1,818
Exchange differences on translation of foreign operations		(1)	-
Other comprehensive income for the year, net of tax		187	1,818
Total comprehensive income for the year attributable to the owners of Nick Scali Limited		23,701	22,269
		Cents	Cents
Basic earnings per share		29.0	25.2
Diluted earnings per share		29.0	25.2

		Consolidated	
	Note	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Assets			
Current assets			
Cash and cash equivalents		28,161	39,944
Receivables		563	196
Inventories	6	31,218	29,204
Other financial assets	7	77	95
Other assets	8	1,449	506
Total current assets		<u>61,468</u>	<u>69,945</u>
Non-current assets			
Property, plant and equipment	9	91,320	66,847
Intangibles assets		2,378	2,378
Deferred tax		308	105
Total non-current assets		<u>94,006</u>	<u>69,330</u>
Total assets		<u>155,474</u>	<u>139,275</u>
Liabilities			
Current liabilities			
Payables	10	38,515	42,964
Current tax liabilities		2,567	1,057
Provisions	11	1,461	1,508
Total current liabilities		<u>42,543</u>	<u>45,529</u>
Non-current liabilities			
Borrowings	12	32,162	21,162
Provisions	13	2,966	2,200
Total non-current liabilities		<u>35,128</u>	<u>23,362</u>
Total liabilities		<u>77,671</u>	<u>68,891</u>
Net assets		<u>77,803</u>	<u>70,384</u>
Equity			
Issued capital		3,364	3,364
Reserves		81	(24)
Retained profits		74,358	67,044
Total equity		<u>77,803</u>	<u>70,384</u>

	Contributed equity \$'000	Equity benefits reserve \$'000	Capital profits reserve \$'000	Cash flow hedge reserve \$'000	Currency translation reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2016	3,364	140	78	(706)	-	54,918	57,794
Profit after income tax expense for the half-year	-	-	-	-	-	20,451	20,451
Other comprehensive income for the half-year, net of tax	-	-	-	1,818	-	-	1,818
Total comprehensive income for the half-year	-	-	-	1,818	-	20,451	22,269
Share-based payments	-	42	-	-	-	-	42
Dividends paid (note 5)	-	-	-	-	-	(13,770)	(13,770)
Balance at 31 December 2016	3,364	182	78	1,112	-	61,599	66,335
	Contributed equity \$'000	Equity benefits reserve \$'000	Capital profits reserve \$'000	Cash flow hedge reserve \$'000	Currency translation reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2017	3,364	284	78	(386)	-	67,044	70,384
Profit after income tax expense for the year	-	-	-	-	-	23,514	23,514
Other comprehensive income for the year, net of tax	-	-	-	188	(1)	-	187
Total comprehensive income for the year	-	-	-	188	(1)	23,514	23,701
Share-based payments	-	(82)	-	-	-	-	(82)
Dividends paid (note 5)	-	-	-	-	-	(16,200)	(16,200)
Balance at 31 December 2017	3,364	202	78	(198)	(1)	74,358	77,803

	Consolidated	
Note	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Cash flows from operating activities		
Receipts from customers	140,381	129,776
Payments to suppliers and employees	(111,666)	(104,524)
	28,715	25,252
Interest received	448	494
Income taxes paid	(8,958)	(7,521)
Net cash from operating activities	20,205	18,225
Cash flows from investing activities		
Purchase of property, plant and equipment	(26,390)	(4,113)
Net cash used in investing activities	(26,390)	(4,113)
Cash flows from financing activities		
Payment of dividends on ordinary shares	5 (16,200)	(13,770)
Proceeds from borrowings	11,000	-
Interest paid	(398)	(316)
Net cash used in financing activities	(5,598)	(14,086)
Net (decrease)/ increase in cash and cash equivalents	(11,783)	26
Cash and cash equivalents at the beginning of the financial year	39,944	37,038
Cash and cash equivalents at the end of the financial half-year	<u>28,161</u>	<u>37,064</u>

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Basis of preparation

Basis of preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Where necessary, and as a result of a change in the classification of certain expenses during the current year, comparative amounts in the statement of comprehensive income have been reclassified for consistency with presentation in the current year.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2017. A subsidiary is an entity that is controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiary are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intercompany transactions, balances and unrealised gains on transactions between the Company and its subsidiary are eliminated. Accounting policies of subsidiary are consistent with the policies adopted by the Company.

Changes in accounting policies, accounting standards and interpretations

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the annual financial statements for the period ended 30 June 2017.

New Accounting Standards and Interpretations not yet mandatory or early adopted

The consolidated entity adopted all new and amended Australian Accounting Standards and Interpretations that became applicable in the current financial year. The adoption of these Standards did not have a significant impact on the financial results or Statement of financial position.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the half-year reporting period ended 31 December 2017. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, is set out below.

- **AASB 9 Financial Instruments.** This standard includes requirements to improve and simplify the classification and measurement of financial assets and liabilities. This standard applies to annual reporting periods beginning on or after 1 January 2018. Components of this standard have been early adopted by the Company. The adoption of the full standard by the Company is not expected to have a material impact on the financial statements.
- **AASB 15 Revenue from Contracts with Customers.** This standard includes changes to revenue recognition based on the principle that revenue is recognised when control of a good or service transfers to a customer. This standard applies to annual reporting periods beginning on or after 1 January 2018. The adoption of this standard by the Company is not expected to have a material impact on the financial statements.
- **AASB 16 Leases.** This standard includes requirements to improve the recognition, measurement and preparation of leases. This standard applies to annual reporting periods beginning on or after 1 January 2019. The adoption of this standard by the Company is expected to have a material impact on the financial statements. The Company has yet to fully quantify this financial impact.

Note 2. Segment Information

The Company has identified the Managing Director and the Board of Directors as the chief operating decision makers. The consolidated entity has one reportable segment being the retailing of furniture.

Note 3. Revenue

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Sales revenue	127,953	118,369
Interest income	448	494
Rent received	260	63
Sundry income	209	126
Total other income	917	683
Total revenue	128,870	119,052

Note 4. Expenses

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Expenses</i>		
Operating lease rental	14,237	13,640
Employee benefits expenses		
Salaries and wages	13,566	13,715
Superannuation expense	1,354	1,092
Share-based payments	140	96
Other ¹	2,200	1,839
	17,260	16,742

¹ Other Employee Benefits include commissions, payroll tax, workers compensation and contract staff.

Note 5. Equity - dividends

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$'000	\$'000
Final fully franked dividend for 30 June 2017: 20.0 cents (2016: 14.0 cents)	16,200	11,340
Special fully franked dividend for 30 June 2017: 0.0 cents (2016: 3.0 cents)	-	2,430
	16,200	13,770

On 7 February 2017 the directors declared a fully franked interim dividend of 16.0 cents per fully paid ordinary share with a record date of 7 March 2018 to be paid on 28 March 2018.

Note 6. Current assets - Inventories

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$'000	\$'000
Finished goods - at net realisable value	24,010	25,043
Stock in transit - at net realisable value	7,208	4,161
	<u>31,218</u>	<u>29,204</u>

For the half-year ended 31 December 2017, \$640,000 (2017: \$1,170,000) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of goods sold.

Note 7. Current assets - Other financial assets

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$'000	\$'000
Deposits	77	95
	<u>77</u>	<u>95</u>

Note 8. Current assets - Other assets

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$'000	\$'000
Prepayments	704	506
Other receivables	745	-
	<u>1,449</u>	<u>506</u>

Note 9. Non-current assets - property, plant and equipment

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$'000	\$'000
Land and buildings - at cost	80,574	57,367
Less: accumulated depreciation	(2,524)	(2,155)
	<u>78,050</u>	<u>55,212</u>
Leasehold improvements - at cost	13,826	12,089
Less: accumulated depreciation	(6,107)	(5,372)
	<u>7,719</u>	<u>6,717</u>
Fixtures and fittings - at cost	2,710	2,639
Less: accumulated depreciation	(2,088)	(2,146)
	<u>622</u>	<u>493</u>
Motor vehicles - at cost	813	747
Less: accumulated depreciation	(499)	(464)
	<u>314</u>	<u>283</u>
Office equipment - at cost	9,999	9,048
Less: accumulated depreciation	(5,384)	(4,906)
	<u>4,615</u>	<u>4,142</u>
	<u>91,320</u>	<u>66,847</u>

Note 10. Current liabilities - Payables

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$'000	\$'000
Trade creditors	11,108	7,762
Other creditors and accruals	5,354	9,075
Derivative hedge payable (note 15)	283	551
Customer deposits	19,727	23,343
Annual leave	2,043	2,233
	<u>38,515</u>	<u>42,964</u>

Note 11. Current liabilities - Provisions

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$'000	\$'000
Long service leave	1,012	1,017
Deferred lease incentive	449	491
	<u>1,461</u>	<u>1,508</u>

Note 12. Non-current liabilities - Borrowings

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$'000	\$'000
Commercial bills payable	32,162	21,162

Financing facilities available

The following operating lines of credit were available at balance date:

Bank facilities

Credit facilities Amount utilised	34,362 (32,162)	23,362 (21,162)
Unused credit facilities	2,200	2,200

Bank loan

	Facility	Utilised
Expiring financial year 2019	21,062	18,862
Expiring financial year 2021	2,300	2,300
Expiring financial year 2022	11,000	11,000
	34,362	32,162
Other	5,000	2,187
	39,362	34,349

Note 13. Non-current liabilities - Provisions

	Consolidated	
	31 Dec 2017	30 Jun 2017
	\$'000	\$'000
Long service leave	371	269
Deferred lease incentive	2,048	1,481
Lease make good	547	450
	2,966	2,200

Note 14. Financial instruments

Foreign currency risk

All of the consolidated entity's sales are denominated in Australian dollars or New Zealand dollars, whilst the majority of stock purchases are denominated in currencies other than Australian dollars or New Zealand dollars, primarily in US dollars. Where appropriate the consolidated entity has used forward currency contracts and options to manage its currency exposures; and where the qualifying criteria has been met, they have been designated as hedging instruments for the purposes of hedge accounting.

During the period, the consolidated entity designated foreign currency forward contracts as hedges of highly probable purchases of inventory in US dollars. The forecast purchases are expected to occur during January 2018 to May 2018.

The terms of the foreign currency forward contracts have been negotiated to match the terms of the forecasted transactions. Both parties of the contract have fully cash collateralised the foreign currency forward contracts, and therefore, effectively eliminated any credit risk associated to the contracts (both the counterparty's and the consolidated entity's own credit risk). Consequently, the hedges were assessed to be highly effective. As at 31 December 2017, an unrealised gain of \$187,000 (2017: an unrealised gain of \$320,000) is recorded within other comprehensive income.

Note 15. Fair value measurement

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised with the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

Level 3: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

At the reporting date the fair value of derivative financial instrument represented a derivative hedge payable of \$283,000 (2017: derivative hedge payable of \$551,000).

All foreign currency forward contracts were measured at fair value using the Level 2 method

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 16. Contingent liabilities

There are no contingent liabilities as at 31 December 2017 (2017: Nil).

Note 17. Commitments

Capital Commitments

As at 31 December 2017, there are no capital commitments of a significant nature.

Note 18. Events after the reporting period

Apart from the dividend declared as disclosed in note 5, no other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 19. Related party transactions

Transactions with related parties

The following transaction occurred with related parties:

The Company leased premises at Auburn, in New South Wales, from entities controlled by Mr Anthony J Scali until 4 December 2017. The following details the term and rent paid by the Company in respect the premises leased. Lease rentals were determined on an arm's length basis. All other material terms of this lease were of a nature that would be typically agreed between unrelated parties.

Location: 242-248 Parramatta Road, Auburn, NSW

Term: 8 years, commencing 1 November 2016.

Rent and Outgoings: \$424,714 (plus GST) per annum

On the 4 December 2017, the Company terminated the lease in accordance with the terms included therein, and purchased the property from the entities controlled by Mr Anthony J Scali for \$22,000,000. The purchase price was determined on an arm's length basis.

Other related party transactions

Dealings between the Company and the directors and personally-related entities were made during the year in the ordinary course of business on normal commercial terms and conditions. The nature of these dealings were primarily the reimbursement of personal expenses incurred on Company paid credit cards and the purchase of products for their own use.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the company's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



John W Ingram
Chairman

7 February 2018
Sydney



Anthony J Scali
Managing Director



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Independent Auditor's Review Report to the Members of Nick Scali Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Nick Scali Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2017, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Kathy Parsons
Partner
Sydney
7 February 2018