UNAUDITED GROUP FINANCIAL RESULTS AND CASH DIVIDEND DECLARATION FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2015

Turnover ▲ 7%

Gross profit ▲ 11%

Trading profit ▲ 20%

Dividend: 50 cents per share

B-BBEE level 4

INTRODUCTION

The divisional reorganisation of Adcock Ingram's business, commenced early in the 2015 financial year, has in a sense been a contributing feature in maintaining the positive trend of performance during the interim period presently under review. In a period of economic uncertainty and intensifying currency devaluation, the Group's improved factory efficiencies, better customer relations, pleasing service level statistics and a concentrated marketing effort, yielded impressive market share gains, measured by IMS and Nielsen, particularly in the OTC and Consumer divisions.

HEADLINE EARNINGS

Headline earnings from continuing operations for this interim period amounted to R164.8 million (Dec 2014: R157.9 million). This translates into headline earnings per share of 98.6 cents (Dec 2014: 93.6 cents). Excluding the once-off IFRS 2 charge of R20.8 million relating to the B-BBEE scheme, headline earnings from continuing operations would be R185.6 million (111.0 cents, an improvement of 19%).

TURNOVER AND PROFITS

Group turnover increased by 7.1% to R2 752 million, partly aided by the 7.5% SEP price increase in April 2015 on the segment of products to which those regulatory limitations apply. All segments, however, posted improvements in turnover over the prior period. Volume improvement was also encouraging, but the benefits therefrom were unfortunately offset by the discontinuation of certain uneconomic product lines in the Consumer Division and the repatriation of some MNC business in the Prescription division.

Given the adverse impact through currency devaluations, the collective gross margin improvement from 35.2% to 36.5% was more than encouraging, this substantially arising through increased and more streamlined factory throughput, including lower inventory impairments, and sales mix benefits when measured against the comparable period. The relatively high inventory holding in the current period provided some margin protection in the depreciating Rand environment.

Having regard to the relatively early stage of the divisional restructure in the period to 31 December 2014, a deliberately aggressive selling and marketing plan was carried out during the current reporting period. A well mounted and cost-effective marketing programme was implemented and the additional cost thereof is clearly evident in the statement of comprehensive income. What is particularly pleasing, however, is the expected outcome of the more disciplined control over fixed and administrative expenditure.

The overall advantages of the reorganised divisional management structure started to reveal themselves in this period with trading profits increasing by 20% from R243.8 million to R292.6 million.

NON-TRADING EXPENSES

Non-trading expenses during the period includes share-based payments of R35.9 million of which R20.8 million relates to a once-off IFRS 2 charge, arising through the implementation of the July 2015 B-BBEE scheme.

CASH FLOWS

Cash generated from operations was R269.7 million despite working capital utilisation increasing by R93.2 million.

BUSINESS OVERVIEW

Turnover in the **OTC** division increased by 9% to R761.5 million (Dec 2014: R698.6 million). According to IMS, the Division posted growth ahead of the market, with double digit ex-factory growth in Adco-dol, Allergex and Corenza-C, the top three brands. Despite increased throughput in the Clayville factory, the punitive impact of the exchange rate and a detectable change in consumer buying patterns, put margins under pressure. OTC trading profit of R128.6 million is reported, compared to R141.2 million in the comparable period.

Prescription turnover of R892.4 million is marginally ahead of the comparable period (Dec 2014: R880.9 million), this the result of static volumes in the Generics portfolio and the singular effect of a repatriation of certain products to multinational partners. A large percentage of the contributions arising from the SEP price increase and a much improved performance from ARV sales were unfortunately absorbed through the aforesaid circumstances. Gross margins, however, improved in this period due to better production recoveries, increased ARV sales volumes and lower inventory write-offs. Trading profits of R87.1 million are accordingly well ahead of the comparative performance of R57.9 million.

Consumer turnover of R328.1 million is 8% ahead of the comparable period (Dec 2014: R304.2 million) with Panado, Probiflora, Compral and Cepacol all posting healthy growth. Trading profit improved by 10% to R42.1 million (Dec 2014: R38.3 million).

Hospital turnover increased by 12% to R626.2 million (Dec 2014: R557.8 million) notwithstanding an increasingly competitive environment and with good cost control, trading profit increased to R21.6 million (Dec 2014: R1.1 million).

The Group's revised B-BBEE structure was successfully implemented in July 2015. The level 4 rating achieved under the new B-BBEE codes, in contrast to the level 3 rating held previously, will hopefully contribute towards providing reciprocal advantage to the Company and stakeholders under this imperative modality for conducting business in South Africa.

INDIA

Following the Board's decision to dispose of the Group's Indian operating subsidiary, this operation has been treated as an asset held-for-sale and is reflected in the financial statements as a discontinued operation. Amortisation and depreciation of assets in such subsidiary were accordingly suspended in the current period.

PROSPECTS

During calendar year 2015 and particularly during the period under review, the Group continued to make progress in restoring its status and regaining the respect of the broader South African pharmaceutical market. The trend of improvement in the Group's operating performance, in this and immediately past periods, bears testimony to the beneficial outcome arising from the refocused effort of management under the divisional restructure.

While the improvement in profits during the subject period would suggest a continuing level of growth going forward, stakeholders will be acutely aware of the economic challenges that lie ahead. Recent increases in interest rates, consequential inflation, continued under-recovery of currency losses under government's SEP reimbursement model and the potential further decline in disposable incomes, will surely have an effect on future sales volumes and profitability.

Notwithstanding these direct challenges, continued effort will be invested to enhance the quality and efficacy of brands, build customer relationships and maintain service levels within each of the operating divisions. The Group provides an excellent range of products into the market and management will continue to diligently apply themselves to maximise opportunities for optimal achievement. Concurrently with normal trading activities, there is a purposeful process in place to expand the Group's non-regulated product portfolio, through partnerships and acquisitions.

	Unaudited six months ended 31 December 2015 R'000	Change	Unaudited six months ended 31 December 2014 R'000
REVENUE	**2 758 393**		2 583 395
TURNOVER	**2 752 416**	7%	2 568 814
Cost of sales	**(1 746 768)**		(1 664 128)
Gross profit	**1 005 648**	11%	904 686
Selling, distribution and marketing expenses	**(499 377)**		(444 279)
Drug management and regulatory expenses	**(57 836)**		(60 759)
Fixed and administrative expenses	**(155 853)**		(155 818)
Trading profit	**292 582**	20%	243 830
Non-trading expenses (note 1)	**(42 135)**		(16 977)
Operating profit	**250 447**	10%	226 853
Finance income	**1 483**		10 624
Finance costs	**(44 723)**		(57 189)
Dividend income	**4 494**		3 957
Equity-accounted earnings	**26 177**		32 511
Profit before taxation	**237 878**	10%	216 756
Taxation	**(67 461)**		(55 274)
Profit for the period from continuing operations	**170 417**	6%	161 482
Profit/(Loss) after taxation for the period from discontinued operation	**2 075**		(16 530)
Profit for the period	**172 492**		144 952
Continuing operations			
Basic earnings per ordinary share (cents)	**98.4**	5%	93.9
Diluted basic earnings per ordinary share (cents)	**98.3**	5%	93.8
Headline earnings per ordinary share (cents)	**98.6**	5%	93.6
Diluted headline earnings per ordinary share (cents)	**98.4**	5%	93.5

NOTES

		2015	2014
1	**NON-TRADING EXPENSES**		
	Impairments	**1 356**	–
	Transaction costs	**4 881**	–
	Share-based payment expenses	**35 898**	16 977
		42 135	16 977
2	**SEGMENT REPORTING**		
	Turnover		
	Continuing operations:		
	Southern Africa	**2 608 213**	2 441 439
	OTC	**761 465**	698 568
	Consumer	**328 122**	304 152
	Prescription	**892 380**	880 914
	Hospital	**626 246**	557 805
	Rest of Africa and India*	**159 117**	134 731
	Less: Intercompany sales	**(14 914)**	(7 356)
		2 752 416	2 568 814
	Trading profit		
	Continuing operations:		
	Southern Africa	**279 318**	238 518
	OTC	**128 642**	141 174
	Consumer	**42 050**	38 298
	Prescription	**87 054**	57 909
	Hospital	**21 572**	1 137
	Rest of Africa and India*	**13 264**	5 312
	Trading profit	**292 582**	243 830
3	**OTHER: continuing operations**		
	Total assets	**5 123 813**	5 706 302
	Net asset value per share (cents)	**1 765.9**	1 736.8
	Dividend per share (cents)	**50.0**	–

* Research and development services in India

FULL ANNOUNCEMENT

The contents of this short-form summary announcement are the responsibility of the Board of directors. Any investment decision should be considered and based on the content of the information contained in the full announcement released on the Stock Exchange News Service on 24 February 2016. The full announcement will also be published on the Company's website at www.adcock.com. Copies of the full announcement are available for inspection at the registered office of the Company and may be requested without charge during office hours by phoning +27 11 635 0143.

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