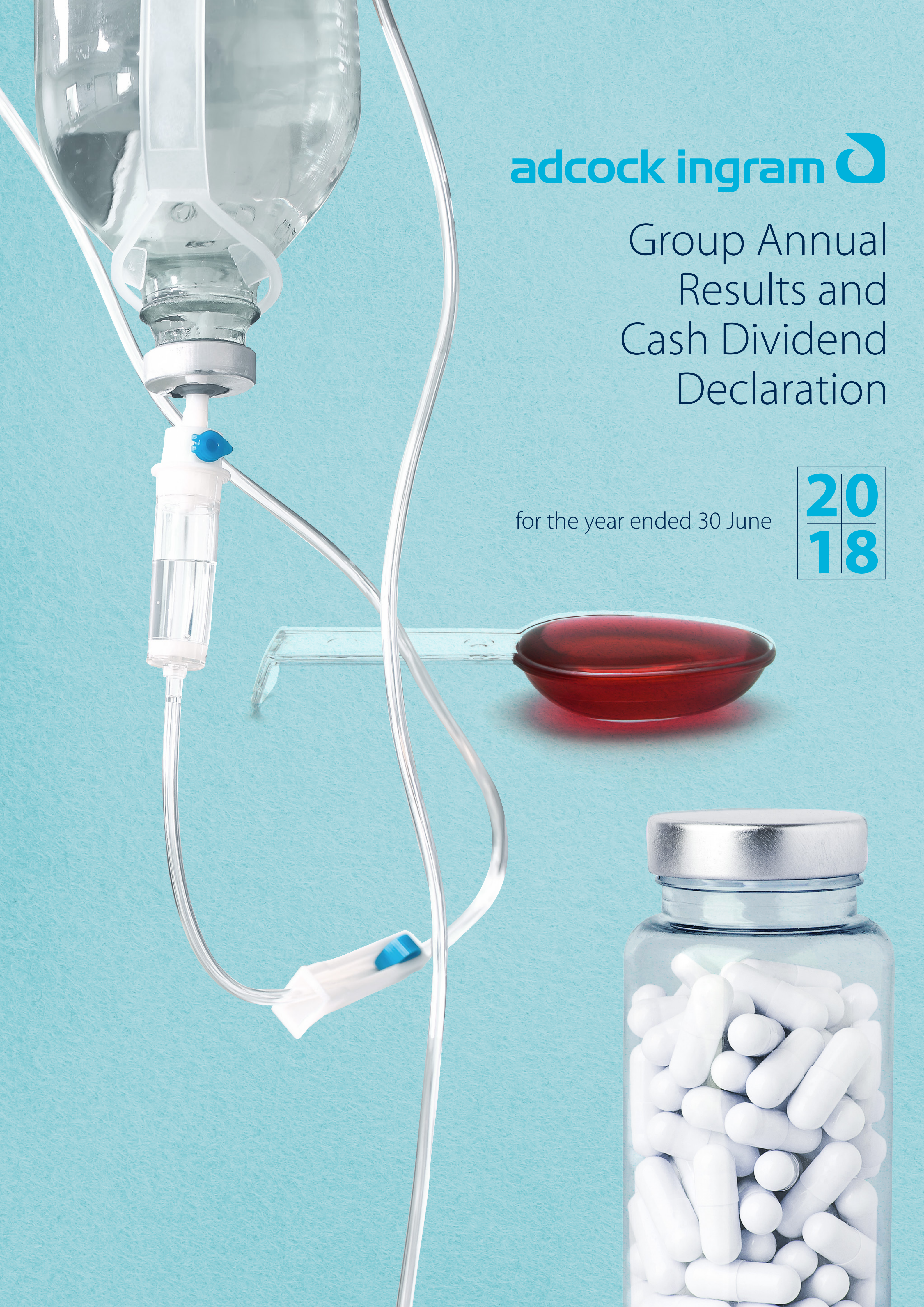
adcock ingram

# Group Annual Results and Cash Dividend Declaration

for the year ended 30 June 2018



# SALIENT FEATURES

Turnover increases 10% to R6,540 million
Gross profit improves 14% to R2,566 million
Trading profit increases 20% to R866 million
Headline earnings per share from continuing operations increases 26%
Total dividend increases 24% to 172 cents per share

# INTRODUCTION

The Board of Directors (Board) is very pleased with the excellent earnings growth achieved by the Group in the past financial year, considering the price-regulated environment in which it operates and difficult economic environment in South Africa. The results were achieved through continued investment in well established brands, improved factory efficiencies, and relentless focus on customer service and product quality.

# FINANCIAL PERFORMANCE

## TURNOVER AND PROFITS

Group turnover during the year under review increased by 10.2% to R6,540 million (2017: R5,936 million), driven by an increase in mix of 5.4%, which includes the Genop acquisition from 1 January 2018, an average realised price increase of 3.8% and improved volumes contributed the balance.

The gross margin improvement from 37.8% to 39.2% was realised from an improvement in the exchange rate, a change in the sales mix and improved efficiencies at the Wadeville factory on the back of increased production of ARV's.

Operating expenses including those relating to Genop increased by 12.0%. Excluding Genop, expenses increased by less than 6%, resulting in a 19.6% improvement in trading profit to R866 million (2017: R724 million).

### NON-TRADING EXPENSES

Non-trading expenses of R46.9 million include share-based expenses of R34.4 million, corporate activity costs of R7.3 million and impairments of R5.2 million.

### NET FINANCE COSTS AND HEADLINE EARNINGS

The improvement in the Group's net average cash position during the year resulted in net finance cost decreasing to R7.9 million (2017: R22.6 million).

Headline earnings for the period under review amounted to R644.7 million (2017: R513.7 million). This translates into headline earnings per share from continuing operations of 387.7 cents (2017: 308.9 cents), an increase of 25.5%.

# CASH FLOWS

Cash generated from operations amounted to R854.9 million (2017: R767.9 million) after working capital increased by R343.0 million (2017: R233.9 million) with additional investment in inventory as the Group took on new product portfolios and increased stockholding of raw materials for the production of ARVs. Trade receivables remained well controlled and the average days outstanding are 65 (2017: 70 days).

The Group had net cash resources of R156 million (2017: R335 million) at the end of the year.

# DIVIDEND DISTRIBUTION

The Board has declared a final dividend of 86 cents per share for the year ended 30 June 2018 out of income reserves. Total dividend distribution will therefore be 172 cents per share, an improvement of 24% compared to 2017.

# BUSINESS OVERVIEW

## SOUTHERN AFRICA

**OTC**, which focuses on products in the pain, coughs, colds and flu, and anti-histamine therapeutic areas through the pharmacy channel, has seen a turnover improvement of 7.6% to R1,989 million (2017: R 1,849 million) with top brands like Adco-Dol, Allergex, Alcophyllex and Napamol showing double-digit growth. This business unit realised the full SEP price increase granted by government. Mix and volume improvements were healthy, following innovative new product launches and decent demand for smaller pack size analgesics. OTC was appointed by Abbott Laboratories to perform the sales, marketing and distribution of a range of products, namely Brufen, Creon, Duphalac and Calmettes, for South Africa, Lesotho and Swaziland.

A gross margin improvement was realised in this year, driven by an advantageous sales mix and the improvement in the exchange rate. As a result, trading profit increased by 16.7% to R399.6 million (2017: R342.3 million).

**Prescription** turnover improved by 15.5% to R2,238 million (2017: R1,938 million), and the Division also showed double-digit growth in the private market segment as measured by IQVIA. Mix, although adversely impacted by the loss of a low-margin multinational partner contract, improved by 10.1%, aided substantially by the acquisition of Genop (R223.8 million), and the on-boarding of the Astellas portfolio from Leo Pharma and Topzole from Takeda. Volumes increased by 3.6% mainly as a result of the increased demand in the ARV private market and an average price increase of 1.8% was achieved. A gross margin improvement was realised in the year, driven by increased ARV throughput at the Wadeville factory and a better sales mix. As a result, trading profit of R239.4 million is 15.2% ahead of the prior year of R207.8 million.

**Consumer** turnover was almost flat at R686.7 million (2017: R688.8 million), in a challenging environment, characterised by limited consumer discretionary spend. Despite the poor trading, the Division delivered a small improvement in trading profit to R112.2 million (2017: R110.0 million). In the second half of the financial year, the Division underwent a leadership change. Subsequently, some reorganisation has taken place and we expect to see an improvement in customer focus, brand support and trading performance.

**Hospital** turnover improved by 7.2% to R1,348 million (2017: R1,257 million) with an average realised price increase of 1.9%. Additional volumes contributed 2.9% and mix 2.5%, following the award of the marketing rights to the Pharma Q injectable product range. The gross margin improved as a result of a change in the sales mix with gains in the private market and the improved exchange rate. Trading profits improved by an impressive 63.0% to R95.3 million (2017: R58.5 million).

On the **regulatory** front in South Africa, the National Health Insurance Bill, Medical Schemes Amendment Bill and Health Market Inquiry Report have all recently been issued. The Company is supportive of initiatives that broaden access to healthcare in South Africa and do not threaten the sustainability of the local pharmaceutical manufacturing industry. Adcock Ingram will continue to engage government through the industry bodies in that regard. The Company is a well-diversified Consumer, OTC, Prescription and Hospital pharmaceutical business with an extensive and affordable product portfolio that is able to take advantage of the opportunities which may emanate from implementation of National Health Insurance.

## REST OF AFRICA

Turnover in the Group's enterprises in Zimbabwe and Kenya collectively increased by 7.5% to R222.6 million (2017: R207.1 million) and achieved a trading profit of R18.3 million, a good improvement on the R2.7 million reported in the prior year. The positive performance is attributable in Zimbabwe to a significant improvement in demand for the top brands following improved stock availability, whilst the improvement in the Kenyan operation is due to strict management focus by the OTC Division from South Africa. Operations in Zimbabwe remain unpredictable and investment may be required in the short- to medium-term to recapitalise its facilities. Consequently, the Board is assessing the viability of the Group's continued presence in that country.

# CHANGES TO THE BOARD AND IN DIRECTOR'S FUNCTION

Ms Jenitha John was appointed as Chairperson of the Audit Committee, effective 20 February 2018.

# PROSPECTS

The Board expects trading conditions to remain difficult with constrained consumer spend and high levels of unemployment, but is confident in the equity and resilience of the broad portfolio of brands in the Group. The recent decline in the value of the Rand is of concern and against this background cost-control will be a focus in the year ahead.

Adcock Ingram is engaging constructively with the National Department of Health through the Pricing Committee on whether any short-term relief on SEP will be available.

The Board remains committed in seeking additional affordable brands to augment its range of products and defend its position in the market. Expanding the non-regulated portfolio to limit the impact of the exchange rate and SEP environment remains a focus in this regard.

# DIVIDEND DISTRIBUTION

The Board has declared a final gross dividend out of income reserves of 86 cents per share in respect of the year ended 30 June 2018. The South African dividend tax ("DT") rate is 20% and the net dividend payable to shareholders who are not exempt from DT is 68.80 cents per share. Adcock Ingram currently has 175 748 048 ordinary shares in issue of which 149 905 089 qualify for ordinary dividends. The income tax reference number is 9528/919/15/3.

The salient dates for the distribution are detailed below:

| | |
|---|---|
| Last date to trade *cum* distribution | Tuesday, 25 September 2018 |
| Shares trade *ex* distribution | Wednesday, 26 September 2018 |
| Record date | Friday, 28 September 2018 |
| Payment date | Monday, 1 October 2018 |

Share certificates may not be dematerialised or rematerialised between Wednesday, 26 September 2018 and Friday, 28 September 2018, both dates inclusive.

**CD Raphiri**
*Chairman*

**AG Hall**
*Chief Executive Officer*

28 August 2018

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| Continuing operations | Notes | Audited 2018 R'000 | % change | Audited 2017 R'000 |
|---|---|---|---|---|
| **Revenue** | 2 | **6 562 865** | 10 | 5 957 700 |
| **Turnover** | 2 | **6 540 255** | 10 | 5 936 056 |
| Cost of sales | | **(3 974 235)** | | (3 693 773) |
| **Gross profit** | | **2 566 020** | 14 | 2 242 283 |
| Selling, distribution and marketing expenses | | **(1 188 242)** | 11 | (1 068 585) |
| Fixed and administrative expenses | | **(511 401)** | 14 | (449 275) |
| **Trading profit** | | **866 377** | 20 | 724 423 |
| Non-trading expenses | 3 | **(46 895)** | | (47 128) |
| **Operating profit** | | **819 482** | 21 | 677 295 |
| Finance income | 2 | **18 270** | | 15 665 |
| Finance costs | | **(26 187)** | | (38 239) |
| Dividend income | 2 | **4 340** | | 5 979 |
| Equity-accounted earnings | | **79 252** | | 64 144 |
| **Profit before taxation** | | **895 157** | 23 | 724 844 |
| Taxation | | **(251 084)** | | (204 856) |
| **Profit for the year from continuing operations** | | **644 073** | 24 | 519 988 |
| Profit after taxation for the period from discontinued operations | | **–** | | 41 132 |
| **Profit for the year** | | **644 073** | 15 | 561 120 |
| **Other comprehensive income which will subsequently be recycled to profit or loss** | | **6 406** | | (24 832) |
| Exchange differences on translation of foreign operations: | | | | |
| – Continuing operations | | **3 714** | | (5 732) |
| – Joint venture and associate | | **(1 914)** | | (17 486) |
| – Discontinued operations | | **–** | | (21 353) |
| Fair value profit on available-for-sale asset, net of tax | | **24** | | 7 |
| Movement in cash flow hedge accounting reserve, net of tax | | **4 582** | | 19 732 |
| **Other comprehensive income transferred to profit or loss** | | **–** | | (125 784) |
| **Other comprehensive income which will not be recycled to profit or loss** | | | | |
| Actuarial profit on post-retirement medical liability | | **634** | | 511 |
| **Total comprehensive income for the year, net of tax** | | **651 113** | | 411 015 |
| **Profit attributable to:** | | | | |
| Owners of the parent | | **637 943** | | 553 534 |
| Non-controlling interests | | **6 130** | | 7 586 |
| | | **644 073** | | 561 120 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the parent | | **644 983** | | 405 568 |
| Non-controlling interests | | **6 130** | | 5 447 |
| | | **651 113** | | 411 015 |
| ***Continuing operations:*** | | | | |
| Basic earnings per ordinary share (cents) | | **383.6** | 24 | 308.9 |
| Diluted basic earnings per ordinary share (cents) | | **383.6** | 24 | 308.9 |
| Headline earnings per ordinary share (cents) | | **387.7** | 26 | 308.9 |
| Diluted headline earnings per ordinary share (cents) | | **387.7** | 26 | 308.9 |
| ***Discontinued operations:*** | | | | |
| Basic earnings per ordinary share (cents) | | | | 24.0 |
| Diluted earnings per ordinary share (cents) | | | | 24.0 |
| Headline earnings per ordinary share (cents) | | | | 3.7 |
| Diluted headline earnings per ordinary share (cents) | | | | 3.7 |
| ***Total operations:*** | | | | |
| Basic earnings per ordinary share (cents) | | **383.6** | 15 | 332.9 |
| Diluted basic earnings per ordinary share (cents) | | **383.6** | 15 | 332.9 |
| Headline earnings per ordinary share (cents) | | **387.7** | 24 | 312.6 |
| Diluted headline earnings per ordinary share (cents) | | **387.7** | 24 | 312.6 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Non-distributable reserves | | | | | |
| | Issued share capital | Share premium | *NDR Continuing operations | *NDR Discontinued operations | Retained income | Total attributable to ordinary shareholders | Non-controlling interests | Total |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| **As at 1 July 2016 (audited)** | 17 147 | 666 873 | 483 515 | 144 998 | 1 916 040 | 3 228 573 | 26 024 | 3 254 597 |
| Movement in share-based payment reserve | | | 23 710 | | | 23 710 | | 23 710 |
| Share-based expenses transferred from non-distributable reserves | | | (303 885) | | 303 885 | | | |
| Disposal of business | | | | | | | (18 465) | (18 465) |
| Total comprehensive income | | | (2 968) | (144 998) | 553 534 | 405 568 | 5 447 | 411 015 |
| Profit for the year | | | | | 553 534 | 553 534 | 7 586 | 561 120 |
| Other comprehensive income | | | (2 968) | (144 998) | | (147 966) | (2 139) | (150 105) |
| Dividends | | | | | (170 369) | (170 369) | (5 484) | (175 853) |
| **Balance at 30 June 2017 (audited)** | **17 147** | **666 873** | **200 372** | | **2 603 090** | **3 487 482** | **7 522** | **3 495 004** |
| Movement in treasury shares | **(1)** | **(517)** | | | | **(518)** | | **(518)** |
| Movement in share-based payment reserve | | | **16 463** | | | **16 463** | | **16 463** |
| Total comprehensive income | | | **7 040** | | **637 943** | **644 983** | **6 130** | **651 113** |
| Profit for the year | | | | | **637 943** | **637 943** | **6 130** | **644 073** |
| Other comprehensive income | | | **7 040** | | | **7 040** | | **7 040** |
| Dividends | | | | | **(235 904)** | **(235 904)** | **(11 239)** | **(247 143)** |
| **Balance at 30 June 2018 (audited)** | **17 146** | **666 356** | **223 875** | | **3 005 129** | **3 912 506** | **2 413** | **3 914 919** |

**NDR-Non-distributable reserves*

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | **Audited 2018 R'000** | Audited 2017 R'000 |
|---|---|---|
| **ASSETS** | | |
| Property, plant and equipment | **1 521 255** | 1 445 095 |
| Intangible assets | **626 242** | 349 997 |
| Deferred tax | **18 120** | 1 588 |
| Other financial assets | **34 010** | 41 746 |
| Investment in joint ventures | **445 150** | 392 013 |
| Investment in associate | **8 014** | 6 071 |
| **Non-current assets** | **2 652 791** | 2 236 510 |
| Inventories | **1 565 949** | 1 156 949 |
| Trade and other receivables | **1 641 295** | 1 567 802 |
| Cash and cash equivalents | **404 629** | 592 070 |
| Taxation receivable | **6 061** | 9 642 |
| **Current assets** | **3 617 934** | 3 326 463 |
| **Total assets** | **6 270 725** | 5 562 973 |
| **EQUITY AND LIABILITIES** | | |
| **Capital and reserves** | | |
| Issued share capital | **17 146** | 17 147 |
| Share premium | **666 356** | 666 873 |
| Non-distributable reserves | **223 875** | 200 372 |
| Retained income | **3 005 129** | 2 603 090 |
| Total shareholders' funds | **3 912 506** | 3 487 482 |
| Non-controlling interests | **2 413** | 7 522 |
| **Total equity** | **3 914 919** | 3 495 004 |
| Long-term borrowings | **–** | 251 492 |
| Post-retirement medical liability | **16 340** | 16 793 |
| Deferred tax | **118 914** | 73 138 |
| **Non-current liabilities** | **135 254** | 341 423 |
| Trade and other payables | **1 838 930** | 1 637 197 |
| Bank overdraft | **248 877** | 5 619 |
| Short-term borrowings | **–** | 416 |
| Cash-settled options | **2 413** | 7 384 |
| Provisions | **130 332** | 75 930 |
| **Current liabilities** | **2 220 552** | 1 726 546 |
| **Total equity and liabilities** | **6 270 725** | 5 562 973 |

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| | **Audited 2018 R'000** | Audited 2017 R'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating profit from continuing operations | **819 482** | 677 295 |
| Operating profit from discontinued operations | **–** | 8 416 |
| **Operating profit** | **819 482** | 685 711 |
| Other adjustments and non-cash items | **378 360** | 316 097 |
| **Operating profit before working capital changes** | **1 197 842** | 1 001 808 |
| Working capital changes | **(342 968)** | (233 935) |
| **Cash generated from operations** | **854 874** | 767 873 |
| Finance income received | **17 363** | 16 938 |
| Finance costs paid | **(25 605)** | (41 612) |
| Dividend income received | **30 100** | 21 368 |
| Dividends paid | **(247 143)** | (175 853) |
| Taxation paid | **(246 663)** | (133 281) |
| **Net cash inflow from operating activities** | **382 926** | 455 433 |
| **Cash flows from investing activities** | | |
| Decrease in other financial assets | **5 232** | 32 356 |
| Acquisition of business (note 4) | **(327 623)** | (9 875) |
| Disposal of businesses (note 5) | **–** | 291 096 |
| Purchase of property, plant and equipment – Expansion | **(84 684)** | (75 930) |
| – Replacement | **(134 564)** | (87 308) |
| Purchase of intangible assets | **(4 450)** | (70 821) |
| Proceeds on disposal of property, plant and equipment | **6 911** | 2 298 |
| **Net cash (outflow)/inflow from investing activities** | **(539 178)** | 81 816 |
| **Cash flows from financing activities** | | |
| Purchase of treasury shares | **(518)** | – |
| Increase in borrowings | **–** | 9 917 |
| Repayment of borrowings | **(276 177)** | (252 223) |
| **Net cash outflow from financing activities** | **(276 695)** | (242 306) |
| Net (decrease)/increase in cash and cash equivalents | **(432 947)** | 294 943 |
| Net foreign exchange difference on cash and cash equivalents | **2 248** | (2 954) |
| Cash and cash equivalents at beginning of year | **586 451** | 294 462 |
| **Cash and cash equivalents at end of year** | **155 752** | 586 451 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 BASIS OF PREPARATION

### 1.1 INTRODUCTION

The audited consolidated annual financial statements for the year ended 30 June 2018 have been prepared in compliance with the Listings Requirements of the JSE Limited, International Financial Reporting Standards (IFRS), the requirements of the International Accounting Standards (IAS) 34: Interim financial reporting, SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the Companies Act, No. 71 of 2008. These summarised results for the year ended 30 June 2018, extracted from the audited consolidated financial statements, which the Board of directors take full responsibility for, have been prepared by Ms Dorette Neethling, Chief Financial Officer. Both these summarised results and the consolidated financial statements were audited by the independent external auditors, Ernst & Young Inc. and copies of their unqualified audit opinion are available for inspection at the Company's registered office.

### 1.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended IFRS standards and interpretations during the year which did not have any effect on the financial performance or position of the Group:

- IAS 7: Statement of cash flows – disclosure initiative amendments
- IAS 12: Income taxes – recognition of deferred tax assets for unrealised loss – amendments

## 2 REVENUE

| | Audited 2018 R'000 | Audited 2017 R'000 |
|---|---|---|
| Turnover | **6 540 255** | 5 936 056 |
| Finance income | **18 270** | 15 665 |
| Dividend income - Black Managers Share Trust | **4 340** | 5 979 |
| | **6 562 865** | 5 957 700 |

## 3 NON-TRADING EXPENSES

| | Audited 2018 R'000 | Audited 2017 R'000 |
|---|---|---|
| Impairments | **5 235** | 217 |
| Transaction costs | **7 315** | 6 251 |
| Share-based payment expenses | **34 345** | 40 660 |
| | **46 895** | 47 128 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 4 ACQUISITION OF BUSINESSES

### 4.1 GENOP HOLDINGS PROPRIETARY LIMITED (GENOP)

On 1 January 2018, Adcock Ingram Healthcare Proprietary Limited acquired 100% of Genop, a highly specialised instrument, surgical and pharmaceutical products company focused on the ophthalmic, optometry, skincare, aesthetic and plastic surgery segments in Southern Africa. Genop owns and markets the well-known Epi-max branded range of consumer products.

The fair value of the identifiable assets as at the date of acquisition was:

| | Audited 2018 R'000 |
|---|---|
| **Assets** | |
| Inventories | **87 003** |
| Trade and other receivables | **89 383** |
| Property, plant and equipment | **18 291** |
| Marketing-related intangible assets | **121 385** |
| Cash and cash equivalents | **9 082** |
| Taxation receivable | **1 579** |
| | **326 723** |
| **Liabilities** | |
| Trade and other payables | **99 602** |
| Short-term borrowings | **24 297** |
| Deferred tax | **27 622** |
| Provisions | **2 255** |
| | **153 776** |
| **Total identifiable net assets at fair value** | **172 947** |
| Goodwill arising on acquisition | **163 758** |
| **Purchase consideration** | **336 705** |
| Net cash acquired with the business | **(9 082)** |
| **Net cash consideration** | **327 623** |

The fair value of the trade receivables equals the net amount of trade receivables and amounts to R74.3 million.

Marketing-related intangible assets relate to the Epi-Max brand. Epi-Max was fair valued, at acquisition, from R11.7 million to R120 million which gave rise to a deferred tax liability of R30.3 million. The royalty relief methodology was used to determine the valuation, by applying a 9% royalty rate and market related discount rate.

Goodwill represents the difference between the purchase consideration and the fair value of the net assets acquired as there are no further separately identifiable intangible assets. The significant factors that contributed to the recognition of goodwill include, but are not limited to the acquisition of a specialised and quality pharmaceutical business with a management team with proven experience, knowledge, skills and track record in their field.

From the date of acquisition, Genop contributed R223.8 million towards revenue and reported a profit before income tax of R6.2 million.

If the Genop acquisition had taken place at the beginning of the reporting period, the revenue would have been R452.3 million and profit before income tax would have been R24.5 million.

| **Analysis of cash flows on acquisition** | |
|---|---|
| Transaction costs of the acquisition (included in cash flows from operating activities) | **(5 662)** |
| Net cash acquired with the business (included in cash flows from investing activities) | **9 082** |

Transaction costs of R5.7 million have been expensed and are included in non-trading expenses.

| | Audited 2017 R'000 |
|---|---|

## 4.2 VIRTUAL LOGISTICS PROPRIETARY LIMITED (VIRTUAL)

On 1 April 2017, Adcock Ingram Healthcare Proprietary Limited acquired 100% of the shareholding of Virtual Logistics Proprietary Limited (Virtual), a national fine distribution company.

The fair value of the identifiable assets as at the date of acquisition was:

| | |
|---|---|
| **Assets** | 25 413 |
| **Liabilities** | 15 408 |
| **Total identifiable net assets at fair value** | 10 005 |
| Goodwill arising on acquisition | 5 595 |
| **Purchase consideration** | 15 600 |
| Deferred consideration | (8 000) |
| Net bank overdraft acquired with the business | 2 275 |
| **Net cash consideration** | 9 875 |

The fair value of the trade receivables equaled the gross amount of trade receivables and amounted to R16.1 million. None of the trade receivables were impaired and it was expected that the full contractual amounts could be collected.

Goodwill represented the difference between the purchase consideration and the fair value of the net assets acquired as there were no further separately identifiable intangible assets. The significant factors that contributed to the recognition of goodwill include, but were not limited to, the establishment of a fine distribution network, expanding the Group's national footprint.

During the previous financial year, Virtual contributed R21.7 million towards revenue and reported a profit before income tax of R0.9 million.

If the Virtual acquisition took place at the start of the previous financial year, the revenue would have been R84.9 million and profit before income tax would have been R3.1 million.

| | |
|---|---|
| **Analysis of cash flows on acquisition** | |
| Transaction costs of the acquisition (included in cash flows from operating activities) | (1 467) |
| Net bank overdraft acquired with the business (included in cash flows from investing activities) | (2 275) |

Transaction costs of R1.5 million were expensed and were included in non-trading expenses.

A payment of R8.0 million of the purchase price, which was fully provided for in the previous financial year, was deferred and subject to the achievement of profit targets. During the 2018 financial year the deferred amount was paid.

# 5 DISCONTINUED OPERATIONS

Adcock Ingram Private Limited (India) and 53.47% of Ayrton Drug Manufacturing Limited (Ayrton) in Ghana were disposed of on 14 October 2016 and 7 December 2016 respectively. The loss of control on disposal resulted in the foreign currency translation reserve relating to both entities being recycled to profit and loss during the previous financial year.

## 5.1 STATEMENT OF COMPREHENSIVE INCOME

| | |
|---|---|
| Profit for the period from discontinued operations | 6 374 |
| Profit on disposal of the discontinued operations | 34 758 |
| **Profit for the period from discontinued operations** | 41 132 |
| **Profit/(Loss) attributable to:** | |
| India | 46 638 |
| Ayrton | (5 506) |
| | 41 132 |
| Profit attributable to: | |
| Owners of the parent | 39 903 |
| Non-controlling interests | 1 229 |
| | 41 132 |

## 5.2 CASH INFLOW ON DISPOSAL

| | |
|---|---|
| Consideration received | 338 601 |
| India | 327 565 |
| Ayrton | 11 036 |
| Net cash disposed of with the discontinued operations | (47 505) |
| India | (48 807) |
| Ayrton | 1 302 |
| **Net cash inflow** | 291 096 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 6 SEGMENT REPORTING

| | Audited 2018 R'000 | Audited 2017 R'000 |
|---|---|---|
| **Turnover** | | |
| *Continuing operations* | | |
| Southern Africa | **6 338 389** | 5 754 241 |
| OTC | **1 989 225** | 1 849 038 |
| Prescription | **2 237 620** | 1 937 925 |
| Hospital | **1 347 698** | 1 256 753 |
| Consumer | **686 699** | 688 807 |
| Other - shared services | **77 147** | 21 718 |
| Rest of Africa | **222 624** | 207 052 |
| Research and development services in India | **19 494** | 18 396 |
| | **6 580 507** | 5 979 689 |
| less: Intercompany sales | **(40 252)** | (43 633) |
| | **6 540 255** | 5 936 056 |
| Discontinued operations | | |
| India | **–** | 67 206 |
| Rest of Africa (Ghana) | **–** | 51 695 |
| | **–** | 118 901 |
| **Trading and operating profit** | | |
| *Continuing operations* | | |
| Southern Africa | **845 540** | 719 103 |
| OTC | **399 640** | 342 322 |
| Prescription | **239 435** | 207 787 |
| Hospital | **95 312** | 58 475 |
| Consumer | **112 181** | 110 038 |
| Other - shared services | **(1 028)** | 481 |
| Rest of Africa | **18 330** | 2 712 |
| Research and development services in India | **2 507** | 2 608 |
| Trading profit | **866 377** | 724 423 |
| Less: Non-trading expenses | **(46 895)** | (47 128) |
| Operating profit | **819 482** | 677 295 |
| Discontinued operations | | |
| India | **–** | 6 300 |
| Rest of Africa (Ghana) | **–** | 8 949 |
| Trading profit | **–** | 15 249 |
| Less: Non-trading expenses | **–** | (6 833) |
| | **–** | 8 416 |
| **Total assets** | | |
| Southern Africa | **5 844 806** | 5 161 098 |
| OTC | **1 761 603** | 1 667 220 |
| Prescription | **1 987 006** | 1 239 248 |
| Hospital | **1 236 482** | 1 125 158 |
| Consumer | **315 425** | 354 965 |
| Other - shared services | **544 290** | 774 507 |
| Rest of Africa | **163 141** | 146 661 |
| India | **262 778** | 255 214 |
| | **6 270 725** | 5 562 973 |

## 7 INVENTORY

| | Audited 2018 R'000 | Audited 2017 R'000 |
|---|---|---|
| Inventories written down and recognised as an expense in profit or loss in cost of sales | **94 854** | 66 215 |

## 8 CAPITAL COMMITMENTS

| | | |
|---|---|---|
| – Contracted for | **32 932** | 72 202 |
| – Approved but not contracted | **63 258** | 128 281 |
| | **96 190** | 200 483 |

## 9 HEADLINE EARNINGS

| | | |
|---|---|---|
| **Headline earnings is determined as follows:** | | |
| **Continuing operations** | | |
| Earnings attributable to owners of Adcock Ingram from total operations | **637 943** | 553 534 |
| **Adjusted for:** | | |
| Profit attributable to Adcock Ingram from discontinued operations (note 5.1) | **–** | (39 903) |
| Earnings attributable to owners of Adcock Ingram from continuing operations | **637 943** | 513 631 |
| **Adjusted for:** | | |
| Impairment of intangible assets | **2 700** | – |
| Profit on disposal/scrapping of property, plant and equipment | **(1 968)** | (194) |
| Tax effect on profit on disposal of property, plant and equipment | **(42)** | 76 |
| **Adjustments relating to equity accounted joint ventures** | | |
| Impairment of goodwill | **5 312** | – |
| Loss on disposal of long term receivable | **828** | – |
| (Profit)/Loss on disposal of property, plant and equipment | **(24)** | 199 |
| **Headline earnings from continuing operations** | **644 749** | 513 712 |
| **Discontinued operations** | | |
| Profit attributable to owners of Adcock Ingram from discontinued operations | | 39 903 |
| **Adjusted for:** | | |
| Profit on sale of discontinued operations (note 5.1) | | (34 758) |
| Loss on disposal/scrapping of property, plant and equipment | | 975 |
| **Headline earnings from discontinued operations** | | 6 120 |
| **Headline earnings from total operations** | **644 749** | 519 832 |

## 10 SHARE CAPITAL

| | '000 | '000 |
|---|---|---|
| Number of shares in issue | **175 748** | 175 748 |
| Number of ordinary shares held by the Group companies | **(4 292)** | (4 285) |
| Net shares in issue | **171 456** | 171 463 |
| Headline earnings and basic earnings per share are based on: | | |
| Weighted average number of ordinary shares outstanding | **166 293** | 166 294 |
| Diluted weighted average number of shares outstanding | **166 295** | 166 295 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 11 FAIR VALUE HIERARCHY

The Group classifies all financial instruments and its fair value hierarchy as follows:

| Financial instruments | Classification per IAS 39 | Statement of financial position line item | Audited 2018 R'000 | Audited 2017 R'000 |
|---|---|---|---|---|
| Investment [1] | Available for sale | Other financial assets | **1 937** | 1 906 |
| Black Managers Share Trust[3] | Loans and receivables | Other financial assets | **32 073** | 39 840 |
| Trade and sundry receivables[3] | Loans and receivables | Trade and other receivables | **1 535 369** | 1 485 705 |
| Foreign exchange contracts – derivative asset [2] | Cash flow hedge | Trade and other receivables | **21 838** | 8 957 |
| Cash and cash equivalents[3] | Loans and receivables | Cash and cash equivalents | **404 629** | 592 070 |
| Long-term borrowings[3] | Loans and borrowings | Long-term borrowings | **–** | 251 492 |
| Trade and other payables[3] | Loans and borrowings | Trade and other payables | **1 830 652** | 1 622 899 |
| Foreign exchange contracts – derivative liability [2] | Cash flow hedge | Trade and other payables | **–** | 752 |
| Short-term borrowings[3] | Loans and borrowings | Short-term borrowings | **–** | 416 |
| Bank overdraft[3] | Loans and borrowings | Bank overdraft | **248 877** | 5 619 |

*(1) Level 3. The value of the investment in Group Risk Holdings Proprietary Limited is based on Adcock Ingram's proportionate share of the net asset value of the Company.*

*(2) Level 2. Fair value based on the ruling market rate at year-end. The fair value of the forward exchange contract is calculated as the difference in the forward exchange rate as per the contract and the forward exchange rate of a similar contract with similar terms and maturities concluded as at the valuation date multiplied by the foreign currency monetary units as per the FEC contract.*

*(3) The carrying value approximates fair value.*

# CORPORATE INFORMATION

## ADCOCK INGRAM HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 2007/016236/06)
Income tax number 9528/919/15/3
Share code: AIP ISIN: ZAE000123436
("Adcock Ingram" or "the Company" or "the Group")

## DIRECTORS

Ms L Boyce (Independent Non-executive Director)
Mr A Hall (Chief Executive Officer)
Prof M Haus (Independent Non-executive Director)
Ms J John (Independent Non-executive Director)
Dr T Lesoli (Independent Non-executive Director)
Ms B Letsoalo (Executive Director)
Ms N Madisa (Non-executive Director)
Mr M Makwana (Independent Non-executive Director)
Dr C Manning (Non-executive Director)
Dr A Mokgokong (Non-executive Director)
Ms D Neethling (Chief Financial Officer)
Mr L Ralphs (Non-executive Director)
Mr C Raphiri (Independent Non-executive Chairman)
Dr R Stewart (Independent Non-executive Director)

## COMPANY SECRETARY

NE Simelane

## REGISTERED OFFICE

1 New Road, Midrand, 1682

## POSTAL ADDRESS

Private Bag X69, Bryanston, 2021

## TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank
Johannesburg, 2196
PO Box 61051
Marshalltown, 2107

## AUDITORS

Ernst & Young Inc.
102 Rivonia Road, Sandton, 2146

## SPONSOR

Rand Merchant Bank (A division of FirstRand Bank Limited)
1 Merchant Place, corner Fredman Drive and Rivonia Road
Sandton, 2196

## BANKERS

Nedbank Limited
135 Rivonia Road, Sandown
Sandton, 2146

Rand Merchant Bank
1 Merchant Place, corner Fredman Drive and Rivonia Road
Sandton, 2196

### FORWARD-LOOKING STATEMENTS

Adcock Ingram may, in this document, make certain statements that are not historical facts and relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements may also relate to our future prospects, developments and business strategies. Examples of such forward-looking statements include, but are not limited to, statements regarding exchange rate fluctuations, volume growth, increases in market share, total shareholder return and cost reductions. Words such as "believe", "anticipate", "expect", "intend", "seek", "will", "plan", "could", "may", "endeavour" and "project" and similar expressions are intended to identify such forward-looking statements, but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and there are risks that the predictions, forecasts, projections and other forward-looking statements will not be achieved. If one or more of these risks materialise, or should underlying assumptions prove incorrect, our actual results may differ materially from those anticipated. Forward-looking statements apply only as of the date on which they are made, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise.