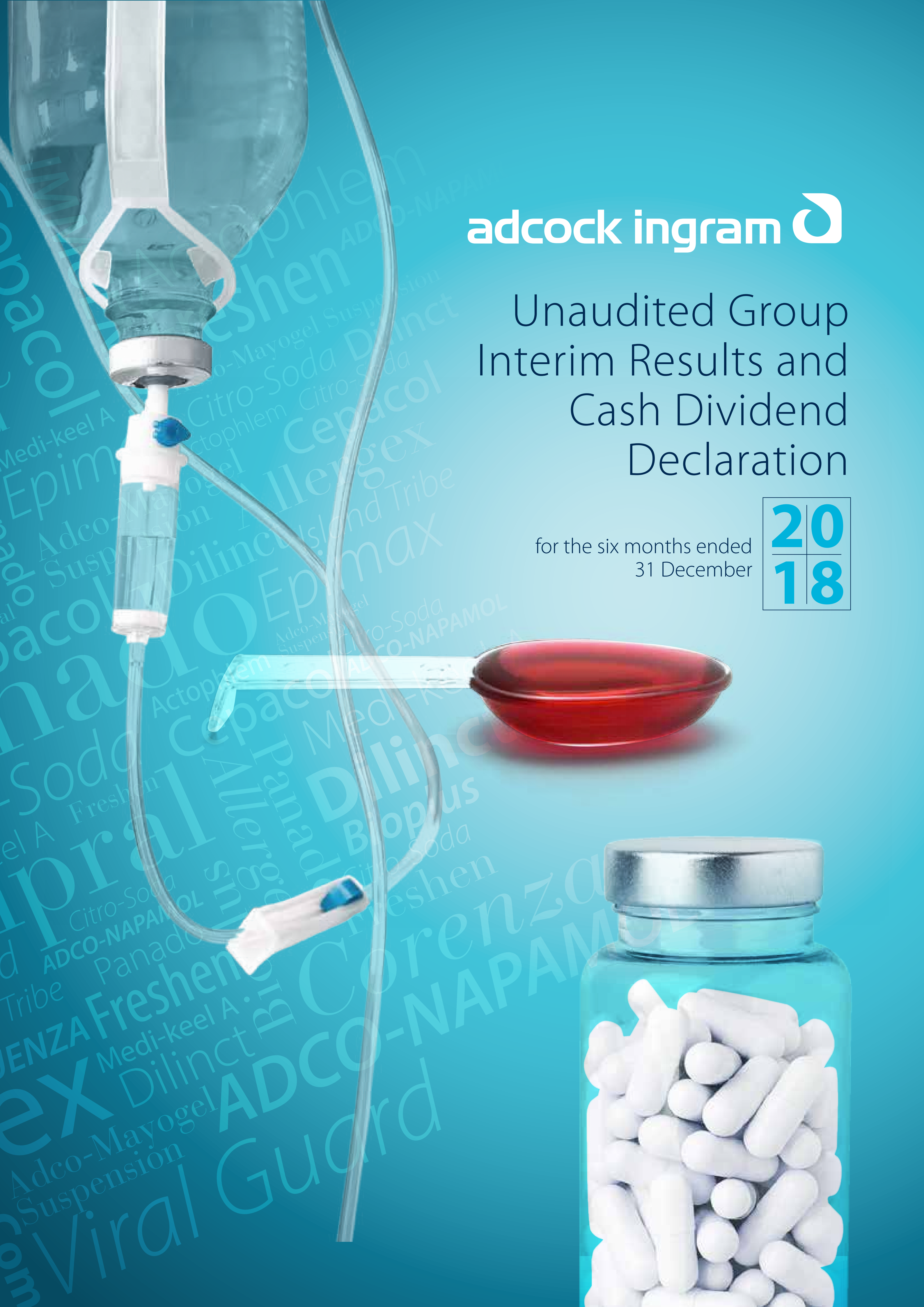
adcock ingram

Unaudited Group Interim Results and Cash Dividend Declaration

for the six months ended
31 December

2018



SALIENT FEATURES

*Turnover up 16% to R3,595 million
*Gross profit improves 18% to R1,390 million
*Trading profit increases 17% to R485 million
*Headline earnings per share increases 16%
Dividend declared: 100 cents per share
B-BBEE level 3 achieved
Operation in Zimbabwe (Datlabs) disposed of in January 2019

**Continuing operations*

INTRODUCTION

The Board is pleased to report that the business operations posted encouraging growth and commendable results in the half year under review, including the contribution of Genop, acquired on 1 January 2018. Each of the business units posted solid performance, achieving good growth in turnover, with disciplined cost control, yielding growth in trading profits across the board.

The results were achieved against a background of a price-regulated environment, coupled with tough trading conditions, reflected in the continued pressure on the consumer due to the macro-economic environment. The Group's diversified portfolio remained resilient with growth in market share, with continued relentless focus on customer service and product quality.

FINANCIAL PERFORMANCE

TURNOVER AND PROFITS

Turnover during the period under review increased by 15.6% to R3,595 million (December 2017: R3,108 million), benefiting from the inclusion of Genop from 1 January 2018. On a like-for-like basis (excluding Genop), turnover increased by 7.4%, supported by an increase in volume of 5.0%, with mix and price contributing the balance. Price increases were realised in the Consumer segment, but offset to a large extent by price reductions in the other segments due to competitive market conditions and pressure from Funders to lower prices of certain Prescription medicines.

The gross margin improvement from 38.0% to 38.7% was driven by an advantageous sales mix and improved throughput at the Clayville factory.

Total operating expenses increased by 18.4%, but excluding Genop, were well controlled and only increased by 6.2%, resulting in a 16.6% improvement in trading profit to R485.5 million (December 2017: R416.3 million).

NON-TRADING EXPENSES

Non-trading expenses of R28.5 million include share-based expenses of R19.4 million, an impairment of the associate investment in Ghana (Ayrton Drug Manufacturing Limited) of R5.8 million and corporate activity costs of R3.3 million.

NET FINANCE COSTS AND HEADLINE EARNINGS

Net finance costs of R8.5 million were incurred in the period, compared to net finance income of R0.7 million in the prior period and are reflective of the decrease in cash resources after the Genop acquisition in the previous financial year.

Headline earnings from continuing operations for the period under review increased to R361.2 million (December 2017: R310.3 million). This translates into headline earnings per share from continuing operations of 217.2 cents (December 2017: 186.6 cents), an increase of 16.4%.

CASH FLOWS

Cash generated from operations amounted to R328.6 million (December 2017: R455.9 million) after working capital increased by R253.2 million (December 2017: R85.7 million). Trade and other payables have decreased by R211.4 million since June 2018, which was partially offset by a decrease in inventories (R109.6 million) as the stock holding from certain multinational partners has decreased. Trade and other receivables have increased by R151.4 million, with the festive season having delayed some receipts. The Group had net cash resources of R109.1 million at the end of the period (June 2018: R155.7 million).

DIVIDEND DISTRIBUTION

The Board has declared an interim dividend of 100 cents per share for the six-month period ended 31 December 2018, out of income reserves, an improvement of 16% over the comparable period.

BUSINESS OVERVIEW

OTC turnover improved by 4.9% over the prior comparative period to R1,019 million (December 2017: R970.7 million), driven by improved volumes. This is a satisfactory performance given the depressed consumer trading environment and difficulty in obtaining export permits from SAHPRA. A number of the top brands including Allergex, Corenza C and Citro-Soda showed double-digit growth.

A gross margin improvement was realised in comparison to the prior comparative period, driven by an advantageous sales mix and better recoveries in the Clayville factory. As a result, trading profit increased by 19.7% to R216.7 million (December 2017: R181.1 million).

Prescription turnover improved 33.5% to R1,364 million (December 2017: R1,021 million) aided by the acquisition of Genop which contributed R257 million. Volumes increased by 5.9% due to an excellent ARV performance, driven by Trivenz in the private market, compensating for a price decrease of 2.5% as a result of the reduction of reference pricing of certain generic products by funders. Mix contributed to the balance, with the introduction of new products. This division achieved double digit growth in the total private market as measured by IQVIA.

Gross margin is slightly lower compared to the prior comparative period, with a change in sales mix compensating largely for the erosion in certain selling prices and Rand weakness which impacted unfavourably on imported raw materials and finished goods. As a result, trading profit of R150.2 million is 13.4% ahead of the comparative period of R132.5 million.

Consumer turnover increased by 6.4% to R393.3 million (December 2017: R369.5 million) with key brands posting healthy growth. An average price increase of 4.1% was achieved with volumes only increasing 2.0%, indicative of the pressure on the consumer. Notwithstanding an increasingly competitive environment and with good cost control, trading profits increased by 12.6% to R65.8 million (December 2017: R58.4 million).

Hospital turnover improved by 11.4% to R764.4 million (December 2017: R686.4 million) with all product categories achieving growth. Increased volumes contributed 10.1% and mix 2.5%, which compensated for the loss in price. A gross margin improvement was realised, driven by the advantageous sales mix. Trading profits improved by 25.9% to R51.2 million (December 2017: R40.6 million) with very disciplined control of operating expenditure.

REST OF AFRICA

Following the Board's decision to dispose of the Group's Zimbabwean operating subsidiary, this operation has been treated as an asset held-for-sale and is reflected in the financial statements as a discontinued operation. As of 30 November 2018, amortisation and depreciation of assets in this subsidiary were accordingly suspended.

In Kenya turnover declined by 7.3% to R30.5 million (December 2017: R32.9 million), but the business still achieved a trading profit R1.6 million during the period under review (December 2017: R0.9 million).

CHANGES TO THE BOARD

On 21 November 2018, Mr Mpho Makwana resigned as a non-executive Director, a member of the HR, Remuneration and Nominations Committee and Chairman of the Social, Ethics and Transformation Committee. Dr Tlalane Lesoli retired by rotation from the board and did not make herself available for re-election as a Director at the Annual General Meeting, held on 22 November 2018, after having served for more than nine years. She accordingly, relinquished her position as a Director and a member of the Social, Ethics and Transformation Committee. The process to fill the vacancies on the Board is currently underway.

PROSPECTS

Trading conditions are expected to remain challenging, particularly in the Consumer and OTC environment. The low Single Exit Price (SEP) increases granted to the industry in March 2018 of 1.26% and 3.78% in the current calendar year, do not compensate for the above inflationary increases in salaries, wages and utilities. Against this background the Group is focused on improving its operational efficiency, growing the established brands and expanding its product range through the acquisition of non-regulated brands to defend its position in the market.

Adcock Ingram is delighted it has been successful in winning a number of key products within the ARV tender and was awarded a 12% share of the overall tender, equating to approximately R1.8 billion (excluding VAT) to supply ARV drugs to state-run hospitals, over a period of three years, effective from 1 July 2019. Adcock Ingram's share of the ARV Tender award over the three years includes 11% (16.8 million packs) of the 147 million packs of DLT requested in the tender, 2.8 million packs of other oral solid dosage products and 2.7 million bottles of oral solutions.

As a member of Proudly South African, Adcock Ingram has its roots firmly entrenched in the South African market. We are proud to be a leading South African manufacturer, which has been recognised as a partner of the State in the national fight against HIV and AIDS. The tender award reflects positively on our manufacturing capability, breadth of our product offering and our historical service delivery levels.

DIVIDEND DISTRIBUTION

The Board has declared an interim gross dividend out of income reserves of 100 cents per share in respect of the six months ended 31 December 2018. The South African dividend tax ("DT") rate is 20% and the net dividend payable to shareholders who are not exempt from DT is 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, 12 March 2019
Shares trade *ex* distribution	Wednesday, 13 March 2019
Record date	Friday, 15 March 2019
Payment date	Monday, 18 March 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 13 March 2019 and Friday, 15 March 2019, both dates inclusive.

CD Raphiri
Chairman

AG Hall
Chief Executive Officer

20 February 2019

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Continuing operations	Notes	Unaudited six months ended 31 December 2018 R'000	% Change	Restated* Unaudited six months ended 31 December 2017 R'000	Restated* Audited year ended 30 June 2018 R'000
REVENUE	2	**3 599 962**	15	3 122 913	6 405 316
Revenue from contracts with customers	2	**3 594 581**	16	3 108 185	6 382 706
Cost of sales		**(2 204 920)**		(1 928 104)	(3 871 397)
Gross profit		**1 389 661**	18	1 180 081	2 511 309
Selling, distribution and marketing expenses		**(647 878)**	18	(549 891)	(1 166 443)
Fixed and administrative expenses		**(256 329)**	20	(213 845)	(494 922)
Trading profit		**485 454**	17	416 345	849 944
Non-trading expenses	3	**(28 498)**		(24 600)	(46 895)
Operating profit		**456 956**	17	391 745	803 049
Finance income	2	**4 003**		13 109	18 270
Finance costs		**(12 505)**		(12 433)	(25 401)
Dividend income	2	**1 378**		1 619	4 340
Equity-accounted earnings		**47 069**		41 888	79 252
Profit before taxation		**496 901**	14	435 928	879 510
Taxation		**(138 771)**		(122 511)	(246 145)
Profit for the period/year from continuing operations		**358 130**	14	313 417	633 365
Profit after taxation for the period/year from discontinued operation	4	**3 803**		10 022	10 708
Profit for the period/year		**361 933**	12	323 439	644 073
Other comprehensive income which will subsequently be recycled to profit or loss		**4 120**		(55 491)	6 406
Exchange differences on translation of foreign operations:					
– Continuing operations		**844**		(1 172)	1 126
– Joint venture and associate		**8 399**		(11 729)	(1 914)
– Discontinued operation		**2 396**		(2 623)	2 588
Fair value profit on available-for-sale asset, net of tax		**–**		–	24
Movement in cash flow hedge accounting reserve, net of tax		**(7 519)**		(39 967)	4 582
Other comprehensive income which will not be recycled to profit or loss					
Actuarial profit on post-retirement medical liability		**–**		–	634
Total comprehensive income for the period/year, net of tax		**366 053**		267 948	651 113
Profit attributable to:					
Owners of the parent		**358 027**		320 322	637 943
Non-controlling interests		**3 906**		3 117	6 130
		361 933		323 439	644 073
Total comprehensive income attributable to:					
Owners of the parent		**362 147**		264 831	644 983
Non-controlling interests		**3 906**		3 117	6 130
		366 053		267 948	651 113
Continuing operations:					
Basic earnings per ordinary share (cents)		**213.0**	14	186.6	377.2
Diluted basic earnings per ordinary share (cents)		**212.9**	14	186.6	377.2
Headline earnings per ordinary share (cents)		**217.2**	16	186.6	381.3
Diluted headline earnings per ordinary share (cents)		**217.1**	16	186.6	381.3
Discontinued operation:					
Basic earnings per ordinary share (cents)		**2.3**		6.0	6.4
Diluted basic earnings per ordinary share (cents)		**2.3**		6.0	6.4
Headline earnings per ordinary share (cents)		**2.3**		6.0	6.4
Diluted headline earnings per ordinary share (cents)		**2.3**		6.0	6.4
Total operations:					
Basic earnings per ordinary share (cents)		**215.3**	12	192.6	383.6
Diluted basic earnings per ordinary share (cents)		**215.2**	12	192.6	383.6
Headline earnings per ordinary share (cents)		**219.5**	14	192.6	387.7
Diluted headline earnings per ordinary share (cents)		**219.4**	14	192.6	387.7

** Prior period/year-end has been restated to show comparatives for the discontinued operation.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to holders of the parent							
			Non-distributable reserves					
	Issued share capital R'000	Share premium R'000	Continuing operations R'000	Discontinued operation R'000	Retained income R'000	Total attributable to ordinary shareholders R'000	Non-controlling interests R'000	Total R'000
As at 1 July 2017	17 147	666 873	200 372		2 603 090	3 487 482	7 522	3 495 004
Movement in share-based payment reserve			14 800			14 800		14 800
Total comprehensive income			(55 491)		320 322	264 831	3 117	267 948
Profit for the period					320 322	320 322	3 117	323 439
Other comprehensive income			(55 491)			(55 491)		(55 491)
Dividends					(110 671)	(110 671)	(4 404)	(115 075)
Balance at 31 December 2017 (unaudited)	17 147	666 873	159 681		2 812 741	3 656 442	6 235	3 662 677
Movement in treasury shares	(1)	(517)				(518)		(518)
Movement in share-based payment reserve			1 663			1 663		1 663
Total comprehensive income			62 531		317 621	380 152	3 013	383 165
Profit for the period					317 621	317 621	3 013	320 634
Other comprehensive income			62 531			62 531		62 531
Dividends					(125 233)	(125 233)	(6 835)	(132 068)
Balance at 30 June 2018 (audited)	**17 146**	**666 356**	**223 875**		**3 005 129**	**3 912 506**	**2 413**	**3 914 919**
IFRS 9 adjustment*					**(6 092)**	**(6 092)**		**(6 092)**
Restated balance at 30 June 2018	17 146	666 356	223 875		2 999 037	3 906 414	2 413	3 908 827
Movement in treasury shares	(3)	(2 483)				(2 486)		(2 486)
Movement in share-based payment reserve			(5 237)			(5 237)		(5 237)
Transfer to discontinued operations			(16 189)	16 189				
Total comprehensive income			1 724	2 396	358 027	362 147	3 906	366 053
Profit for the period					358 027	358 027	3 906	361 933
Other comprehensive income			1 724	2 396		4 120		4 120
Dividends					(125 220)	(125 220)		(125 220)
Balance at 31 December 2018 (unaudited)	**17 143**	**663 873**	**204 173**	**18 585**	**3 231 844**	**4 135 618**	**6 319**	**4 141 937**

** Refer to note 1.2.*

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	Unaudited 31 December 2018 R'000	Unaudited 31 December 2017 R'000	Audited 30 June 2018 R'000
ASSETS				
Property, plant and equipment		**1 519 158**	1 459 029	1 521 255
Intangible assets		**620 619**	344 971	626 242
Deferred tax		**6 446**	1 695	18 120
Other financial assets		**32 669**	38 699	34 010
Investment in joint ventures		**483 599**	407 188	445 150
Investment in associate		**2 459**	5 296	8 014
Non-current assets		**2 664 950**	2 256 878	2 652 791
Inventories		**1 408 660**	1 290 514	1 565 949
Trade and other receivables		**1 737 367**	1 611 281	1 641 295
Cash and cash equivalents		**448 176**	747 606	404 629
Taxation receivable		**13 689**	–	6 061
Current assets		**3 607 892**	3 649 401	3 617 934
Assets classified as held-for-sale	4	**143 926**	–	–
Total current assets		**3 751 818**	3 649 401	3 617 934
Total assets		**6 416 768**	5 906 279	6 270 725
EQUITY AND LIABILITIES				
Capital and reserves				
Issued share capital		**17 143**	17 147	17 146
Share premium		**663 873**	666 873	666 356
Non-distributable reserves : Continuing operations		**204 173**	159 681	223 875
: Discontinued operation held-for-sale	4	**18 585**	–	–
Retained income		**3 231 844**	2 812 741	3 005 129
Total shareholders' funds		**4 135 618**	3 656 442	3 912 506
Non-controlling interests		**6 319**	6 235	2 413
Total equity		**4 141 937**	3 662 677	3 914 919
Long-term borrowings		**–**	1 267	–
Post-retirement medical liability		**16 478**	16 931	16 340
Deferred tax		**103 590**	55 509	118 914
Non-current liabilities		**120 068**	73 707	135 254
Trade and other payables		**1 575 183**	1 828 993	1 841 343
Bank overdraft		**359 161**	3 844	248 877
Short-term borrowings		**–**	250 680	–
Provisions		**132 280**	79 795	130 332
Taxation payable		**–**	6 583	–
Current liabilities		**2 066 624**	2 169 895	2 220 552
Liabilities classified as held-for-sale	4	**88 139**	–	–
Total current liabilities		**2 154 763**	2 169 895	2 220 552
Total equity and liabilities		**6 416 768**	5 906 279	6 270 725

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited six months ended 31 December 2018 R'000	Unaudited six months ended 31 December 2017 R'000	Audited year ended 30 June 2018 R'000
Cash flows from operating activities			
Operating profit from continuing operations	**456 956**	391 745	803 049
Operating profit from discontinued operation (note 4)	**4 918**	11 915	16 433
Operating profit	**461 874**	403 660	819 482
Other adjustments and non-cash items	**119 897**	137 901	378 360
Operating profit before working capital changes	**581 771**	541 561	1 197 842
Working capital changes	**(253 169)**	(85 708)	(342 968)
Decrease/(Increase) in inventories	**109 603**	(166 620)	(438 199)
(Increase)/Decrease in trade and other receivables	**(151 354)**	(50 138)	11 695
(Decrease)/Increase in trade and other payables	**(211 418)**	131 050	83 536
Cash generated from operations	**328 602**	455 853	854 874
Finance income received	**4 074**	10 931	17 363
Finance costs paid	**(11 839)**	(12 818)	(25 605)
Dividend income received	**18 131**	17 378	30 100
Dividends paid	**(125 220)**	(115 075)	(247 143)
Taxation paid	**(140 755)**	(109 505)	(246 663)
Net cash inflow from operating activities	**72 993**	246 764	382 926
Cash flows from investing activities			
Decrease in other financial assets	**1 341**	3 047	5 232
Acquisition of business	**–**	–	(327 623)
Purchase of property, plant and equipment : Expansion	**(54 601)**	(56 044)	(84 684)
: Replacement	**(65 525)**	(35 780)	(134 564)
Purchase of intangible assets	**–**	–	(4 450)
Proceeds on disposal of property, plant and equipment	**49**	1 953	6 911
Net cash outflow from investing activities	**(118 736)**	(86 824)	(539 178)
Cash flows from financing activities			
Increase in borrowings	**–**	147	–
Repayment of borrowings	**–**	–	(276 177)
Purchase of treasury shares	**(2 486)**	–	(518)
Net cash (outflow)/inflow from financing activities	**(2 486)**	147	(276 695)
Net (decrease)/increase in cash and cash equivalents	**(48 229)**	160 087	(432 947)
Net foreign exchange difference on cash and cash equivalents	**1 602**	(2 776)	2 248
Cash and cash equivalents at beginning of period/year	**155 752**	586 451	586 451
Cash and cash equivalents at end of period/year	**109 125**	743 762	155 752
Split as follows:			
Cash and cash equivalents	**448 176**	747 606	404 629
Bank overdraft	**(359 161)**	(3 844)	(248 877)
Net cash position per statement of financial position	**89 015**	743 762	155 752
Cash at banks and short-term deposits attributable to the discontinued operation	**20 110**	–	–
Cash and cash equivalents at end of period/year	**109 125**	743 762	155 752

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

1.1 INTRODUCTION

The summarised unaudited interim results for the six months ended 31 December 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. The Board of directors take full responsibility for the set of financial results which have been prepared by Ms Dorette Neethling, Chief Financial Officer.

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 new and amended IFRS standards and interpretations during the period, which did not have a significant impact on the financial performance or position of the Group:

IFRS 9: Financial instruments – recognition and measurement

IFRS 9 is the new financial instrument accounting standard and includes the requirements for classification and measurement of financial assets, the impairment and derecognition of financial assets, as well as general hedge accounting.

The classification and measurement of the Group's financial assets are substantially the same as under IAS 39, except for:

- the reclassification of the long-term receivable from the Black Managers Share Trust, from amortised cost to fair value through profit or loss; and
- the measurement of the impairment provision for trade receivables.

In measuring the provision for trade receivables, the Group has applied the new rules using the modified retrospective approach, whereby the financial statements are retrospectively adjusted and the cumulative impact (a reduction of R6.1 million of net trade receivables) was recorded on 1 July 2018, the initial date of implementing the standard, by recognising an adjustment to opening retained earnings. A simplified impairment approach was used, whereby the lifetime expected losses on trade receivables are recorded immediately.

The Group has chosen to continue to apply the hedge accounting requirements of IAS 39, instead of the requirements in IFRS 9, to all of its hedging relationships.

IFRS 15: Revenue from contracts with customers

IFRS 15 establishes a five-step model for entities to use in accounting for revenue arising from contracts with customers. The new standard is based on the principle that revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard supersedes all current revenue recognition requirements under IFRS.

The Group adopted IFRS 15 using the retrospective approach, with the following impact on the Group's financial statements:

- disaggregated revenue disclosure; and
- liabilities for the non-performance on customer contracts will be recognised against revenue.

	Unaudited six months ended 31 December 2018 R'000	Unaudited six months ended 31 December 2017 R'000	Audited year ended 30 June 2018 R'000
2 REVENUE			
Contracts with customers*	**3 594 581**	3 108 185	6 382 706
Finance income	**4 003**	13 109	18 270
Dividend income – Black Managers Share Trust	**1 378**	1 619	4 340
	3 599 962	3 122 913	6 405 316

**Refer note 5.2 for customer contract and channel details.*

	Unaudited six months ended 31 December 2018 R'000	Unaudited six months ended 31 December 2017 R'000	Audited year ended 30 June 2018 R'000
3 NON-TRADING EXPENSES			
Impairments	**5 823****	–	5 235
Transaction costs	**3 253**	7 316	7 315
Share-based payment expenses	**19 422**	17 284	34 345
	28 498	24 600	46 895

*** The investment in the Ghanaian associate has been impaired due to its declining operational performance.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 DISCONTINUED OPERATION

The Board has resolved to dispose of Datlabs Proprietary Limited (Datlabs) in Zimbabwe. The results of Datlabs are presented below and the net assets were reclassified as held-for-sale as completion of the disposal is expected by year end.

	Unaudited six months ended 31 December 2018 R'000	Unaudited six months ended 31 December 2017 R'000	Audited year ended 30 June 2018 R'000
REVENUE	**86 240**	90 839	157 549
Revenue from contracts with customers	**86 240**	90 839	157 549
Cost of sales	**(61 150)**	(55 537)	(102 838)
Gross profit	**25 090**	35 302	54 711
Selling, distribution and marketing expenses	**(11 371)**	(11 646)	(21 799)
Fixed and administrative expenses	**(8 801)**	(11 741)	(16 479)
Operating profit	**4 918**	11 915	16 433
Finance costs	**–**	(419)	(786)
Profit before taxation	**4 918**	11 496	15 647
Taxation	**(1 115)**	(1 474)	(4 939)
Profit for the period/year	**3 803**	10 022	10 708
Details of assets and liabilities transferred to held-for-sale:			
ASSETS			
Property, plant and equipment	**45 458**		
Inventories	**25 795**		
Trade and other receivables	**52 162**		
Cash and cash equivalents	**20 110**		
Taxation	**401**		
Total assets	**143 926**		
LIABILITIES			
Trade and other payables	**76 803**		
Provisions	**3 031**		
Deferred tax liability	**8 305**		
Total liabilities	**88 139**		
Net assets classified as held-for-sale	**55 787**		
Non-distributable reserves related to assets classified as assets held-for-sale			
Foreign currency translation reserve	**(18 585)**		
Net assets	**37 202**		
Included in the Group's consolidated statement of cash flows are cash flows from the Zimbabwean discontinued operation. These cash flows are included in operating, investing and financing activities as follows:			
Cash (outflow)/inflow from operating activities	**(3 630)**	35 730	40 165
Cash outflow from investing activities	**(7 262)**	(2 516)	(7 964)
Cash inflow/(outflow) from financing activities	**–**	147	(1 881)
Net cash (outflow)/inflow	**(10 892)**	33 361	30 320

	Unaudited six months ended 31 December 2018 R'000	% Change	Unaudited six months ended 31 December 2017 R'000	Audited year ended 30 June 2018 R'000

5 SEGMENT REPORTING

5.1 REVENUE FROM CONTRACTS WITH CUSTOMERS

	Unaudited six months ended 31 December 2018 R'000	% Change	Unaudited six months ended 31 December 2017 R'000	Audited year ended 30 June 2018 R'000
Continuing operations:				
Southern Africa	**3 578 251**	15	3 111 649	6 338 389
OTC	**1 018 625**	5	970 669	1 989 225
Prescription	**1 363 453**	34	1 021 117	2 237 620
Hospital	**764 361**	11	686 359	1 347 698
Consumer	**393 262**	6	369 478	686 699
Other – shared services	**38 550**		64 026	77 147
Rest of Africa	**30 551**		32 904	65 075
Research and development services in India	**10 353**		10 197	19 494
Less: Inter-company sales	**(24 574)**		(46 565)	(40 252)
	3 594 581		3 108 185	6 382 706
Discontinued operation:				
Rest of Africa	**86 240**		90 839	157 549
	3 680 821		3 199 024	6 540 255

5.2 REVENUE FROM CONTRACTS WITH CUSTOMERS BY CHANNEL

	Private R'000	Public R'000	Export and foreign R'000	Total R'000
31 December 2018				
Continuing operations:				
Southern Africa	**3 044 226**	**436 507**	**97 518**	**3 578 251**
OTC	**930 929**	**58 939**	**28 757**	**1 018 625**
Prescription	**1 174 649**	**159 128**	**29 676**	**1 363 453**
Hospital	**529 596**	**218 436**	**16 329**	**764 361**
Consumer	**370 502**	**4**	**22 756**	**393 262**
Other – shared services	**38 550**	**–**	**–**	**38 550**
Rest of Africa	**–**	**–**	**30 551**	**30 551**
Research and development services in India	**–**	**–**	**10 353**	**10 353**
Less: Inter-company sales	**–**	**–**	**(24 574)**	**(24 574)**
	3 044 226	**436 507**	**113 848**	**3 594 581**

All of the Group's revenue from contracts with customers is recognised at a point in time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Unaudited six months ended 31 December 2018 R'000	% Change	Unaudited six months ended 31 December 2017 R'000	Audited year ended 30 June 2018 R'000
5.3 TRADING AND OPERATING PROFIT				
Continuing operations:				
Southern Africa	**482 672**	17	413 806	845 540
OTC	**216 714**	20	181 111	399 640
Prescription	**150 217**	13	132 516	239 435
Hospital	**51 152**	26	40 615	95 312
Consumer	**65 808**	13	58 419	112 181
Other – shared services	**(1 219)**		1 145	(1 028)
Rest of Africa	**1 585**		934	1 897
Research and development services in India	**1 197**		1 605	2 507
Trading profit	**485 454**		416 345	849 944
Less: Non-trading expenses	**(28 498)**		(24 600)	(46 895)
Operating profit	**456 956**		391 745	803 049
Discontinued operation:				
Rest of Africa	**4 918**		11 915	16 433
5.4 TOTAL ASSETS				
Continuing operations:				
Southern Africa	**5 961 565**		5 503 746	5 844 806
OTC	**1 733 746**		1 741 791	1 761 603
Prescription	**2 112 789**		1 386 414	1 987 006
Hospital	**1 174 818**		1 163 652	1 236 482
Consumer	**307 001**		330 695	315 425
Other – shared services	**633 211**		881 194	544 290
Rest of Africa	**47 206**		151 609	163 141
India	**264 071**		250 924	262 778
	6 272 842		5 906 279	6 270 725
Discontinued operation:				
Rest of Africa	**143 926**		–	–
	6 416 768		5 906 279	6 270 725

	Unaudited six months ended 31 December 2018 R'000	Unaudited six months ended 31 December 2017 R'000	Audited year ended 30 June 2018 R'000

6 INVENTORY

The amount of inventories written down recognised as an expense in profit or loss in cost of sales:			
Continuing operations	**28 561**	26 439	91 466
Discontinued operation	**290**	2 102	3 388

7 CAPITAL COMMITMENTS

– Contracted	**54 611**	115 693	32 932
– Approved, but not contracted	**76 869**	113 262	151 909
	131 480	228 955	184 841

8 HEADLINE EARNINGS

Headline earnings is determined as follows:			
Continuing operations			
Earnings attributable to owners of Adcock Ingram from total operations	**358 027**	320 322	637 943
Adjusted for:			
Profit attributable from discontinued operation (refer note 4)	**(3 803)**	(10 022)	(10 708)
Earnings attributable to owners of Adcock Ingram from continuing operations	**354 224**	310 300	627 235
Adjusted for:			
Impairment of intangible assets	**–**	–	2 700
Impairment of investment	**5 823**	–	–
Loss/(Profit) on disposal of property, plant and equipment	**264**	220	(1 968)
Tax effect on loss/(profit) on disposal of property, plant and equipment	**(118)**	(165)	(42)
Adjustments relating to equity accounted joint ventures	**970**	(26)	6 116
Headline earnings from continuing operations	**361 163**	310 329	634 041
Discontinued operation			
Profit attributable to owners of Adcock Ingram and headline earnings from discontinued operation ***	**3 803**	10 022	10 708
Headline earnings from total operations	**364 966**	320 351	644 749

**** No adjustments were needed for the purposes of reporting headline earnings*

9 SHARE CAPITAL

	'000	'000	'000
Number of shares in issue	**175 748**	175 748	175 748
Number of ordinary shares held by the Group company	**(4 326)**	(4 285)	(4 292)
Net shares in issue	**171 422**	171 463	171 456
Headline earnings and basic earnings per share are based on:			
Weighted average number of ordinary shares outstanding	**166 265**	166 294	166 293
Diluted weighted average number of shares outstanding	**166 352**	166 295	166 295

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 SUBSEQUENT EVENTS

Datlabs (Private) Limited (Zimbabwe) (Datlabs)

On 31 January the Group signed a sale of shares agreement, disposing of its interest in Pharmalab (Jersey) Limited, the owner of Datlabs. All conditions precedent were met and the proceeds have been received.

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	Unaudited six months ended 31 December 2018 R'000	Unaudited six months ended 31 December 2017 R'000	Audited year ended 30 June 2018 R'000
Investment [1]	Available for sale	Other financial assets	**1 614**	1 905	1 937
Black Managers Share Trust[3]	Loans and receivables	Other financial assets	**31 055**	36 794	32 073
Trade and sundry receivables[3]	Loans and receivables	Trade and other receivables	**1 657 982**	1 522 688	1 535 369
Foreign exchange contracts – derivative asset [2]	Cash flow hedge	Trade and other receivables	**4 622**	2 365	21 838
Cash and cash equivalents[3]	Loans and receivables	Cash and cash equivalents	**448 176**	747 606	404 629
Long-term borrowings[3]	Loans and borrowings	Long-term borrowings	**–**	1 267	–
Trade and other payables[3]	Loans and borrowings	Trade and other payables	**1 520 839**	1 728 298	1 830 652
Foreign exchange contracts – derivative liability [2]	Cash flow hedge	Trade and other payables	**410**	559 555	–
Short-term borrowings[3]	Loans and borrowings	Short-term borrowings	**–**	250 680	–
Bank overdraft[3]	Loans and borrowings	Bank overdraft	**350 161**	3 844	248 877

(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)
Ms B Letsoalo (Executive Director)
Ms N Madisa (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

Mr NE Simelane

REGISTERED OFFICE

1 New Road, Midrand, 1682

POSTAL ADDRESS

Private Bag X69, Bryanston, 2021

TRANSFER SECRETARIES

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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.

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